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Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

(Convertible Bonds Code: 40210)

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2020**

The board (“**Board**”) of directors (the “**Directors**”) of Kingsoft Corporation Limited (the “**Company**”) announces the unaudited results of the Company and its subsidiaries (the “**Group**” or “**Kingsoft**”) for the three and six months ended 30 June 2020. These interim results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three and six months ended 30 June 2020

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited) (Restated)	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited) (Restated)
CONTINUING OPERATIONS					
Revenue					
Online games		869,162	569,838	1,649,901	1,169,491
Office software and services and others		550,956	385,992	941,542	673,581
		<u>1,420,118</u>	<u>955,830</u>	<u>2,591,443</u>	<u>1,843,072</u>
Cost of revenue		(217,922)	(182,436)	(419,099)	(357,543)
		<u>1,202,196</u>	<u>773,394</u>	<u>2,172,344</u>	<u>1,485,529</u>
Gross profit		1,202,196	773,394	2,172,344	1,485,529
Research and development costs, net		(390,265)	(375,083)	(745,289)	(744,417)
Selling and distribution expenses		(192,909)	(179,400)	(339,654)	(286,586)
Administrative expenses		(101,418)	(75,016)	(194,671)	(154,401)
Share-based compensation costs		(36,559)	(34,933)	(67,479)	(74,208)
Other income		65,979	54,034	112,860	109,627
Other expenses		1,705	2,045	(4,223)	1,332
		<u>548,729</u>	<u>165,041</u>	<u>933,888</u>	<u>336,876</u>
Operating profit		548,729	165,041	933,888	336,876
Other losses, net		(104,743)	(1,287,947)	(101,425)	(1,289,278)
Finance income		110,400	51,421	208,089	100,587
Finance costs		(28,387)	(4,714)	(34,129)	(10,902)
Share of profits and losses of:					
Joint ventures		3,764	8,756	11,121	11,211
Associates		(172,697)	(58,264)	(236,706)	(135,795)
		<u>357,066</u>	<u>(1,125,707)</u>	<u>780,838</u>	<u>(987,301)</u>
Profit/(loss) before tax from continuing operations	4	357,066	(1,125,707)	780,838	(987,301)
Income tax expense	5	(83,121)	(5,065)	(147,176)	(48,240)
		<u>273,945</u>	<u>(1,130,772)</u>	<u>633,662</u>	<u>(1,035,541)</u>
Profit/(loss) for the period from continuing operations		273,945	(1,130,772)	633,662	(1,035,541)
DISCONTINUED OPERATION					
Profit/(loss) for the period from a discontinued operation		8,927,436	(417,814)	8,446,504	(713,359)
		<u>9,201,381</u>	<u>(1,548,586)</u>	<u>9,080,166</u>	<u>(1,748,900)</u>
Profit/(loss) for the period		9,201,381	(1,548,586)	9,080,166	(1,748,900)
Attributable to:					
Owners of the parent		9,151,331	(1,415,205)	9,157,588	(1,482,969)
Non-controlling interests		50,050	(133,381)	(77,422)	(265,931)
		<u>9,201,381</u>	<u>(1,548,586)</u>	<u>9,080,166</u>	<u>(1,748,900)</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the three and six months ended 30 June 2020

	For the three months ended 30 June		For the six months ended 30 June	
	2020 RMB (Unaudited)	2019 RMB (Unaudited) (Restated)	2020 RMB (Unaudited)	2019 RMB (Unaudited) (Restated)
Earnings/(loss) per share attributable to ordinary equity holders of the parent				
Basic				
— For profit/(loss) for the period	<u>6.69</u>	<u>(1.04)</u>	<u>6.70</u>	<u>(1.09)</u>
— For profit/(loss) from continuing operations	<u>0.10</u>	<u>(0.85)</u>	<u>0.29</u>	<u>(0.80)</u>
Diluted				
— For profit/(loss) for the period	<u>6.67</u>	<u>(1.04)</u>	<u>6.67</u>	<u>(1.09)</u>
— For profit/(loss) from continuing operations	<u>0.10</u>	<u>(0.85)</u>	<u>0.28</u>	<u>(0.80)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2020

	For the three months ended 30 June		For the six months ended 30 June	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	9,201,381	(1,548,586)	9,080,166	(1,748,900)
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Exchange differences:				
Exchange differences on translation of foreign operations	(17,555)	41,546	(6,633)	(6,889)
Reclassification adjustments for deemed disposal of a subsidiary	64,475	—	64,475	—
Share of other comprehensive income of associates	2,084	39,930	26,987	22,371
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	49,004	81,476	84,829	15,482
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:				
Equity investments designated at fair value through other comprehensive income:				
Changes in fair value, net of tax	457,340	(65,510)	816,507	(95,855)
Share of other comprehensive income/(loss) of associates	17,738	(21,655)	11,731	(19,928)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	475,078	(87,165)	828,238	(115,783)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	524,082	(5,689)	913,067	(100,301)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	9,725,463	(1,554,275)	9,993,233	(1,849,201)
Attributable to:				
Owners of the parent	9,669,404	(1,408,634)	10,086,254	(1,576,903)
Non-controlling interests	56,059	(145,641)	(93,021)	(272,298)
	9,725,463	(1,554,275)	9,993,233	(1,849,201)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		As at 30 June 2020 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2019 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,160,035	2,913,460
Investment properties		64,769	62,504
Right-of-use assets		541,046	403,737
Other intangible assets		22,285	30,938
Investments in joint ventures		250,069	270,303
Investments in associates		12,940,477	2,437,522
Equity investments designated at fair value through other comprehensive income		1,015,751	746,992
Financial assets at fair value through profit or loss		201,209	49,314
Deferred tax assets		126,899	107,038
Other non-current assets		9,164	47,276
		<hr/>	<hr/>
Total non-current assets		16,331,704	7,069,084
CURRENT ASSETS			
Inventories		16,381	16,378
Trade receivables	8	704,191	2,059,031
Prepayments, other receivables and other assets		1,609,555	1,365,093
Equity investments designated at fair value through other comprehensive income		10,000	10,000
Financial assets at fair value through profit or loss		268,840	89,920
Cash and bank deposits		14,788,526	13,792,117
		<hr/>	<hr/>
Total current assets		17,397,493	17,332,539
CURRENT LIABILITIES			
Trade payables	9	303,563	1,501,604
Other payables and accruals		874,319	1,690,263
Interest-bearing bank loans		—	623,215
Lease liabilities		58,453	18,260
Deferred revenue		1,105,923	879,440
Income tax payable		143,757	93,430
Derivative financial instruments		—	128,236
		<hr/>	<hr/>
Total current liabilities		2,486,015	4,934,448
NET CURRENT ASSETS		<hr/>	<hr/>
		14,911,478	12,398,091
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/>	<hr/>
		31,243,182	19,467,175

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2020

		As at 30 June 2020 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2019 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Deferred revenue		113,029	51,944
Deferred tax liabilities		1,121,835	50,691
Interest-bearing bank loans		—	74,351
Lease liabilities		200,477	97,789
Liability component of convertible bonds	10	2,322,762	—
Liability component of redeemable convertible preferred shares		—	3,583,019
		<u>3,758,103</u>	<u>3,857,794</u>
Total non-current liabilities			
		<u>3,758,103</u>	<u>3,857,794</u>
NET ASSETS			
		<u>27,485,079</u>	<u>15,609,381</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		5,316	5,316
Share premium account		2,747,644	2,995,605
Treasury shares		(13,543)	(14,631)
Equity component of convertible bonds	10	468,700	—
Other reserves		21,006,139	10,810,858
		<u>24,214,256</u>	<u>13,797,148</u>
Non-controlling interests		<u>3,270,823</u>	<u>1,812,233</u>
TOTAL EQUITY		<u>27,485,079</u>	<u>15,609,381</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the parent												
	Issued capital	Share premium	Treasury share	Equity component of convertible bonds	Statutory reserves	Share-based compensation reserve	Other capital reserve	Fair value reserve of financial assets at fair value through other comprehensive income	Foreign currency translation reserve	Retained profits	Non-controlling interests	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2020	5,316	2,995,605	(14,631)	—	348,987*	556,591*	4,008,820*	(1,072,927)*	391,892*	6,577,495*	13,797,148	1,812,233	15,609,381
Profit/(loss) for the period	—	—	—	—	—	—	—	—	—	9,157,588	9,157,588	(77,422)	9,080,166
Other comprehensive income/(loss) for the period:													
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	816,507	—	—	816,507	—	816,507
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	8,966	—	8,966	(15,599)	(6,633)
Reclassification adjustments for deemed disposal of a subsidiary	—	—	—	—	—	—	—	—	64,475	—	64,475	—	64,475
Share of other comprehensive income of associates	—	—	—	—	—	—	—	11,731	26,987	—	38,718	—	38,718
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	—	828,238	100,428	9,157,588	10,086,254	(93,021)	9,993,233
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(155,057)	(155,057)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	—	—	—	—	—	—	—	465,906	—	(465,906)	—	—	—
Final 2019 dividend declared	—	(124,861)	—	—	—	—	—	—	—	—	(124,861)	—	(124,861)
Distribution in specie	—	(130,033)	—	—	—	—	—	—	—	—	(130,033)	—	(130,033)
Issue of convertible bonds	—	—	—	468,700	—	—	—	—	—	—	468,700	—	468,700
Share-based compensation costs	—	—	—	—	—	91,920	—	—	—	—	91,920	37,582	129,502
Vesting and settlement of share-based awards	—	6,933	1,088	—	—	(24,004)	17,949	—	—	—	1,966	1,590	3,556
Share of reserves of associates	—	—	—	—	—	—	28,781	—	—	—	28,781	—	28,781
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(5,619)	—	—	—	(5,619)	(26,351)	(31,970)
Deemed disposal of a subsidiary	—	—	—	—	(7,571)	(96,782)	(195,714)	—	—	300,067	—	1,693,847	1,693,847
At 30 June 2020	5,316	2,747,644	(13,543)	468,700	341,416*	527,725*	3,854,217*	221,217*	492,320*	15,569,244*	24,214,256	3,270,823	27,485,079

* These reserve accounts comprise the consolidated other reserves of RMB21,006,139,000 (31 December 2019: RMB10,810,858,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2019

	Attributable to owners of the parent												
	Issued capital	Share premium	Equity component of		Statutory reserves	Share-based compensation reserve	Other capital reserve	Fair value	Foreign currency translation reserve	Retained profits	Total	Non-controlling interests	Total equity
			Treasury shares	convertible bonds				at fair value through other comprehensive income					
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
At 31 December 2018	5,316	2,972,969	(18,089)	1,274	275,986	471,326	1,857,341	(1,044,690)	311,094	8,205,312	13,037,839	(116,240)	12,921,599
Effect of adoption of IFRS 16	—	—	—	—	—	—	—	—	—	(8,431)	(8,431)	—	(8,431)
At 1 January 2019 (restated)	5,316	2,972,969	(18,089)	1,274	275,986	471,326	1,857,341	(1,044,690)	311,094	8,196,881	13,029,408	(116,240)	12,913,168
Loss for the period	—	—	—	—	—	—	—	—	—	(1,482,969)	(1,482,969)	(265,931)	(1,748,900)
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(522)	—	(522)	(6,367)	(6,889)
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	(95,855)	—	—	(95,855)	—	(95,855)
Share of other comprehensive income/(loss) of associates	—	—	—	—	—	—	—	(19,928)	22,371	—	2,443	—	2,443
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	—	(115,783)	21,849	(1,482,969)	(1,576,903)	(272,298)	(1,849,201)
Share-based compensation costs	—	—	—	—	—	77,392	—	—	—	—	77,392	35,769	113,161
Vesting of awarded shares	—	—	1,163	—	—	(1,461)	298	—	—	—	—	—	—
Share of reserves of associates	—	—	—	—	—	—	(10,547)	—	—	—	(10,547)	—	(10,547)
Redemption of convertible bonds	—	—	—	(1,274)	—	—	1,446	—	(172)	—	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(1,748)	—	—	—	(1,748)	(694)	(2,442)
At 30 June 2019	<u>5,316</u>	<u>2,972,969</u>	<u>(16,926)</u>	<u>—</u>	<u>275,986</u>	<u>547,257</u>	<u>1,846,790</u>	<u>(1,160,473)</u>	<u>332,771</u>	<u>6,713,912</u>	<u>11,517,602</u>	<u>(353,463)</u>	<u>11,164,139</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	1,308,058	244,205
Net cash flows (used in)/from investing activities	(6,276,640)	44,822
Net cash flows from/(used in) financing activities	1,954,215	(593,060)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(3,014,367)	(304,033)
Cash and cash equivalents at beginning of the period	7,329,845	4,544,784
Effect of foreign exchange rate changes, net	5,350	(3,978)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	4,320,828	4,236,773
Non-pledged time deposits with original maturity of over three months when acquired	2,476,926	1,150,772
Principal protected structure deposits with original maturity of over three months when acquired	7,990,772	3,592,937
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Cash and bank deposits as stated in the condensed consolidated statement of financial position	14,788,526	8,980,482
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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

The Company was incorporated under the Companies Act of the British Virgin Islands on 20 March 1998. On 15 November 2005, the Company was redomiciled to the Cayman Islands under the Company Law (2004 revision) of the Cayman Islands. The Company's shares (the "**Shares**") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 9 October 2007.

During the six months ended 30 June 2020, there are no material changes in the principal activities of the Group, except that the operation of Kingsoft Cloud Holdings Limited ("**Kingsoft Cloud**") and its subsidiaries (collectively, "**Kingsoft Cloud Group**") before the deemed disposal is reclassified as a discontinued operation of the Group. The continuing operations of the Group were involved in the following principal activities:

- research and development of games, and provision of online games, mobile games and casual game services; and
- design, research and development and sales and marketing of the office software products and services of WPS Office.

The discontinued operation of the Group was involved in provision of cloud services including cloud computing, storage and delivery, and comprehensive cloud-based solutions through Kingsoft Cloud Group.

The interim condensed consolidated financial statements for the three months and six months ended 30 June 2020 were approved and authorized for issue in accordance with a resolution of the Board on 18 August 2020.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, issued by International Accounting Standards Board ("**IASB**").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

Certain comparative amounts in the interim condensed consolidated financial statement have been reclassified to conform with the current period's presentation.

2. Basis of preparation and significant accounting policies (continued)

Discontinued operation

On 20 March 2020, the shareholders of the Company approved the proposed spin-off and separate listing of Kingsoft Cloud. On 8 May 2020 (New York time), the listing was completed and the trading in the American depositary shares (“ADSs”) of Kingsoft Cloud on National Association of Securities Dealers Automated Quotations commenced. As a result, the Group lost control over Kingsoft Cloud, which was changed from the subsidiary to the associate of the Company.

Kingsoft Cloud Group carries out the “cloud services segment” of the Group. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the operating results of Kingsoft Cloud Group before the deemed disposal have been presented as a discontinued operation in the interim condensed consolidated statement of profit or loss. The comparative figures for the interim condensed consolidated statement of profit or loss are restated to reflect the reclassification between continuing operations and a discontinued operation of the Group accordingly.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group’s annual financial statements for the year ended 31 December 2019, except for the discontinued operation mentioned above and the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Operating segments

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating segments as follows:

- (a) the entertainment software segment engages in the research and development of games, and the provision of online games, mobile games and casual game services; and
- (b) the office software and services and others segment engages in the design, research and development and sales and marketing of the office software products and services of WPS Office.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that administrative expenses, share-based compensation costs, other income, other expenses, net other losses, finance income, non-lease related finance costs as well as share of profits and losses of joint ventures and associates are excluded from such measurement.

The operating results of Kingsoft Cloud Group before the deemed disposal were classified as a discontinued operation of the Group and were excluded from the segment information for the six months ended 30 June 2020, the comparative figures of segment information for the six months ended 30 June 2019 were restated accordingly.

3. Operating segments (continued)

	Entertainment software RMB'000 (Unaudited)	Office software and services and others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<i>For the six months ended 30 June 2020</i>			
Segment revenue			
Sales to external customers	<u>1,649,901</u>	<u>941,542</u>	<u>2,591,443</u>
Segment results	761,261	321,044	1,082,305
<i>Reconciliation:</i>			
Administrative expenses			(194,671)
Share-based compensation costs			(67,479)
Other income			112,860
Other expenses			(4,223)
Other losses, net			(101,425)
Finance income			208,089
Finance costs (other than interest on lease liabilities)			(29,033)
Share of profits and losses of:			
Joint ventures			11,121
Associates			<u>(236,706)</u>
Profit before tax from continuing operations			<u><u>780,838</u></u>

3. Operating segments (continued)

	Entertainment software <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>	Office software and services and others <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>	Total <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>
<i>For the six months ended 30 June 2019</i>			
Segment revenue			
Sales to external customers	1,169,491	673,581	1,843,072
Segment results	302,038	152,115	454,153
<i>Reconciliation:</i>			
Administrative expenses			(154,401)
Share-based compensation costs			(74,208)
Other income			109,627
Other expenses			1,332
Other losses, net			(1,289,278)
Finance income			100,587
Finance costs (other than interest on lease liabilities)			(10,529)
Share of profits and losses of:			
Joint ventures			11,211
Associates			(135,795)
Loss before tax from continuing operations			<u><u>(987,301)</u></u>

3. Operating segments (continued)

Geographical information

Revenue of continuing operations from external customers:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited) (Restated)
Mainland China	2,487,178	1,757,396
Hong Kong	96,991	77,765
Other countries and regions	7,274	7,911
Total	<u>2,591,443</u>	<u>1,843,072</u>

The revenue information above is based on the locations of the Group's operations.

4. Profit/(loss) before tax from continuing operations

The Group's profit/(loss) before tax from continuing operations is arrived at after charging:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited) (Restated)
Employee benefit expenses	911,754	861,306
Depreciation of property, plant and equipment	53,442	45,209
Depreciation of investment properties	750	719
Depreciation of right-of-use assets	30,220	11,132
Amortisation of other intangible assets	6,273	10,280
Interest on bank loans, lease liabilities and convertible bonds	34,129	10,902
Impairment of trade and other receivables	38	1,682
Impairment of investments in associates	3,932	1,300,000*
Impairment of loans to an associate	38,517	—

* As at 30 June 2019, the Group held certain ordinary shares in Cheetah Mobile Inc. ("Cheetah Mobile") which is listed on the New York Stock Exchange in the form of ADSs. As Cheetah Mobile's share price has been struggled with sluggish performance, the Group performed an impairment assessment and made an impairment loss of approximately RMB1,300 million, being the difference of carrying amount in excess of the fair value of the investment in Cheetah Mobile.

5. Income tax expense

The People's Republic of China (the "PRC") corporate income tax represents the tax charged on the estimated assessable profits arising in the Mainland China during the period. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to tax holidays and preferential tax rates.

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Current income tax	190,258	61,919
Deferred income tax	(43,082)	(13,679)
Total tax charge for the period from continuing operations	147,176	48,240
Total tax charge for the period from a discontinued operation	6,450	4,559
Total tax charge for deemed disposal of a subsidiary	1,070,135	—
	1,223,761	52,799

6. Dividends

Final dividend

A final dividend of HK\$0.10 per ordinary share for 2019 proposed by the Board was approved by the shareholders of the Company (the “**Shareholders**”) on 27 May 2020. The actual 2019 final dividend paid was HK\$136.7 million in July 2020.

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

Distribution in specie

In accordance with the requirements of Practice Note 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Company must give due regard to the interests of its existing shareholders by providing them with an assured entitlement to shares in Kingsoft Cloud, either by way of a distribution in specie of existing shares in Kingsoft Cloud or by way of preferred application in any offering of existing or new shares in Kingsoft Cloud.

The Company has provided the shareholders with choice of ADSs of Kingsoft Cloud, or cash payment in lieu, with value of each ADS to be HK\$131.75, based on Kingsoft Cloud initial public offering price of US\$17 per ADS translated into HK\$ at the exchange rate of US\$1 to HK\$7.75.

According to the final record of the distribution in specie, total amount of cash payment distributed to the Company’s shareholders electing to receive cash is HK\$124.0 million, and total number of ADSs distributed to the Company’s shareholders electing to receive ADSs is 110,265 ADSs. The cheques for cash payment were despatched on 16 June 2020 (Hong Kong time) and the distributing ADSs were despatched on 16 June 2020 (New York time).

7. Earnings/(loss) per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,366,890,596 (six months ended 30 June 2019: 1,365,424,321) in issue during the period.

The calculation of diluted earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the share option schemes and the award share schemes adopted by the Group's subsidiaries and associates. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2020 in respect of the convertible bonds outstanding as the impact was anti-dilutive.

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		<i>(Restated)</i>
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent used in the basic earnings per share calculation:		
From continuing operations	392,889	(1,090,616)
From a discontinued operation	8,764,699	(392,353)
	9,157,588	(1,482,969)
Decrease in earnings adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries and associates	(10,790)	(5,685)
	9,146,798	(1,488,654)
Attributable to:		
Continuing operations	382,099	(1,096,301)
Discontinued operation	8,764,699	(392,353)
	9,146,798	(1,488,654)

7. Earnings/(loss) per share attributable to ordinary equity holders of the parent (continued)

	Number of shares For the six months ended 30 June	
	2020 <i>(Unaudited)</i>	2019 <i>(Unaudited)</i>
Shares		
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the period used in the basic earnings per share calculation	1,366,890,596	1,365,424,321
Effect of dilution — weighted average number of ordinary shares:		
Share options	834,941	—
Awarded shares	2,994,821	—
	<u>1,370,720,358</u>	<u>1,365,424,321</u>

8. Trade receivables

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2020 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2019 <i>RMB'000</i> <i>(Audited)</i>
0–30 days	315,435	817,869
31–60 days	82,319	377,336
61–90 days	94,861	154,914
91–365 days	152,194	631,294
1 to 2 years	47,577	47,683
Over 2 years	11,805	29,935
	<u>704,191</u>	<u>2,059,031</u>

9. Trade payables

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0–30 days	129,078	829,998
31–60 days	31,462	295,064
61–90 days	41,868	106,092
91–365 days	89,424	167,157
Over one year	11,731	103,293
	<u>303,563</u>	<u>1,501,604</u>

10. Convertible bonds

On 29 April 2020, the Company issued five-year convertible bonds in the principal amount of HK\$3,100 million which bear interest at a rate of 0.625% per annum payable semi-annually (the “**2020 Convertible Bonds**”). The 2020 Convertible Bonds are convertible at the option of the bondholders into Shares from 9 June 2020 to 3:00 p.m. on the date falling 10 days prior to the maturity date, at a price of HK\$35.7637 per share, subject to adjustments. The Company may redeem under certain circumstances the outstanding 2020 Convertible Bonds at early redemption amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days’ prior notice. On the maturity date, any 2020 Convertible Bonds not converted will be redeemed by the Company at 105.85% of the principal amount together with accrued and unpaid interest thereon. There was no conversion or redemption of the 2020 Convertible Bonds during the six months ended 30 June 2020.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders’ equity.

OPERATIONAL HIGHLIGHTS

	In June 2020	In March 2020	In December 2019	In September 2019	In June 2019
Office Software*					
Monthly Active Users (“MAU”) (Million)	<u>454</u>	<u>447</u>	<u>411</u>	<u>382</u>	<u>348</u>

* Office Software products include WPS Office and Kingsoft Powerword.

FINANCIAL HIGHLIGHTS

	For the three months ended		
	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited) (Restated)	31 March 2020 RMB'000 (Unaudited)
CONTINUING OPERATIONS			
Revenue			
Online games	869,162	569,838	780,739
Office software and services and others	550,956	385,992	390,586
	<u>1,420,118</u>	<u>955,830</u>	<u>1,171,325</u>
Cost of revenue	(217,922)	(182,436)	(201,177)
Gross profit	1,202,196	773,394	970,148
Research and development costs, net	(390,265)	(375,083)	(355,024)
Selling and distribution expenses	(192,909)	(179,400)	(146,745)
Administrative expenses	(101,418)	(75,016)	(93,253)
Share-based compensation costs	(36,559)	(34,933)	(30,920)
Other income	65,979	54,034	46,881
Other expenses	1,705	2,045	(5,928)
Operating profit	548,729	165,041	385,159
Other gains/(losses), net	(104,743)	(1,287,947)	3,318
Finance income	110,400	51,421	97,689
Finance costs	(28,387)	(4,714)	(5,742)
Share of profits and losses of:			
Joint ventures	3,764	8,756	7,357
Associates	(172,697)	(58,264)	(64,009)
Profit/(loss) before tax from continuing operations	357,066	(1,125,707)	423,772
Income tax expense	(83,121)	(5,065)	(64,055)
Profit/(loss) for the period from continuing operations	273,945	(1,130,772)	359,717
DISCONTINUED OPERATION			
Profit/(loss) for the period from a discontinued operation	8,927,436	(417,814)	(480,932)
Profit/(loss) for the period	9,201,381	(1,548,586)	(121,215)
Attributable to:			
Owners of the parent	9,151,331	(1,415,205)	6,257
Non-controlling interests	50,050	(133,381)	(127,472)
	<u>9,201,381</u>	<u>(1,548,586)</u>	<u>(121,215)</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the three months ended		
	30 June 2020 RMB (Unaudited)	30 June 2019 RMB (Unaudited) (Restated)	31 March 2020 RMB (Unaudited)
Earnings/(loss) per share attributable to ordinary equity holders of the parent			
Basic			
— For profit/(loss) for the period	<u><u>6.69</u></u>	<u><u>(1.04)</u></u>	<u><u>0.00</u></u>
— For profit/(loss) from continuing operations	<u><u>0.10</u></u>	<u><u>(0.85)</u></u>	<u><u>0.19</u></u>
Diluted			
— For profit/(loss) for the period	<u><u>6.67</u></u>	<u><u>(1.04)</u></u>	<u><u>0.00</u></u>
— For profit/(loss) from continuing operations	<u><u>0.10</u></u>	<u><u>(0.85)</u></u>	<u><u>0.18</u></u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the six months ended	
	30 June 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited) (Restated)
CONTINUING OPERATIONS		
Revenue		
Online games	1,649,901	1,169,491
Office software and services and others	941,542	673,581
	<u>2,591,443</u>	<u>1,843,072</u>
Cost of revenue	(419,099)	(357,543)
	<u>2,172,344</u>	<u>1,485,529</u>
Gross profit	2,172,344	1,485,529
Research and development costs, net	(745,289)	(744,417)
Selling and distribution expenses	(339,654)	(286,586)
Administrative expenses	(194,671)	(154,401)
Share-based compensation costs	(67,479)	(74,208)
Other income	112,860	109,627
Other expenses	(4,223)	1,332
	<u>933,888</u>	<u>336,876</u>
Operating profit	933,888	336,876
Other losses, net	(101,425)	(1,289,278)
Finance income	208,089	100,587
Finance costs	(34,129)	(10,902)
Share of profits and losses of:		
Joint ventures	11,121	11,211
Associates	(236,706)	(135,795)
	<u>780,838</u>	<u>(987,301)</u>
Profit/(loss) before tax from continuing operations	780,838	(987,301)
Income tax expense	(147,176)	(48,240)
	<u>633,662</u>	<u>(1,035,541)</u>
Profit/(loss) for the period from continuing operations	633,662	(1,035,541)
DISCONTINUED OPERATION		
Profit/(loss) for the period from a discontinued operation	8,446,504	(713,359)
	<u>9,080,166</u>	<u>(1,748,900)</u>
Profit/(loss) for the period	9,080,166	(1,748,900)
Attributable to:		
Owners of the parent	9,157,588	(1,482,969)
Non-controlling interests	(77,422)	(265,931)
	<u>9,080,166</u>	<u>(1,748,900)</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the six months ended	
	30 June	30 June
	2020	2019
	RMB	RMB
	(Unaudited)	(Unaudited)
		(Restated)
Earnings/(loss) per share attributable to ordinary equity holders of the parent		
Basic		
— For profit/(loss) for the period	<u>6.70</u>	<u>(1.09)</u>
— For profit/(loss) from continuing operations	<u>0.29</u>	<u>(0.80)</u>
Diluted		
— For profit/(loss) for the period	<u>6.67</u>	<u>(1.09)</u>
— For profit/(loss) from continuing operations	<u>0.28</u>	<u>(0.80)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2020 Compared to Second Quarter of 2019 and First Quarter of 2020

Revenue

Revenue for the second quarter of 2020 increased 49% year-on-year and 21% quarter-on-quarter to RMB1,420.1 million. Revenue from the online games, and office software and services and others represented 61% and 39% of the Group's total revenue for the second quarter of 2020. Revenue from these business lines is reported net of intra-group transactions.

Revenue from the online games business for the second quarter of 2020 increased 53% year-on-year and 11% quarter-on-quarter to RMB869.2 million. The increases were mainly attributable to impressive robust revenue growth from flagship game JX Online III, resulting from frequent content updates and operational innovations, partially offset by decreased revenue from certain existing mobile games as the natural declining life cycles.

Revenue from the office software and services and others for the second quarter of 2020 increased 43% year-on-year and 41% quarter-on-quarter to RMB551.0 million. The increases were largely due to sustainable growth from subscription services and licensing business of Beijing Kingsoft Office Software, Inc. (“**Kingsoft Office**”) and its subsidiaries (collectively, “**Kingsoft Office Group**”), driven by increased paid users resulting from continuously improved products and services.

Cost of Revenue and Gross Profit

Cost of revenue for the second quarter of 2020 increased 19% year-on-year and 8% quarter-on-quarter to RMB217.9 million. The increases were mainly due to higher server and bandwidth service fees associated with increased user traffic, as well as greater content costs associated with increased personal subscription services of Kingsoft Office Group.

Gross profit for the second quarter of 2020 increased 55% year-on-year and 24% quarter-on-quarter to RMB1,202.2 million. The Group's gross profit margin increased by four percentage points year-on-year and two percentage points quarter-on-quarter to 85%. The increases of the Group's gross profit margin were mainly due to greater revenue contribution from self-developed games in this quarter, which have relatively higher gross profit margin, as well as improved gross profit margin of subscription services of Kingsoft Office Group.

Research and Development (“R&D”) Costs, net

Net R&D costs for the second quarter of 2020 increased 4% year-on-year and 10% quarter-on-quarter to RMB390.3 million. The increases were mainly attributable to increased headcount as well as personnel related expenses, as we consistently focus on improving R&D capability and further developing and enhancing our products and services.

Selling and Distribution Expenses

Selling and distribution expenses for the second quarter of 2020 increased 8% year-on-year and 31% quarter-on-quarter to RMB192.9 million. The year-on-year increase was largely due to increased channel costs of Kingsoft Office Group aiming to expand and better serve governments and enterprises. The quarter-on-quarter increase was primarily due to higher marketing spending for online games.

Administrative Expenses

Administrative expenses for the second quarter of 2020 increased 35% year-on-year and 9% quarter-on-quarter to RMB101.4 million. The year-on-year increase was primarily due to increased staff-related costs and professional service fees. To accommodate for the rapid growth of our business, we moved to new office buildings in Beijing, which led to the increased rent expense.

Share-based Compensation Costs

Share-based compensation costs for the second quarter of 2020 increased 5% year-on-year and 18% quarter-on-quarter to RMB36.6 million. The increases primarily reflected the new grants of awarded shares to selected employees.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the second quarter of 2020 increased 193% year-on-year and 41% quarter-on-quarter to RMB585.3 million.

Finance costs

Finance costs for the second quarter of 2020 was RMB28.4 million, compared with finance costs of RMB4.7 million and RMB5.7 million for the second quarter of 2019 and first quarter of 2020. The increases were primarily due to newly issued convertible bonds with the interest rate of an equivalent market interest rate for a similar bond in the accounting treatment, which would not result in cash outflow, instead of the actual yield to maturity.

Other Gains/(Losses), net

Net other losses for the second quarter of 2020 were RMB104.7 million, compared with losses of RMB1,287.9 million in the corresponding period of last year, and gains of RMB3.3 million in the first quarter of 2020. The losses in the second quarter of 2020 were primarily due to loss on deemed disposal of an associate and impairment provisions of certain investee companies. The losses in the second quarter of 2019 were mainly due to provision for impairment on the carrying value of investments in Cheetah Mobile.

Share of Profits and Losses of Associates

We recorded share of losses of associates of RMB172.7 million for the second quarter of 2020, compared with share of losses of RMB58.3 million for the second quarter of 2019 and share of losses of RMB64.0 million for the first quarter of 2020. The losses in the second quarter of 2020 were mainly due to the losses recognized in Kingsoft Cloud, as it was changed from the subsidiary to the associate and recognized share of profit or loss using the equity method since 8 May 2020, partially offset by the profits recognized in Cheetah Mobile as it disposed shares in certain investee companies in this quarter. The losses in the second quarter of 2019 and first quarter of 2020 were mainly due to the losses recognized in Cheetah Mobile in these quarters.

Income Tax Expense

Income tax expense for the second quarter of 2020, the second quarter of 2019 and the first quarter of 2020 was RMB83.1 million, RMB5.1 million and RMB64.1 million respectively.

Profit/(Loss) for the period from a discontinued operation

Profit/(Loss) for the period from a discontinued operation reflected the combination of the net loss and net gain on deemed disposal from Kingsoft Cloud, which was profit of RMB8,927.4 million for the second quarter of 2020, compared to loss of RMB417.8 million for the second quarter of 2019 and loss of RMB480.9 million for the first quarter of 2020. The net gain on deemed disposal of Kingsoft Cloud was RMB9,096.4 million recognized in the second quarter of 2020, which arose from spin-off and separate listing of Kingsoft Cloud.

Profit/(Loss) Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent (including that from continuing operations and a discontinued operation) was RMB9,151.3 million for the three months ended 30 June 2020, compared with loss attributable to owners of the parent of RMB1,415.2 million and profit attributable to owners of the parent of RMB6.3 million for the three months ended 30 June 2019 and 31 March 2020, respectively.

Profit/(Loss) Attributable to Owners of the Parent before Share-based Compensation Costs

Profit/(loss) attributable to owners of the parent before share-based compensation costs is profit/(loss) attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent.

We believe that the profit/(loss) attributable to owners of the parent before share-based compensation costs will enable the investors to better understand the Group's overall operating performance. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our profit/(loss) or any other operating performance measure that is calculated in accordance with IFRSs. In addition, our profit/(loss) attributable to owners of the parent before share-based compensation costs may not be comparable to similarly titled measures utilized by other companies.

Profit attributable to owners of the parent before share-based compensation costs (including that from continuing operations and a discontinued operation) was RMB9,193.7 million for the three months ended 30 June 2020, compared with loss of RMB1,372.4 million and profit of RMB55.2 million for the three months ended 30 June 2019 and 31 March 2020, respectively. The net profit/(loss) margin excluding the effect of share-based compensation costs was 500%, (73%) and 2% for the three months ended 30 June 2020, 30 June 2019 and 31 March 2020, respectively.

First Half of 2020 Compared to First Half of 2019

Revenue

Revenue for the first half of 2020 increased 41% year-on-year to RMB2,591.4 million. Revenue from the online games and office software and services and others represented 64% and 36% of the Group's total revenue for the first half of 2020.

Revenue from the online games business for the first half of 2020 increased 41% year-on-year to RMB1,649.9 million. The increase was mainly due to strong performance of self-developed PC games, as well as an increase in certain existing mobile games.

Revenue from office software and services and others for the first half of 2020 increased 40% year-on-year to RMB941.5 million. The year-on-year increase was largely due to solid growth from subscription services and licensing business of Kingsoft Office Group, driven by fast growing paid users through offering new innovative content and features, and better user experience.

Cost of Revenue and Gross Profit

Cost of revenue for the first half of 2020 increased 17% year-on-year to RMB 419.1 million. The year-on-year increase was primarily due to higher server and bandwidth costs in line with increased user traffic, as well as greater content costs associated with increased personal subscription services of Kingsoft Office Group.

Gross profit for the first half of 2020 increased 46% year-on-year to RMB2,172.3 million. The Group's gross profit margin increased by three percentage points year-on-year to 84%.

R&D Costs, net

Net R&D costs for the first half of 2020 kept flat year-on-year to RMB745.3 million, as we benefited from temporary exemption or reduction of social and medical insurance premiums in the first half of 2020.

Selling and Distribution Expenses

Selling and distribution expenses for the first half of 2020 increased 19% year-on-year to RMB339.7 million. The increase was primarily due to: i) headcount growth of sales team to develop channels in enterprise and government market; and ii) greater marketing activities for Kingsoft Office Group and online games.

Administrative Expenses

Administrative expenses for the first half of 2020 increased 26% year-on-year to RMB194.7 million. The year-on-year increase was mainly due to increased staff-related costs and professional fees. To accommodate for the rapid growth of our business, we moved to new office buildings in Beijing, which led to the increased rent expense.

Share-based Compensation Costs

Share-based compensation costs for the first half of 2020 decreased 9% year-on-year to RMB67.5 million.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first half of 2020 increased 144% to RMB1,001.4 million.

Finance costs

Finance costs for the first half of 2020 increased 213% to RMB34.1 million. The increase was due to newly issued convertible bonds with the interest rate of an equivalent market interest rate for a similar bond in the accounting treatment instead of the actual yield to maturity.

Other Losses, net

Net other losses for the first half of 2020 was RMB101.4 million, compared with losses of RMB1,289.3 million in the same period of last year. The losses in the first half of 2020 were mainly due to loss on deemed disposal of an associate and impairment provisions for investee companies. The losses in the first half of 2019 were mainly due to the provisions for impairment on the investments in Cheetah Mobile.

Share of Profits and Losses of Associates

We recorded share of losses of associates of RMB236.7 million for the first half of 2020, compared with share of losses of RMB135.8 million for the first half of 2019. The losses in the first half of 2020 were mainly due to the losses recognized in Kingsoft Cloud, which has been accounted as our associate since 8 May 2020, partially offset by the profits recognized in Cheetah Mobile with disposed shares in certain investee companies. The losses in the first half of 2019 were largely due to losses recognized in Cheetah Mobile.

Income Tax Expense

Income tax expense was RMB147.2 million and RMB48.2 million for the first half of 2020 and 2019 respectively.

Profit/(Loss) for the period from a discontinued operation

Profit/(Loss) for the period from a discontinued operation reflected the combination of the net loss and net gain on deemed disposal from Kingsoft Cloud, which was profit of RMB8,446.5 million for the first half of 2020, compared with loss of RMB713.4 million for the first half of 2019. The net gain on deemed disposal of Kingsoft Cloud was RMB9,096.4 million recognized in the first half of 2020, which arose from spin-off and separate listing of Kingsoft Cloud.

Profit/(Loss) Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent (including that from continuing operations and a discontinued operation) was RMB9,157.6 million for the first half of 2020, compared with loss of RMB1,483.0 million in the same period last year.

Profit/(Loss) Attributable to Owners of the Parent before Share-based Compensation Costs

Profit attributable to owners of the parent before share-based compensation costs for the first half of 2020 (including that from continuing operations and a discontinued operation) was RMB9,248.9 million, compared with loss of RMB1,405.7 million in the prior year period. The net profit/(loss) margin excluding the effect of share-based compensation costs was 211% and (39%) for the six months ended 30 June 2020 and 30 June 2019, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 30 June 2020, the Group had major financial resources in the forms of cash and bank deposits amounting to RMB14,788.5 million, which totally represented 44% of the Group's total assets.

As at 30 June 2020, the Group's gearing ratio, which represents total liabilities divided by total assets, was 19%, compared to 36% as at 31 December 2019.

Foreign Currency Risk Management

As at 30 June 2020, RMB3,351.8 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Net Cash Generated from Operating Activities

Net cash generated from our operating activities reflected our profit/(loss) for the six months period, as the case may be, as adjusted for non-cash items, such as depreciation, amortization of intangible assets, and share-based compensation costs, as well as the effect of changes in certain items of statement of financial position, such as deferred revenue, other payables and accruals.

Net cash generated from operating activities (including that from continuing operations and a discontinued operation) was RMB1,308.1 million and RMB244.2 million for the six months ended 30 June 2020 and 30 June 2019, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fix assets and intangible assets. Cash used for capital expenditures (including that from continuing operations and a discontinued operation) was RMB404.4 million and RMB603.5 million for the six months ended 30 June 2020 and 30 June 2019, respectively.

BUSINESS REVIEW AND OUTLOOK

Mr. Jun LEI, Chairman of the Company, commented, “The Company saw strong growth in the second quarter, driven by continued demand for subscription services and licensing business of Kingsoft Office Group, coupled with excellent performance by core online games. Kingsoft Office Group focused on product development, product rollout and exploration into complementary verticals to build its core competitiveness. In the online games sector, we continued to improve our ability to develop and operate premium games, while expanding into new game categories. On 8 May 2020 (New York time), Kingsoft Cloud was successfully listed on National Association of Securities Dealers Automated Quotations (“**NASDAQ**”). As the largest shareholder in Kingsoft Cloud, we are confident in its long-term development.”

Mr. Tao ZOU, Chief Executive Officer of the Company, added, “Our revenue in the second quarter of 2020 was RMB1,420.1 million, up 49% year-on-year and 21% quarter-on-quarter. Our revenue in the first half of 2020 was RMB2,591.4 million, up 41% year-on-year. In the second quarter of the year, our online games business recorded a year-on-year growth of 53% and office software and services and others businesses grew 43% year-on-year, respectively.

For the second quarter of 2020, Kingsoft Office Group, as a beneficiary of increased demand in remote working, maintained stable and healthy development. Kingsoft Office Group’s office software licensing business maintained its rapid growth. We continued to promote cloud office migration to our leading customers, further strengthening our market leadership in document and information processing. In the first half of 2020, Kingsoft Office Group launched new editions of WPS Office such as Integrated Edition, Business Edition and Graphics Edition, while establishing an open Application Program Interface (API) with developer partners in our ecosystem. As of June 2020, we have completed product adaptation with 190 developer partners, achieving integration in areas such as work collaboration, input method, mail, voice recognition, handwriting pad and tablet. As of 30 June 2020, over hundreds of thousands of micro, small and medium enterprises have used WPS+ cloud office services.

Kingsoft Office Group’s personal subscription services continued to show robust growth, due to innovative content, rich features, as well as improved user outreach and experience via innovative channels such as live streaming sales. In addition to online document editing, WPS Docs provides collaborative office products such as spreadsheet, calendar, to-do list and meeting, enabling users to work together seamlessly via Kingsoft Office Group’s cloud platform.

We continue to expand our partnerships and brand awareness. During this period, Kingsoft Office has become the official supplier of Beijing 2022 Winter Olympics. In addition, Kingsoft Office entered a strategic cooperation with the International Centre for Higher Education Innovation under the auspices of United Nations Educational, Scientific and Cultural Organization (UNESCO-ICHEI), providing WPS Office-related online courses to this global education resource platform. Forging ahead, we continue to adhere to our philosophy of technological empowerment, focusing our efforts on technological innovation and product optimization and continue to innovate the organizational structure and strengthen the R&D Center.

In the second quarter, revenue from online games achieved significant year-on-year growth. Revenue and average daily active users of our flagship JX Online III PC game recorded year-on-year growth of 120% and 39% respectively, reflecting our track record in developing and operating blockbuster online games. In June, we launched a beta test for the JX Online III mobile game and received positive player response. In the same month, we also started the pre-registration for War of the Visions: Final Fantasy Brave Exvius. Meanwhile, the cloud version of JX Online III PC game has officially launched its testing version in July, becoming one of the first cloud games in China. We further strengthened our cooperation with Tencent and launched JX Online II mobile game on all platforms in August, which was ranked as the number one in the iOS top free charts on its debut.

In the coming quarters, we will continue to focus on new product development and operation optimization. We will celebrate the 11th anniversary of JX Online III PC game and launch a new expansion pack to further strengthen the longevity and vitality of our core IP. During the year, JX Online I mobile game will be renamed as New JX Online I: Yuan Qi Wang You (新劍俠情緣：緣起忘憂) with an all-new game appearance and experience for our players. Wo Long Yin 2 (臥龍吟 2) will also be launched later this year.”

Mr. Jun LEI concluded, “Our results were robust in the first half of 2020 despite the impact of COVID-19. Going forward, we remain confident in the resilience of our business model and the pace of our developments. We will continue to focus on optimizing our organizational structure, technological innovation and product enhancement, so as to provide our customers with the best user experiences. We strive to deliver sustainable business growth and bring solid returns to our shareholders and partners.”

OTHER INFORMATION

Employee and Remuneration Policies

As at 30 June 2020, the Group had 5,543 full-time employees (30 June 2019: 6,486), inclusive of all its staff in Mainland China and overseas offices, most of whom are based in Beijing and Zhuhai, the PRC. Since Kingsoft Cloud ceased to be a subsidiary of the Company with effect on 8 May 2020, the number of full-time employees of the Group as at 30 June 2020 did not include the number of those of Kingsoft Cloud Group. The number of employees employed by the Group varies from time to time depending on business needs. Employee remuneration is determined in accordance with prevailing industry practice and employees’ educational backgrounds, experiences and performance. The remuneration policy and package of the Group’s employees are periodically reviewed. Apart from pension funds, in-house training programs, discretionary bonuses, medical insurance and mandatory provident fund, share awards and share options may be granted to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the six months ended 30 June 2020 was RMB911.8 million (for the six months ended 30 June 2019: RMB861.3 million (restated)).

Purchase, Sale and Redemption of the Company's Listed Securities

None of the Company and its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the six months ended 30 June 2020.

Review by Audit Committee

The Audit Committee of the Company has been established since year 2007 with responsibility of assisting the Board in providing an independent review of the financial statements and internal control system. It acts in accordance with its terms of reference which clearly defines its membership, authority, duties and frequency of meetings. It meets regularly with our management, external auditor and internal audit personnel to discuss accounting principles and practices adopted by the Group and internal control and financial reporting matters. The Audit Committee is comprised of three independent non-executive Directors, namely Ms. Wenjie WU (chairman), Mr. Shun Tak WONG and Mr. David Yuen Kwan TANG.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's unaudited interim financial information for the six months ended 30 June 2020.

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2020.

Corporate Governance Code

The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules except for the code provisions A.6.7 and C.1.2 of the Corporate Governance Code.

The code provision A.6.7 of the Corporate Governance Code is regarding non-executive directors' attendance at general meetings. Non-executive Director Mr. Chi Ping LAU did not attend the annual general meeting of the Company held on 27 May 2020 due to pre-arranged engagements. The code provision C.1.2 of the Corporate Governance Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive Directors overseeing the daily operation of the Group and the effective communication among the executive Directors, the management and the non-executive Directors (including the independent non-executive Directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

Appreciation

On behalf of the Board, I would like to express our sincere thanks to our shareholders and investors for their continuous support and confidence in us. I would like to thank our employees for their hard work and valuable contributions which are the core elements of the Company's success.

By Order of the Board
Kingsoft Corporation Limited
Jun Lei
Chairman

Hong Kong, 18 August 2020

As at the date of this announcement, the Executive Directors are Messrs. Tao ZOU and Yuk Keung NG; the Non-executive Directors are Messrs. Jun LEI, Pak Kwan KAU and Chi Ping LAU; the Independent Non-executive Directors are Messrs. Shun Tak WONG, David Yuen Kwan TANG and Ms. Wenjie WU.