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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)

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2018**

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 2018. 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 2018

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CONTINUING OPERATIONS					
Revenue					
Online games		581,882	805,000	1,214,260	1,622,151
Cloud services		468,731	304,027	887,651	572,473
Office software and services and others		295,176	175,385	507,605	303,154
		<u>1,345,789</u>	<u>1,284,412</u>	<u>2,609,516</u>	<u>2,497,778</u>
Cost of revenue		<u>(674,538)</u>	<u>(488,898)</u>	<u>(1,322,622)</u>	<u>(998,345)</u>
		<u>671,251</u>	<u>795,514</u>	<u>1,286,894</u>	<u>1,499,433</u>
Gross profit		671,251	795,514	1,286,894	1,499,433
Research and development costs, net		(430,589)	(368,273)	(810,903)	(689,712)
Selling and distribution expenses		(157,763)	(135,262)	(284,395)	(216,435)
Administrative expenses		(105,883)	(58,645)	(188,768)	(114,708)
Share-based compensation costs	5	(51,827)	(61,063)	(109,887)	(109,800)
Other income		89,364	92,778	148,216	163,555
Other expenses		(1,225)	(4,250)	(1,871)	(6,332)
		<u>13,328</u>	<u>260,799</u>	<u>39,286</u>	<u>526,001</u>
Operating profit		13,328	260,799	39,286	526,001
Other losses, net		(73,645)	(42,332)	(54,470)	(134,586)
Finance income		83,877	44,115	149,618	91,892
Finance costs		(88,403)	(21,155)	(139,936)	(53,832)
Share of profits and losses of:					
Joint ventures		15,434	32,646	32,797	71,472
Associates		65,851	(3,085)	85,613	(5,480)
		<u>16,442</u>	<u>270,988</u>	<u>112,908</u>	<u>495,467</u>
Profit before tax from continuing operations	4	16,442	270,988	112,908	495,467
Income tax expense	6	(57,033)	(48,174)	(100,114)	(94,261)
		<u>(40,591)</u>	<u>222,814</u>	<u>12,794</u>	<u>401,206</u>
Profit/(loss) for the period from continuing operations		(40,591)	222,814	12,794	401,206
DISCONTINUED OPERATION					
Profit for the period from a discontinued operation		<u>—</u>	<u>61,840</u>	<u>—</u>	<u>163,713</u>
		<u>(40,591)</u>	<u>284,654</u>	<u>12,794</u>	<u>564,919</u>
PROFIT/(LOSS) FOR THE PERIOD		(40,591)	284,654	12,794	564,919
Attributable to:					
Owners of the parent		100,945	250,044	219,333	488,513
Non-controlling interests		(141,536)	34,610	(206,539)	76,406
		<u>(40,591)</u>	<u>284,654</u>	<u>12,794</u>	<u>564,919</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the three and six months ended 30 June 2018

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2018 RMB (Unaudited)	2017 RMB (Unaudited)	2018 RMB (Unaudited)	2017 RMB (Unaudited)
Earnings per share attributable to ordinary equity holders of the parent	8				
Basic					
— For profit for the period		0.07	0.19	0.16	0.38
— For profit from continuing operations		0.07	0.16	0.16	0.30
Diluted					
— For profit for the period		0.07	0.19	0.16	0.37
— For profit from continuing operations		0.07	0.16	0.16	0.30

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2018

	For the three months ended 30 June		For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	(40,591)	284,654	12,794	564,919
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Available-for-sale investments:				
Change in fair value	—	(10,250)	—	—
Exchange differences:				
Exchange differences on translation of foreign operations	174,131	(96,520)	30,275	(107,188)
Share of other comprehensive income of associates	104,066	—	61,757	—
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	278,197	(106,770)	92,032	(107,188)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:				
Net fair value gain/(loss) on financial assets at fair value through other comprehensive income (“FVOCI”)	206,462	—	(101,825)	—
Share of other comprehensive income of associates	6,614	—	6,614	—
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	213,076	—	(95,211)	—
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	491,273	(106,770)	(3,179)	(107,188)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	450,682	177,884	9,615	457,731

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three and six months ended 30 June 2018

	For the three months ended 30 June		For the six months ended 30 June	
	2018 <i>RMB'000</i> (Unaudited)	2017 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Unaudited)	2017 <i>RMB'000</i> (Unaudited)
Attributable to:				
Owners of the parent	574,374	169,483	209,583	412,271
Non-controlling interests	(123,692)	8,401	(199,968)	45,460
	<u>450,682</u>	<u>177,884</u>	<u>9,615</u>	<u>457,731</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		As at 30 June 2018 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2017 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,659,410	1,329,203
Investment properties		64,662	—
Prepaid land lease payments		290,929	289,561
Goodwill		9,559	9,559
Other intangible assets		53,059	56,375
Investments in joint ventures		127,905	177,110
Investments in associates		4,006,598	3,878,421
Available-for-sale investments		—	1,269,216
Financial assets at fair value through other comprehensive income		1,154,639	—
Other financial assets		75,104	63,430
Deferred tax assets		93,197	101,807
Other non-current assets		26,324	42,640
		<hr/>	<hr/>
Total non-current assets		7,561,386	7,217,322
CURRENT ASSETS			
Inventories		19,847	10,327
Trade receivables	9	1,186,551	1,167,745
Prepayments, deposits and other receivables		858,337	679,612
Available-for-sale investment		—	88,000
Financial asset at fair value through other comprehensive income		10,000	—
Restricted cash		94,577	93,400
Cash and bank deposits		10,241,957	8,505,984
		<hr/>	<hr/>
Total current assets		12,411,269	10,545,068
CURRENT LIABILITIES			
Trade payables	10	231,267	179,301
Other payables and accruals		1,602,348	1,612,667
Interest-bearing bank loans	11	1,056,403	374,165
Deferred revenue		652,260	608,557
Income tax payable		125,892	125,465
Liability component of convertible bonds	12	38,419	832,876
Derivative financial instruments		157,545	121,076
		<hr/>	<hr/>
Total current liabilities		3,864,134	3,854,107
NET CURRENT ASSETS		<hr/>	<hr/>
		8,547,135	6,690,961
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/>	<hr/>
		16,108,521	13,908,283

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2018

		As at 30 June 2018 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2017 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Deferred revenue		24,026	20,788
Deferred tax liabilities		29,853	58,707
Interest-bearing bank loans	11	231,224	287,682
Liability component of convertible bonds	12	—	37,864
Liability component of redeemable convertible preferred shares		<u>2,483,958</u>	<u>950,271</u>
Total non-current liabilities		<u>2,769,061</u>	<u>1,355,312</u>
NET ASSETS		<u>13,339,460</u>	<u>12,552,971</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		5,319	5,127
Share premium account		2,984,875	2,287,958
Treasury shares		(20,042)	(22,517)
Equity component of convertible bonds	12	1,274	7,564
Other reserves		<u>10,138,260</u>	<u>9,810,458</u>
		13,109,686	12,088,590
Non-controlling interests		<u>229,774</u>	<u>464,381</u>
TOTAL EQUITY		<u>13,339,460</u>	<u>12,552,971</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the parent													Non-controlling interests	Total equity
	Issued capital	Share premium	Treasury shares	Equity component of convertible bonds	Statutory reserve	Share-based compensation reserve	Other capital reserve	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Fair value reserve of financial assets at FVOCI	Retained profits	Total	interests		
	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	RMB'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
At December 31, 2017	5,127	2,287,958	(22,517)	7,564	228,087 [#]	329,588 [#]	1,846,459 [#]	31,921 [#]	812,539 [#]	—	6,561,864 [#]	12,088,590	464,381	12,552,971	
Adjustment on adoption of IFRS 15, net of tax	—	—	—	—	—	—	—	—	—	—	5,722	5,722	—	5,722	
Adjustment on adoption of IFRS 9	—	—	—	—	—	—	—	—	(812,539)	812,539	—	—	—	—	
At 1 January 2018	5,127	2,287,958	(22,517)	7,564	228,087	329,588	1,846,459	31,921	—	812,539	6,567,586	12,094,312	464,381	12,558,693	
Profit/(loss) for the period	—	—	—	—	—	—	—	—	—	—	219,333	219,333	(206,539)	12,794	
Other comprehensive income/(loss) for the period:															
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	23,714	—	—	—	23,714	6,561	30,275	
Net fair value gain/(loss) on financial assets at FVOCI	—	—	—	—	—	—	—	—	—	(101,835)	—	(101,835)	10	(101,825)	
Reclassification adjustments for disposal of a financial asset	—	—	—	—	—	—	—	—	—	(28,500)	28,500	—	—	—	
Share of other comprehensive income of associates	—	—	—	—	—	—	—	61,757	—	6,614	—	68,371	—	68,371	
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	—	85,471	—	(123,721)	247,833	209,583	(199,968)	9,615	
Approved and paid final dividend in respect of the previous year	—	(126,608)	—	—	—	—	—	—	—	—	—	(126,608)	—	(126,608)	
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(137,019)	(137,019)	
Share-based compensation costs	—	—	—	—	—	77,258	—	—	—	—	—	77,258	32,725	109,983	
Vested awarded shares transferred to employees	—	—	2,475	—	—	(2,475)	—	—	—	—	—	—	—	—	
Shares of reserves of an associate	—	—	—	—	—	—	1,624	—	—	—	—	1,624	—	1,624	
Conversion of convertible bonds	192	823,525	—	(6,290)	—	—	—	—	—	—	—	817,427	—	817,427	
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	36,090	—	—	—	—	36,090	69,655	105,745	
At 30 June 2018	5,319	2,984,875	(20,042)	1,274	228,087 [#]	404,371 [#]	1,884,173 [#]	117,392 [#]	—	688,818 [#]	6,815,419 [#]	13,109,686	229,774	13,339,460	

[#] These reserve accounts comprise the consolidated other reserves of RMB10,138,260,000 (31 December 2017: RMB9,810,458,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2017

	Attributable to owners of the parent												
	Issued capital	Share premium	Treasury shares	Equity component of convertible bonds	Statutory reserve	Share-based compensation reserve	Other capital reserve	Available-for-sale investment revaluation reserve	Foreign currency translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	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 2017	5,097	2,369,129	(25,477)	72,295	225,276	468,930	1,339,013	30,075	297,789	3,105,080	7,887,207	2,114,517	10,001,724
Profit for the period	—	—	—	—	—	—	—	—	—	488,513	488,513	76,406	564,919
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(76,242)	—	(76,242)	(30,946)	(107,188)
Total comprehensive income for the period	—	—	—	—	—	—	—	—	(76,242)	488,513	412,271	45,460	457,731
Approved and paid final dividend in respect of the previous year	—	(112,678)	—	—	—	—	—	—	—	—	(112,678)	—	(112,678)
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(161,218)	(161,218)
Share-based compensation costs	—	—	—	—	—	103,182	—	—	—	—	103,182	55,079	158,261
Exercise of share options	18	16,846	—	—	—	(4,540)	—	—	—	—	12,324	—	12,324
Vested awarded shares transferred to employees	—	—	2,262	—	—	(49,649)	60,327	—	—	—	12,940	—	12,940
Shares of reserves of an associate	—	—	—	—	—	—	126	—	—	—	126	130	256
Redemption of convertible bonds	—	—	—	(64,731)	—	—	27,085	—	—	—	(37,646)	—	(37,646)
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	383,840	—	—	—	383,840	60,786	444,626
At 30 June 2017	5,115	2,273,297	(23,215)	7,564	225,276	517,923	1,810,391	30,075	221,547	3,593,593	8,661,566	2,114,754	10,776,320

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	362,526	1,117,828
Net cash flows used in investing activities	(1,746,510)	(238,808)
Net cash flows from/(used in) financing activities	1,624,097	(1,557,098)
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Net increase/(decrease) in cash and cash equivalents	240,113	(678,078)
Cash and cash equivalents at beginning of the period	3,036,488	5,776,336
Effect of foreign exchange rate changes, net	(25,063)	(125,544)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	3,251,538	4,972,714
Non-pledged time deposits with original maturity of over three months when acquired	4,303,949	391,684
Principal protected structure deposits with original maturity of over three months when acquired	2,686,470	3,492,000
Less: Cash and cash equivalents attributable to a discontinued operation	—	(1,848,638)
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Cash and bank deposits as stated in the condensed consolidated statement of financial position	10,241,957	7,007,760
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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.

The Group was principally involved in the following activities:

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

The interim condensed consolidated financial statements for the six months ended 30 June 2018 were approved and authorized for issue in accordance with a resolution of the Board on 21 August 2018.

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 as at 31 December 2017.

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

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), except for the adoption of new standards and interpretations effective as at 1 January 2018.

The Group adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on 1 January 2018, using a modified retrospective method. The Group didn't restate comparative information and recognised the transition adjustments against the opening balance of retained earnings at 1 January 2018. The effect of adopting IFRS 9 and IFRS 15 is as follows:

The adoption of IFRS 9 has a significant impact on the classification and measurement of the Group's financial assets. The balance of available-for-sale investments of RMB1,357.2 million as at 1 January 2018 was reclassified to financial assets at FVOCI of RMB1,355.5 million and financial assets at fair value through profit or loss of RMB1.7 million, respectively.

The adoption of IFRS 15 has no material impact on the financial statements of the Company and its subsidiaries, and the cumulative catch-up adjustments related to an associate of the Group at the date of initial application of IFRS 15 increased the Group's opening balance of retained earnings as at 1 January 2018 by RMB5.7 million.

The following other amendments and interpretation to IFRSs do not have any significant impact on the accounting policies, financial position or performance of the Group:

IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
Annual Improvements to 2014–2016 Cycle	<i>Amendments to a number of IFRSs</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 three 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;
- (b) the cloud services segment engages in the provision of cloud storage and cloud computation services; and
- (c) 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 before tax from continuing operations except that administrative expenses, share-based compensation costs, other income, other expenses, net other losses, finance income, finance costs as well as share of profits and losses of joint ventures and associates are excluded from such measurement.

3. Operating segments (continued)

	Entertainment software RMB'000 (Unaudited)	Cloud services RMB'000 (Unaudited)	Office software and services and others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<i>For the six months ended 30 June 2018</i>				
Segment revenue:				
Sales to external customers	1,214,260	887,651	507,605	2,609,516
Intersegment sales	476	33,412	28,441	62,329
	<u>1,214,736</u>	<u>921,063</u>	<u>536,046</u>	<u>2,671,845</u>
<i>Reconciliation:</i>				
Elimination of intersegment sales				<u>(62,329)</u>
Revenue from continuing operations				<u><u>2,609,516</u></u>
Segment results	335,357	(333,719)	196,496	198,134
<i>Reconciliation:</i>				
Elimination of intersegment results				(6,538)
Administrative expenses				(188,768)
Share-based compensation costs				(109,887)
Other income				148,216
Other expenses				(1,871)
Other losses, net				(54,470)
Finance income				149,618
Finance costs				(139,936)
Share of profits of:				
Joint ventures				32,797
Associates				85,613
Profit before tax from continuing operations				<u><u>112,908</u></u>

3. Operating segments (continued)

	Entertainment software RMB'000 (Unaudited)	Cloud services RMB'000 (Unaudited)	Office software and services and others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<i>For the six months ended 30 June 2017</i>				
Segment revenue:				
Sales to external customers	1,622,151	572,473	303,154	2,497,778
Sales to discontinued operation	272	13,546	12,648	26,466
Intersegment sales	650	18,371	23,454	42,475
	<u>1,623,073</u>	<u>604,390</u>	<u>339,256</u>	<u>2,566,719</u>
<i>Reconciliation:</i>				
Elimination with discontinued operation				(26,466)
Elimination of intersegment sales				<u>(42,475)</u>
Revenue from continuing operations				<u><u>2,497,778</u></u>
Segment results	793,027	(282,167)	107,612	618,472
<i>Reconciliation:</i>				
Elimination with discontinued results				(26,466)
Elimination of intersegment results				1,280
Administrative expenses				(114,708)
Share-based compensation costs				(109,800)
Other income				163,555
Other expenses				(6,332)
Other losses, net				(134,586)
Finance income				91,892
Finance costs				(53,832)
Share of profits and losses of:				
Joint ventures				71,472
Associates				<u>(5,480)</u>
Profit before tax from continuing operations				<u><u>495,467</u></u>

3. Operating segments (continued)

Geographical information

Revenue of continuing operations from external customers:

	For the three months ended 30 June		For the six months ended 30 June	
	2018 <i>RMB'000</i> <i>(Unaudited)</i>	2017 <i>RMB'000</i> <i>(Unaudited)</i>	2018 <i>RMB'000</i> <i>(Unaudited)</i>	2017 <i>RMB'000</i> <i>(Unaudited)</i>
Mainland China	1,301,969	1,216,632	2,506,458	2,350,784
Hong Kong	39,974	65,622	96,847	142,902
Other countries	3,846	2,158	6,211	4,092
Total	<u>1,345,789</u>	<u>1,284,412</u>	<u>2,609,516</u>	<u>2,497,778</u>

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

4. Profit before tax from continuing operations

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

	For the three months ended 30 June		For the six months ended 30 June	
	2018 <i>RMB'000</i> <i>(Unaudited)</i>	2017 <i>RMB'000</i> <i>(Unaudited)</i>	2018 <i>RMB'000</i> <i>(Unaudited)</i>	2017 <i>RMB'000</i> <i>(Unaudited)</i>
Employee benefit expenses	514,690	413,389	999,418	804,590
Depreciation of property, plant and equipment	107,463	78,191	200,703	150,761
Depreciation of investment properties	360	—	360	—
Amortization of prepaid land lease payments	1,245	1,085	2,524	2,170
Amortization of other intangible assets	6,343	8,458	13,184	16,594
Interest on bank loans, convertible bonds and redeemable convertible preferred shares	88,403	21,155	139,936	53,832

5. Share-based compensation costs

(a) Share option schemes

2007 Pre-IPO Share Option Schemes

The Company adopted the 2007 Pre-IPO Share Option Scheme in January 2007. The 2007 Pre-IPO Share Option Schemes were terminated on 3 September 2007. No share options have been granted since then. The following table illustrates the number of and movements in the Company's share options of the 2007 Pre-IPO Share Option Schemes for the six months ended 30 June 2018 and 2017.

	2018 Number of Share options <i>(Unaudited)</i>	2017 Number of Share options <i>(Unaudited)</i>
Outstanding at 1 January	—	3,089,700
Exercised during the period	—	(3,089,700)
	<hr/>	<hr/>
Outstanding at 30 June	<u>—</u>	<u>—</u>
	<hr/>	<hr/>
Exercisable at 30 June	<u>—</u>	<u>—</u>

2011 Share Option Scheme

The Company operates the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Share Option Scheme include the Company's directors (exclusive of any non-executive director) and other employees of the Group. The 2011 Share Option Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The following table illustrates the number of and movements in the Company's share options of 2011 Share Option Schemes for the six months ended 30 June 2018 and 2017.

	2018 Number of Share options <i>(Unaudited)</i>	2017 Number of Share options <i>(Unaudited)</i>
Outstanding at 1 January	4,600,000	5,900,000
Granted during period	—	4,000,000
Exercised during the period	—	(2,120,000)
	<hr/>	<hr/>
Outstanding at 30 June	<u>4,600,000</u>	<u>7,780,000</u>
	<hr/>	<hr/>
Exercisable at 30 June	<u>800,000</u>	<u>3,180,000</u>

5. Share-based compensation costs (continued)

(b) Awarded Shares

Share Award Scheme

On 31 March 2008, the Directors approved and adopted a share award scheme (the “**Share Award Scheme**”) in which selected employees of the Group have been awarded the awarded shares through their continued employment with the Group. Unless early terminated by the Directors, the Share Award Scheme is valid and effective for a term of five years commencing from 31 March 2008. On 25 November 2010, the Directors resolved to extend the termination date of the Share Award Scheme from 30 March 2013 to 30 March 2017. On 19 November 2016, the Board approved to further extend the term of the Share Award Scheme until 30 March 2022 from 30 March 2017. The Directors will not grant any awarded shares which would result in the total number of shares, which are the subject of awards granted by the Directors under the Share Award Scheme (but not counting any which have lapsed or have been forfeited), representing in aggregate over 10% of the issued capital of the Company as at the date of such grant.

No shares were acquired by the Share Award Scheme Trust during the six months ended 30 June 2018 and 2017.

The following table illustrates the number of and movements in the Company’s awarded shares during the six months ended 30 June 2018 and 2017.

	2018	2017
	Number of Awarded shares (Unaudited)	Number of Awarded shares (Unaudited)
Outstanding at 1 January	5,830,300	1,606,301
Granted during the period	455,000	4,785,000
Forfeited during the period	(12,200)	(46,700)
Vested and transferred during the period	(1,059,800)	(958,100)
Outstanding at 30 June	<u>5,213,300</u>	<u>5,386,501</u>
Exercisable at 30 June	<u>500</u>	<u>47,500</u>

6. Income tax expense

The major components of income tax expense in the condensed consolidated statement of profit or loss are:

	For the three months ended 30 June		For the six months ended 30 June	
	2018 <i>RMB'000</i> <i>(Unaudited)</i>	2017 <i>RMB'000</i> <i>(Unaudited)</i>	2018 <i>RMB'000</i> <i>(Unaudited)</i>	2017 <i>RMB'000</i> <i>(Unaudited)</i>
Current income tax	50,662	49,231	110,858	128,600
Deferred income tax	6,371	(1,057)	(10,744)	(34,339)
Income tax expense	<u>57,033</u>	<u>48,174</u>	<u>100,114</u>	<u>94,261</u>

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

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on estimated assessable profits arising in Hong Kong for the six months ended 30 June 2018.

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

7. Dividends

Final dividend

A final dividend of HK\$0.11 per ordinary share for 2017 proposed by the Board was approved by the shareholders of the Company (the "Shareholders") on 23 May 2018. The actual 2017 final dividend paid was RMB126.6 million.

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

8. Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the convertible bonds of the Company, the share option schemes and the award share schemes adopted by the Group and its associate. 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 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.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent:		
From continuing operations	219,333	394,504
From a discontinued operation	—	94,009
	219,333	488,513
Increase in earnings adjusted for the convertible bonds of the Company	75	15,892
Decrease in earnings adjusted for the share option schemes and the share award schemes adopted by the Group and its associate	(3,086)	(1,985)
	216,322	502,420
Attributable to:		
Continuing operations	216,322	410,396
Discontinued operation	—	92,024
	216,322	502,420

8. Earnings per share attributable to ordinary equity holders of the parent (continued)

	Number of shares For the six months ended 30 June	
	2018 <i>(Unaudited)</i>	2017 <i>(Unaudited)</i>
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme	1,360,416,996	1,296,789,525
Effect of dilution — weighted average number of ordinary shares:		
Share options	47,498	4,675,494
Awarded shares	3,583,122	1,898,878
Convertible bonds	5,034,807	60,753,341
	<u>1,369,082,423</u>	<u>1,364,117,238</u>

9. Trade receivables

An aging analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2018 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2017 <i>RMB'000</i> <i>(Audited)</i>
0–30 days	405,611	473,039
31–60 days	42,470	152,404
61–90 days	81,471	143,342
91–365 days	541,341	344,455
Over one year	115,658	54,505
	<u>1,186,551</u>	<u>1,167,745</u>

10. Trade payables

An aging analysis of the Group's trade payables at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
0–30 days	74,763	87,583
31–60 days	12,607	32,690
61–90 days	66,320	2,309
91–365 days	74,096	54,446
Over one year	3,481	2,273
	<u>231,267</u>	<u>179,301</u>

11. Interest-bearing bank loans

	<i>Note</i>	Effective interest rate	Maturity	Principal amount <i>RMB'000</i>
At 30 June 2018 (Unaudited)				
Current				
Bank loans — unsecured		2.30%–3.10% per annum	2018–2019	992,490
Current portion of long term bank loans — unsecured		4.28% per annum	2018–2019	<u>63,913</u>
				1,056,403
Non-current				
Bank loans — unsecured		4.28% per annum	2020–2021	<u>231,224</u>
				<u><u>1,287,627</u></u>
At 31 December 2017 (Audited)				
Current				
Bank loan — unsecured		2.37% per annum	2018	326,710
Current portion of long term bank loans — unsecured		4.28% per annum	2018	<u>47,455</u>
				374,165
Non-current				
Bank loans — unsecured		4.28% per annum	2019–2021	<u>287,682</u>
				<u><u>661,847</u></u>

Note:

As at 30 June 2018, interest-bearing bank loans of the Group amounting to RMB992.5 million and RMB295.1 million were denominated in US\$ and RMB, respectively (31 December 2017: RMB326.7 million and RMB335.1 million, respectively).

12. Convertible bonds

- (a) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK\$1,356.0 million, which bear interest at a rate of 3% per annum payable semi-annually (the “**2013 Convertible Bonds**”). The 2013 Convertible Bonds are convertible at the option of the bondholders into Shares from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$16.9363 per Share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2013 Convertible Bonds at principal 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 2013 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

The conversion price of the 2013 Convertible Bonds was adjusted to HK\$16.46 per share effective on 2 June 2016, in accordance with the respective terms and conditions of the 2013 Convertible Bonds.

On 15 January 2018, all outstanding 2013 Convertible Bonds were fully converted into the Company’s ordinary shares. As a result of the conversion, 60,753,330 ordinary shares were issued in accordance with the terms and conditions of the 2013 Convertible Bonds.

- (b) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HK\$2,327.0 million which bear interest at a rate of 1.25% per annum payable semi-annually (the “**2014 Convertible Bonds**”). The 2014 Convertible Bonds are convertible at the option of the bondholders into Shares from 22 May 2014 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$43.89 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2014 Convertible Bonds at principal 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 2014 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

The convertible price of the 2014 Convertible Bonds was adjusted to HK\$42.67 per share effective on 2 June 2016, in accordance with the respective terms and conditions of the 2014 Convertible Bonds.

On 11 April 2017, the Company redeemed, at the options of certain bondholders of the 2014 Convertible Bonds, representing the principal amount of HK\$2,281.0 million of the 2014 Convertible Bonds at an aggregate principal amount together with accrued and unpaid interest to such date.

There was no conversion or redemption of the 2014 Convertible Bonds during the six months ended 30 June 2018. The aggregate outstanding principal amount of the 2014 Convertible Bonds as at 30 June 2018 is HK\$46.0 million.

OPERATIONAL HIGHLIGHTS

				For the three months ended					
	30 June 2018	31 March 2018	31 December 2017	30 September 2017	30 June 2017	31 March 2017	31 December 2016	30 September 2016	
Online Games									
Daily Average Peak Concurrent Users (“ADPCU”)	798,354	698,480	874,693	871,792	934,115	937,438	1,018,826	982,914	
Monthly Average Paying Accounts (“APA”)	<u>3,272,023</u>	<u>3,297,038</u>	<u>3,978,222</u>	<u>4,073,300</u>	<u>4,321,447</u>	<u>4,200,840</u>	<u>4,523,832</u>	<u>4,482,024</u>	

FINANCIAL HIGHLIGHTS

	For the three months ended		
	30 June 2018 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2017 <i>RMB'000</i> <i>(Unaudited)</i>	31 March 2018 <i>RMB'000</i> <i>(Unaudited)</i>
CONTINUING OPERATIONS			
Revenue			
Online games	581,882	805,000	632,378
Cloud services	468,731	304,027	418,920
Office software and services and others	295,176	175,385	212,429
	<u>1,345,789</u>	<u>1,284,412</u>	<u>1,263,727</u>
Cost of revenue	<u>(674,538)</u>	<u>(488,898)</u>	<u>(648,084)</u>
Gross profit	671,251	795,514	615,643
Research and development costs, net	(430,589)	(368,273)	(380,314)
Selling and distribution expenses	(157,763)	(135,262)	(126,632)
Administrative expenses	(105,883)	(58,645)	(82,885)
Share-based compensation costs	(51,827)	(61,063)	(58,060)
Other income	89,364	92,778	58,852
Other expenses	(1,225)	(4,250)	(646)
Operating profit	13,328	260,799	25,958
Other (losses)/gains, net	(73,645)	(42,332)	19,175
Finance income	83,877	44,115	65,741
Finance costs	(88,403)	(21,155)	(51,533)
Share of profits and losses of:			
Joint ventures	15,434	32,646	17,363
Associates	65,851	(3,085)	19,762
Profit before tax from continuing operations	16,442	270,988	96,466
Income tax expense	(57,033)	(48,174)	(43,081)
Profit/(loss) for the period from continuing operations	(40,591)	222,814	53,385
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	—	61,840	—
PROFIT/(LOSS) FOR THE PERIOD	(40,591)	284,654	53,385
Attributable to:			
Owners of the parent	100,945	250,044	118,388
Non-controlling interests	(141,536)	34,610	(65,003)
	<u>(40,591)</u>	<u>284,654</u>	<u>53,385</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the three months ended		
	30 June 2018	30 June 2017	31 March 2018
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the period	0.07	0.19	0.09
— For profit from continuing operations	0.07	0.16	0.09
	<u><u>0.07</u></u>	<u><u>0.16</u></u>	<u><u>0.09</u></u>
Diluted			
— For profit for the period	0.07	0.19	0.09
— For profit from continuing operations	0.07	0.16	0.09
	<u><u>0.07</u></u>	<u><u>0.16</u></u>	<u><u>0.09</u></u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
CONTINUING OPERATIONS		
Revenue		
Online games	1,214,260	1,622,151
Cloud services	887,651	572,473
Office software and services and others	507,605	303,154
	<u>2,609,516</u>	<u>2,497,778</u>
Cost of revenue	<u>(1,322,622)</u>	<u>(998,345)</u>
Gross profit	1,286,894	1,499,433
Research and development costs, net	(810,903)	(689,712)
Selling and distribution expenses	(284,395)	(216,435)
Administrative expenses	(188,768)	(114,708)
Share-based compensation costs	(109,887)	(109,800)
Other income	148,216	163,555
Other expenses	(1,871)	(6,332)
	<u>39,286</u>	<u>526,001</u>
Operating profit	39,286	526,001
Other losses, net	(54,470)	(134,586)
Finance income	149,618	91,892
Finance costs	(139,936)	(53,832)
Share of profits and losses of:		
Joint ventures	32,797	71,472
Associates	85,613	(5,480)
	<u>112,908</u>	<u>495,467</u>
Profit before tax from continuing operations	112,908	495,467
Income tax expense	(100,114)	(94,261)
	<u>12,794</u>	<u>401,206</u>
Profit for the period from continuing operations	12,794	401,206
DISCONTINUED OPERATION		
Profit for the period from a discontinued operation	<u>—</u>	<u>163,713</u>
PROFIT FOR THE PERIOD	12,794	564,919
Attributable to:		
Owners of the parent	219,333	488,513
Non-controlling interests	(206,539)	76,406
	<u>12,794</u>	<u>564,919</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the six months ended 30 June	
	2018	2017
	<i>RMB</i>	<i>RMB</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Earnings per share attributable to ordinary equity holders of the parent		
Basic		
— For profit for the period	0.16	0.38
— For profit from continuing operations	0.16	0.30
	<u><u>0.16</u></u>	<u><u>0.30</u></u>
Diluted		
— For profit for the period	0.16	0.37
— For profit from continuing operations	0.16	0.30
	<u><u>0.16</u></u>	<u><u>0.30</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2018 Compared to Second Quarter of 2017 and First Quarter of 2018

Revenue

Revenue for the second quarter of 2018 increased 5% year-on-year and 6% quarter-on-quarter to RMB1,345.8 million. Revenue from the online games, cloud services and office software and services and others represented 43%, 35% and 22%, respectively, of the Group's total revenue for the second quarter of 2018. Revenue from these business lines is reported net of intra-group transactions.

Revenue from the online games business for the second quarter of 2018 decreased 28% year-on-year and 8% quarter-on-quarter to RMB581.9 million. The year-on-year decrease was largely due to decreased revenue from JX Online III and existing mobile games, partially offset by the revenue contribution from newly launched mobile games. The mild quarter-on-quarter decrease was mainly due to the natural declining life cycles of the existing mobile games, and slight decrease in revenue from JX Online III.

ADPCU for the Group's online games for the second quarter of 2018 decreased 15% year-on-year and increased 14% quarter-on-quarter to 0.8 million. APA for the Group's online games for the second quarter of 2018 decreased 24% year-on-year and slightly decreased 1% quarter-on-quarter to 3.3 million. The year-on-year decreases in ADPCU and APA reflected the natural declining life cycles of existing games, which was partially offset by the release of new mobile games. The quarter-on-quarter increase in ADPCU was mainly due to the newly launched mobile game, resumed growth of JX Online III after the expansion pack launched in the second quarter, partially offset by the natural declining life cycles of existing mobile games.

Revenue from the cloud services for the second quarter of 2018 increased 54% year-on-year and 12% quarter-on-quarter to RMB468.7 million. The strong year-on-year increase was mainly driven by robust increase of customer usage from mobile video and internet sectors, demonstrating that Kingsoft Cloud Holdings Limited and its subsidiaries (collectively, "**Kingsoft Cloud**") further gained competitive advantages in particular industries, through improving the quality of products and services by technology innovation. The steady quarter-on-quarter increase was largely due to increased revenue from internet and government sectors, reflecting our efforts on exploring new opportunities by providing high-quality cloud services.

Revenue from the office software and services and others for the second quarter of 2018 increased 68% year-on-year and 39% quarter-on-quarter to RMB295.2 million. The increases were largely due to: i) rapid growth from value-added services of WPS Office personal edition, driven by fast increase of premium members, reflecting enhanced popularity of our membership privileges infused with rich and practical functions; and ii) increased sales of WPS Office to enterprises, as a result of increased user engagement driven by consistent products upgrades.

Cost of Revenue and Gross Profit

Cost of revenue for the second quarter of 2018 increased 38% year-on-year and 4% quarter-on-quarter to RMB674.5 million. The year-on-year increase was primarily due to higher bandwidth and internet data center (“IDC”) cost resulting from increased customer usage of cloud services.

Gross profit for the second quarter of 2018 decreased 16% year-on-year and increased 9% quarter-on-quarter to RMB671.3 million. The Group’s gross profit margin decreased by twelve percentage points year-on-year and increase by one percentage point quarter-on-quarter to 50%. The decrease of the Group’s year-on-year gross profit margin is a result of our change in sales mix, reflecting a significant increase in revenue contribution from cloud services, which has a relative lower gross profit margin with greater growth potential.

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

Net R&D costs for the second quarter of 2018 increased 17% year-on-year and 13% quarter-over-quarter to RMB430.6 million. The year-on-year and quarter-on-quarter increases were primarily attributable to the increased investments on new products and advanced technologies.

Selling and Distribution Expenses

Selling and distribution expenses for the second quarter of 2018 increased 17% year-on-year and 25% quarter-on-quarter to RMB157.8 million. The increases were primarily due to the expansion of channels as well as an increase in marketing and promotional spending for online games.

Administrative Expenses

Administrative expenses for the second quarter of 2018 increased 81% year-on-year and 28% quarter-on-quarter to RMB105.9 million. The year-on-year and quarter-on-quarter increases were mainly due to an increase in staff-related costs.

Share-based Compensation Costs

Share-based compensation costs for the second quarter of 2018 decreased 15% year-on-year and 11% quarter-on-quarter to RMB51.8 million.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the second quarter of 2018 decreased 80% year-on-year and 22% quarter-on-quarter to RMB65.2 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the second quarter of 2018 decreased by twenty percentage points year-on-year and two percentage points quarter-on-quarter to 5%.

Other (Losses)/Gains, net

Net other losses for the second quarter of 2018 were RMB73.6 million, compared to losses of RMB42.3 million in the corresponding period last year, and gains of RMB19.2 million in the first quarter of 2018. The losses in the second quarter of 2018 were mainly due to the recognition of foreign exchange losses in this quarter. The losses in the second quarter of 2017 were mainly due to the additional provision for impairment on the investments in XunLei Limited (“**XunLei**”) and 21 Vianet, Inc. (“**21 Vianet**”).

Share of Profits and Losses of Associates

We recorded share of profits of associates of RMB65.9 million for the second quarter of 2018, compared to share of losses of RMB3.1 million for the second quarter of 2017 and share of profits of RMB19.8 million for the first quarter of 2018. The change was mainly due to that Cheetah Mobile Inc. and its subsidiaries (collectively, “**Cheetah Mobile**”) had been accounted as the Group’s associate since 1 October 2017 and Cheetah Mobile’s improvements in its profit and margin continuously.

Income Tax Expense

Income tax expense for the second quarter of 2018 increased 18% year-on-year and 32% quarter-over-quarter to RMB57.0 million.

Profit 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 RMB100.9 million, RMB250.0 million and RMB118.4 million for the three months ended 30 June 2018, 30 June 2017 and 31 March 2018, respectively.

Profit Attributable to Owners of the Parent before Share-based Compensation Costs

Profit attributable to owners of the parent before share-based compensation costs is profit 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 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 or any other operating performance measure that is calculated in accordance with IFRSs. In addition, our profit 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 RMB138.9 million, RMB305.9 million and RMB157.6 million for the three months ended 30 June 2018, 30 June 2017 and 31 March 2018, respectively. The net profit margin excluding the effect of share-based compensation costs was 10%, 12% and 12% for the three months ended 30 June 2018, 30 June 2017 and 31 March 2018, respectively.

First Half of 2018 Compared to First Half of 2017

Revenue

Revenue for the first half of 2018 increased 4% year-on-year to RMB2,609.5 million. Revenue from the online games, cloud services and office software and services and others represented 47%, 34% and 19%, respectively, of the Group's total revenue for the first half of 2018.

Revenue from the online games business for the first half of 2018 decreased 25% year-on-year to RMB1,214.3 million. The year-on-year decrease was mainly due to lower revenue from JX Online III as the result of the fierce competition, natural decline in revenue of JX Online I mobile game, partially offset by revenue contribution from new mobile games.

Revenue from the cloud services for the first half of 2018 increased 55% year-on-year to RMB887.7 million. The increase was mainly driven by robust customer usage from mobile video and internet sectors, reflecting Kingsoft Cloud further strengthening its leading position in specific industries.

Revenue from office software and services and others for the first half of 2018 increased 67% year-over-year to RMB507.6 million. The year-on-year increase was largely due to the rapid growth from value-added services and online marketing services of WPS Office personal edition, demonstrating improved commercialization capabilities of our products, driven by strengthened functions and more premium content.

Cost of Revenue and Gross Profit

Cost of revenue for the first half of 2018 increased 32% year-on-year to RMB1,322.6 million. The year-on-year increase was primarily due to higher bandwidth and IDC cost associated with increased customer usage of cloud services.

Gross profit for the first half of 2018 decreased 14% year-on-year to RMB1,286.9 million. The Group's gross profit margin decreased by eleven percentage points year-on-year to 49%.

R&D Costs, net

Net R&D costs for the first half of 2018 increased 18% year-on-year to RMB810.9 million. The year-on-year increase was mainly due to increased investments on developing products and state-of-the-art technologies.

Selling and Distribution Expenses

Selling and distribution expenses for the first half of 2018 increased 31% year-on-year to RMB284.4 million. The increase was primarily due to higher promotional spending and the expansion of sales channels.

Administrative Expenses

Administrative expenses for the first half of 2018 increased 65% year-on-year to RMB188.8 million. The year-on-year increase was mainly due to increased staff-related costs and professional fees. We have had several self-owned properties put to use since early 2018.

Share-based Compensation Costs

Share-based compensation costs for the first half of 2018 was RMB109.9 million, flat with last year.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first half of 2018 decreased 77% year-on-year to RMB149.2 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the first half of 2018 decreased by nineteen percentage points year-on-year to 6%.

Other Losses, net

Net other losses for the first half of 2018 was RMB54.5 million, compared with losses of RMB134.6 million in the same period last year. The losses in 2018 were mainly due to the recognition of foreign exchange losses, and the losses in 2017 were mainly due to the provisions for impairment on the investments in XunLei and 21Vianet, respectively, as there was a significant or prolonged decline in the market value of the investments in XunLei and 21Vianet below the costs.

Share of Profits and Losses of Associates

We recorded share of profits of associates of RMB85.6 million for the first half of 2018, compared to share of losses of RMB5.5 million for the first half of 2017. The change was mainly attributable to the fact that Cheetah Mobile had been accounted as our associate since 1 October 2017.

Income Tax Expense

Income tax expense for the first half of 2018 increased 6% year-on-year to RMB100.1 million.

Profit 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 RMB219.3 million and RMB488.5 million for the six months ended 30 June 2018 and 30 June 2017, respectively.

Profit 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 2018 (including that from continuing operations and a discontinued operation) was

RMB296.5 million, compared to RMB591.8 million in the prior year period. The net profit margin excluding the effect of share-based compensation costs was 11% and 12% for the six months ended 30 June 2018 and 30 June 2017, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 30 June 2018, the Group had major financial resources in the forms of restricted cash, cash and bank deposits amounting to RMB94.6 million, RMB10,242.0 million, respectively, which totally represented 52% of the Group's total assets.

As at 30 June 2018, the Group's gearing ratio, which represents total liabilities divided by total assets, was 33%, compared to 29% as at 31 December 2017. As at 30 June 2018, the Group had HK\$45.6 million (equivalent of RMB38.4 million) debt of convertible bonds and bank loan of RMB295.1 million, US\$150.0 million (equivalent to RMB992.5 million).

Foreign Currency Risk Management

Certain expenses of the Group were denominated in currencies other than RMB. The Directors considered that the Group has certain exposure to foreign currency risks as some of its revenue which is generated from license sales is denominated in foreign currencies, which are US\$ and HK\$. The Group will monitor any exchange risks closely and hold within appropriate limits.

As at 30 June 2018, RMB5,168.0 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 for the six months period, as the case may be, as adjusted for non-cash items, such as depreciation, amortization of capitalized software costs, 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 RMB362.5 million and RMB1,117.8 million for the six months ended 30 June 2018 and 30 June 2017, 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 RMB499.4 million and RMB254.0 million for the six months ended 30 June 2018 and 30 June 2017, respectively.

BUSINESS REVIEW AND OUTLOOK

Mr. Jun LEI, Chairman of Kingsoft, commented, “We maintained a steady operation during this quarter and achieved our established goals. We launched YSYY (雲裳羽衣), our new 3D costume-changing mobile game in June, which topped the free game ranking on Apple Store on the day of its release. Kingsoft Cloud delivered a steady growth and all of its business segments performed well on track to meet our strategic targets. WPS Office continued its strong momentum with the global Monthly Active Users (“MAU”) of WPS family reaching 300 million in June, and recently it also released several brand new products including WPS Office 2019 and WPS Office for Mac.”

Mr. Tao ZOU, Chief Executive Officer of Kingsoft, added, “Our revenue was RMB1,345.8 million in the second quarter, up 5% year-on-year and 6% quarter-on-quarter. The revenue of the first half of 2018 was RMB2,609.5 million, up 4% year-on-year. In the second quarter, revenues from cloud services and office software and services and others businesses maintained healthy growth, up 54% and 68% year-on-year, respectively. After rapid development in the past few years, China’s online game market (including the mobile game market) appeared to have experienced a relatively sluggish growth in 2018. Facing the increasingly intensive competition in the mobile game market, we decide to push back the release date of our new mobile game, JX Online III mobile game, so as to align with our strategic deployment plan of our key gaming products. It is currently expected that the commercial launch time of JX Online III mobile game would be in early 2019.

During this quarter, JX Online I mobile game, which launched in May 2016, continued to enhance the game quality and contents, and contributed steady monthly gross billing with outstanding performance and great vitality. Although this quarter’s new mobile game YSYY did not achieve the expected performance financially, it did receive recognition from a wide range of players and ranked No.1 on the free games chart on Apple Store on the day of its release. It reflected our endeavor to develop in the game segment and our commitment in achieving more breakthroughs to adapt to the rapid changes in the game market. Our first animation Dream Tower (夢塔•雪迷城) premiered online on 1 June, and it has been viewed more than 40 million times up to now, which had great potential to be developed into another core IP. The theme song for our new animation JX Online III: Chivalrous Shen Jianxin (劍網3•俠肝義膽沈劍心) made its debut on Bilibili.com and was highly rated by the fans of JX Online III. This would help to sustain the flagship game’s popularity among users ahead of the upcoming 9th anniversary celebration. The JX World II mobile game was released on iOS on 4 July, which ranked No.1 on the most frequently searched list and No.2 on the chart of free games on Apple Store on the day of its release. We also plan to launch a series of game products in the coming quarters, including the new expansion pack for JX Online III, JX Online II mobile game, Chinese Paladin: Sword and Fairy (仙劍奇俠傳4), etc.

Kingsoft Cloud maintained a stable growth in the second quarter, and each business segment was in line with our strategic planning. Using three new technologies, artificial intelligence (“AI”), edge computing, and blockchain, Kingsoft Cloud not only helped the video cloud and game cloud clients strengthen their positions in their eco-system, but also worked on smart cities and made breakthroughs in areas of government cloud, healthcare cloud and finance cloud. As one of the first contractors of Beijing government cloud project, one of the largest government cloud projects in China, Kingsoft Cloud has served 42 municipal committees, offices and bureaus in Beijing. It also reached a strategic cooperation agreement with Rizhao city to build a smart city together. Kingsoft Cloud launched CloudHIS, China’s first cloud-based medical and healthcare information

system, and applied it in more than a dozen provinces and cities. Driven by new technologies, Kingsoft Cloud successfully made breakthrough in technology upgrading for its video and game cloud. Looking ahead, Kingsoft Cloud will further improve product quality and expand its serving scope. It will also seek opportunities in overseas market, and continue to lead the industry to grow healthily.

In the second quarter of 2018, WPS Office continued its strong momentum, launching a series of products and services to create better user experience. In July, WPS Office officially released several brand new products, including WPS Office 2019, WPS Office for Mac and WPS Documents. Equipped with cloud and AI technologies, the new products provide users with smarter office services that fit different working scenarios. For the personal value-added services of WPS Office, we continued to improve the membership benefits and enhance the content quality for our users, and also initiated the membership promotion which successfully drove the number of paid memberships and the growth of revenue. Furthermore, WPS Office participated in the World Intellectual Property Day, showing our commitment in innovation-driven business and proprietary R&D. We look forward to contributing to proprietary innovation, intellectual property protection and information security.” Users’ preference for domestic office software will continue to bring more development opportunities to WPS Office.

Mr. Jun LEI concluded, “We managed to deliver a steady quarter. Looking ahead, we believe Kingsoft Cloud and WPS Office will continue to expand in revenue and maintain a steady performance. Considering the estimated commercial launch time of the new mobile games, continuous competition in Content Delivery Network (“CDN”) market and the investment in the R&D for office software business, our operating results are expected to remain under pressure for the second half of the year. While looking into 2019, we believe the overall performance will improve on account of the debut of our new mobile games, as well as the steady growth of Kingsoft Cloud and WPS Office.”

OTHER INFORMATION

Employee and Remuneration Policies

As at 30 June 2018, the Group had 5,496 full-time employees (30 June 2017: 6,998), inclusive of all its staff in Mainland China and overseas offices, most of whom are based in Beijing and Zhuhai, the PRC. Since Cheetah Mobile ceased to be a subsidiary of the Company with effect on 1 October 2017, the number of full-time employees of the Group as at 30 June 2018 did not include the number of Cheetah Mobile. 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 from continuing operations incurred by the Group for the six months ended 30 June 2018 was RMB999.4 million (for the six months ended 30 June 2017: RMB804.6 million).

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 2018.

Review by Audit Committee

The Audit Committee 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, together with our external auditors has reviewed the Group's unaudited interim financial information for the six months ended 30 June 2018.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2018.

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 (the "**CG Code**") contained in Appendix 14 to the Listing Rules except for the code provision A.6.7 and C.1.2 of the CG Code.

The code provision A.6.7 of the CG Code is regarding non-executive directors' attendance at general meetings. Non-executive directors Mr. Chi Ping LAU did not attend the annual general meeting held on 23 May 2018 due to pre-arranged engagements. The code provision C.1.2 of the CG 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, 21 August 2018

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.