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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 2019**

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 2019. 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 2019

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<b>Revenue</b>					
Online games		569,838	581,882	1,169,491	1,214,260
Cloud services		918,239	468,731	1,757,509	887,651
Office software and services and others		385,992	295,176	673,581	507,605
		<u>1,874,069</u>	<u>1,345,789</u>	<u>3,600,581</u>	<u>2,609,516</u>
Cost of revenue		<u>(1,159,999)</u>	<u>(674,538)</u>	<u>(2,228,564)</u>	<u>(1,322,622)</u>
<b>Gross profit</b>		<b>714,070</b>	671,251	<b>1,372,017</b>	1,286,894
Research and development costs, net		(498,483)	(430,589)	(981,461)	(810,903)
Selling and distribution expenses		(241,879)	(157,763)	(399,414)	(284,395)
Administrative expenses		(107,450)	(105,883)	(217,863)	(188,768)
Share-based compensation costs		(56,979)	(51,827)	(113,056)	(109,887)
Other income		60,109	89,364	130,109	148,216
Other expenses		(12,409)	(1,225)	(15,013)	(1,871)
<b>Operating profit/(loss)</b>		<b>(143,021)</b>	13,328	<b>(224,681)</b>	39,286
Other losses, net		(1,326,704)	(73,645)	(1,302,126)	(54,470)
Finance income		75,119	83,877	150,272	149,618
Finance costs		(99,297)	(88,403)	(194,539)	(139,936)
Share of profits and losses of:					
Joint ventures		8,756	15,434	11,211	32,797
Associates		(58,296)	65,851	(136,238)	85,613
<b>Profit/(loss) before tax</b>	4	<b>(1,543,443)</b>	16,442	<b>(1,696,101)</b>	112,908
Income tax expense	5	(5,143)	(57,033)	(52,799)	(100,114)
<b>Profit/(loss) for the period</b>		<b><u>(1,548,586)</u></b>	<u>(40,591)</u>	<b><u>(1,748,900)</u></b>	<u>12,794</u>
<b>Attributable to:</b>					
Owners of the parent		(1,415,205)	100,945	(1,482,969)	219,333
Non-controlling interests		(133,381)	(141,536)	(265,931)	(206,539)
		<u>(1,548,586)</u>	<u>(40,591)</u>	<u>(1,748,900)</u>	<u>12,794</u>
		<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)
<b>Earnings/(loss) per share attributable to ordinary equity holders of the parent</b>	7				
Basic		<u>(1.04)</u>	0.07	<u>(1.09)</u>	0.16
Diluted		<u>(1.04)</u>	0.07	<u>(1.09)</u>	0.16

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2019

	For the three months ended 30 June		For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>(1,548,586)</b>	<b>(40,591)</b>	<b>(1,748,900)</b>	<b>12,794</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>				
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:				
Exchange differences:				
Exchange differences on translation of foreign operations	<b>41,546</b>	174,131	<b>(6,889)</b>	30,275
Share of other comprehensive income of associates	<b>39,930</b>	104,066	<b>22,371</b>	61,757
<b>Net other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>	<b>81,476</b>	278,197	<b>15,482</b>	92,032
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	<b>(65,510)</b>	206,462	<b>(95,855)</b>	(101,825)
Share of other comprehensive income/(loss) of associates	<b>(21,655)</b>	6,614	<b>(19,928)</b>	6,614
<b>Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods</b>	<b>(87,165)</b>	213,076	<b>(115,783)</b>	(95,211)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>	<b>(5,689)</b>	491,273	<b>(100,301)</b>	(3,179)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>	<b>(1,554,275)</b>	450,682	<b>(1,849,201)</b>	9,615

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three and six months ended 30 June 2019

	For the three months ended 30 June		For the six months ended 30 June	
	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Unaudited)
<b>Attributable to:</b>				
Owners of the parent	(1,408,634)	574,374	(1,576,903)	209,583
Non-controlling interests	<u>(145,641)</u>	<u>(123,692)</u>	<u>(272,298)</u>	<u>(199,968)</u>
	<u><u>(1,554,275)</u></u>	<u><u>450,682</u></u>	<u><u>(1,849,201)</u></u>	<u><u>9,615</u></u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		2,257,103	2,036,424
Investment properties		63,224	63,943
Prepaid land lease payments		—	288,401
Goodwill		9,559	9,559
Other intangible assets		45,540	56,382
Investments in joint ventures		166,785	155,574
Investments in associates		2,892,972	4,349,397
Equity investments designated at fair value through other comprehensive income		652,960	746,718
Financial assets at fair value through profit or loss		118,540	84,044
Right-of-use assets		423,463	—
Deferred tax assets		115,881	96,527
Other non-current assets		100,841	83,220
Total non-current assets		<u>6,846,868</u>	<u>7,970,189</u>
<b>CURRENT ASSETS</b>			
Inventories		12,145	11,679
Trade receivables	8	1,665,535	1,184,650
Prepayments, other receivables and other assets		1,056,869	906,383
Equity investments designated at fair value through other comprehensive income		10,000	10,000
Restricted cash		—	98,102
Cash and bank deposits		8,980,482	9,868,809
Total current assets		<u>11,725,031</u>	<u>12,079,623</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	9	1,443,272	947,702
Other payables and accruals		1,083,127	1,100,560
Interest-bearing bank loans		604,839	1,053,393
Deferred revenue		794,046	722,781
Income tax payable		74,924	86,601
Liability component of convertible bonds	10	—	40,171
Lease liability		22,856	—
Derivative financial instruments		154,518	154,765
Total current liabilities		<u>4,177,582</u>	<u>4,105,973</u>
<b>NET CURRENT ASSETS</b>		<u>7,547,449</u>	<u>7,973,650</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>14,394,317</u>	<u>15,943,839</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2019

	<i>Note</i>	As at <b>30 June 2019</b> <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2018 <i>RMB'000</i> <i>(Audited)</i>
<b>NON-CURRENT LIABILITIES</b>			
Deferred revenue		46,573	29,661
Deferred tax liabilities		25,127	19,584
Interest-bearing bank loans		125,138	231,224
Lease liabilities		106,902	—
Liability component of redeemable convertible preferred shares		<u>2,926,438</u>	<u>2,741,771</u>
Total non-current liabilities		<u>3,230,178</u>	<u>3,022,240</u>
<b>NET ASSETS</b>		<u><u>11,164,139</u></u>	<u><u>12,921,599</u></u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		5,316	5,316
Share premium account		2,972,969	2,972,969
Treasury shares		(16,926)	(18,089)
Equity component of convertible bonds	10	—	1,274
Other reserves		<u>8,556,243</u>	<u>10,076,369</u>
		<b>11,517,602</b>	<b>13,037,839</b>
<b>Non-controlling interests</b>		<u>(353,463)</u>	<u>(116,240)</u>
<b>TOTAL EQUITY</b>		<u><u>11,164,139</u></u>	<u><u>12,921,599</u></u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the parent												
	Issued capital	Share premium account	Treasury shares	Equity component of convertible bonds	Statutory reserves	Share-based compensation reserve	Other capital reserve	Fair value 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 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 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
Vested awarded shares transferred to employees	—	—	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>

\* These reserve accounts comprise the consolidated other reserves of RMB8,556,243,000 (31 December 2018: RMB10,076,369,000) in the condensed consolidated statement of financial position.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2018

	Attributable to owners of the parent													Non-controlling interests	Total equity
	Issued capital	Share premium account	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	Retained profits	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	RMB'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
<b>At December 31, 2017</b>	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)	(455,372)	1,267,911	—	—	—	
<b>At 1 January 2018</b>	5,127	2,287,958	(22,517)	7,564	228,087	329,588	1,846,459	31,921	—	(455,372)	7,835,497	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	
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	—	—	(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	
<b>Total comprehensive income/(loss) for the period</b>	—	—	—	—	—	—	—	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	
<b>At 30 June 2018</b>	<u>5,319</u>	<u>2,984,875</u>	<u>(20,042)</u>	<u>1,274</u>	<u>228,087</u>	<u>404,371</u>	<u>1,884,173</u>	<u>117,392</u>	<u>—</u>	<u>(579,093)</u>	<u>8,083,330</u>	<u>13,109,686</u>	<u>229,774</u>	<u>13,339,460</u>	

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	244,205	362,526
Net cash flows from/(used in) investing activities	44,822	(1,746,510)
Net cash flows (used in)/from financing activities	<u>(593,060)</u>	<u>1,624,097</u>
Net (decrease)/increase in cash and cash equivalents	(304,033)	240,113
Cash and cash equivalents at beginning of the period	4,544,784	3,036,488
Effect of foreign exchange rate changes, net	<u>(3,978)</u>	<u>(25,063)</u>
Cash and cash equivalents at end of the period	4,236,773	3,251,538
Non-pledged time deposits with original maturity of over three months when acquired	1,150,772	4,303,949
Principal protected structure deposits with original maturity of over three months when acquired	<u>3,592,937</u>	<u>2,686,470</u>
Cash and bank deposits as stated in the condensed consolidated statement of financial position	<u>8,980,482</u>	<u>10,241,957</u>

# 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 three months and six months ended 30 June 2019 were approved and authorized for issue in accordance with a resolution of the Board on 20 August 2019.

## 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 2018.

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)

### 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 2018, 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 2019.

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015–2017 Cycle</i>	<i>Amendments to a number of IFRSs</i>

Other than as explained below regarding the impact of IFRS 16, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17. For those lease contracts whose lease terms end within 12 months as of 1 January 2019, the Group used the exemptions allowed by the standard.

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

### Significant accounting policies (continued)

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) <i>RMB'000</i>
<b>Assets</b>	
Increase in right-of-use assets	329,270
Decrease in investment in associates	(8,431)
Decrease in prepaid land lease payments	(288,401)
Decrease in prepayments, other receivables and other assets	(4,950)
	<hr/>
Increase in total assets	<u>27,488</u>
<b>Liabilities</b>	
Increase in lease liabilities	35,919
	<hr/>
Increase in total liabilities	<u>35,919</u>
	<hr/>
Decrease in retained earnings	<u>(8,431)</u>

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. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax 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 <i>RMB'000</i> <i>(Unaudited)</i>	Cloud services <i>RMB'000</i> <i>(Unaudited)</i>	Office software and services and others <i>RMB'000</i> <i>(Unaudited)</i>	Total <i>RMB'000</i> <i>(Unaudited)</i>
<i>For the six months ended</i>				
<i>30 June 2019</i>				
<b>Segment revenue:</b>				
Sales to external customers	<b>1,169,491</b>	<b>1,757,509</b>	<b>673,581</b>	<b>3,600,581</b>
<b>Segment results</b>	<b>302,201</b>	<b>(463,384)</b>	<b>152,325</b>	<b>(8,858)</b>
<i>Reconciliation:</i>				
Administrative expenses				<b>(217,863)</b>
Share-based compensation costs				<b>(113,056)</b>
Other income				<b>130,109</b>
Other expenses				<b>(15,013)</b>
Other losses, net				<b>(1,302,126)</b>
Finance income				<b>150,272</b>
Finance costs				<b>(194,539)</b>
Share of profits and losses of:				
Joint ventures				<b>11,211</b>
Associates				<b>(136,238)</b>
<b>Loss before tax</b>				<b><u>(1,696,101)</u></b>

### 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>				
<b>Segment revenue:</b>				
Sales to external customers	1,214,260	887,651	507,605	2,609,516
<b>Segment results</b>	367,427	(358,656)	182,825	191,596
<i>Reconciliation:</i>				
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
<b>Profit before tax</b>				<u>112,908</u>

#### Geographical information

Revenue from external customers:

	<b>For the six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Mainland China	3,494,119	2,506,458
Hong Kong	98,551	96,847
Other countries and regions	7,911	6,211
<b>Total</b>	<u><b>3,600,581</b></u>	<u><b>2,609,516</b></u>

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

#### 4. Profit/(loss) before tax

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

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Employee benefit expenses	1,262,911	999,418
Depreciation of property, plant and equipment	321,698	200,703
Depreciation of investment properties	719	360
Amortisation of prepaid land lease payments	—	2,524
Depreciation of right-of-use assets	11,625	—
Amortization of other intangible assets	13,204	13,184
Interest on bank loans, lease liability, convertible bonds and redeemable convertible preferred shares	194,539	139,936
Impairment loss on investment in an associate*	1,300,000	—

\* As at 30 June 2019, the Group held certain ordinary shares in Cheetah Mobile Inc. (“Cheetah”) which are listed on the New York Stock Exchange in the form of American depositary shares. As Cheetah'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.

#### 5. Income tax expense

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

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Current income tax	66,610	110,858
Deferred income tax	(13,811)	(10,744)
Income tax expense	<u>52,799</u>	<u>100,114</u>

## **5. Income tax expense (continued)**

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 2018: 16.5%) on estimated assessable profits arising in Hong Kong for the six months ended 30 June 2019.

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

## **6. Dividends**

### **Final dividend**

The Board did not recommend the payment of a final dividend for the year ended 31 December 2018.

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

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

The calculation of 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 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 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/(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. No adjustment has been made to the basic loss per share presented for the six months ended 30 June 2019 in respect of dilution, as the impact of the share options, awarded shares and convertible bonds outstanding had an anti-dilutive effect on the loss per share amounts presented.

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

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

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<b>Earnings/(loss)</b>		
Profit/(loss) attributable to ordinary equity holders of the parent:	(1,482,969)	219,333
Increase in earnings adjusted for the convertible bonds of the Company	—	75
Decrease in earnings adjusted for the share option schemes and the share award schemes adopted by the Group and its associate	—	(3,086)
	<u>—</u>	<u>(3,086)</u>
Adjusted profit/(loss) attributable to ordinary equity holders of the parent	<u>(1,482,969)</u>	<u>216,322</u>

	Number of shares For the six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
<b>Shares</b>		
Weighted average number of ordinary shares in issue less shares held for share award scheme	1,365,424,321	1,360,416,996
Effect of dilution — weighted average number of ordinary shares:		
Share options	—	47,498
Awarded shares	—	3,583,122
Convertible bonds	—	5,034,807
	<u>—</u>	<u>5,034,807</u>
	<u>1,365,424,321</u>	<u>1,369,082,423</u>

## 8. 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:

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
0–30 days	<b>655,102</b>	562,380
31–60 days	<b>360,721</b>	240,592
61–90 days	<b>202,758</b>	67,551
91–365 days	<b>346,899</b>	239,901
1 to 2 years	<b>83,219</b>	69,616
Over 2 year	<b>16,836</b>	4,610
	<b><u>1,665,535</u></b>	<u>1,184,650</u>

## 9. 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:

	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
0–30 days	<b>688,961</b>	393,603
31–60 days	<b>236,564</b>	136,676
61–90 days	<b>138,000</b>	136,828
91–365 days	<b>266,594</b>	226,978
Over one year	<b>113,153</b>	53,617
	<b><u>1,443,272</u></b>	<u>947,702</u>

## 10. Convertible bonds

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.

The 2014 Convertible Bonds matured on 11 April 2019. Pursuant to the terms and conditions of the 2014 Convertible Bonds, the Company redeemed the outstanding 2014 Convertible Bonds in full at their principal amount of HK\$46,000,000 with accrued interests on the maturity date. Upon completion of the redemption, no 2014 Convertible Bonds were outstanding, and all redeemed 2014 Convertible Bonds were cancelled and delisted from the Singapore Exchange Securities Trading Limited.

# OPERATIONAL HIGHLIGHTS

	For the three months ended				
	30 June 2019	31 March 2019	31 December 2018	30 September 2018	30 June 2018
<b>Online Games</b>					
Daily Average Peak Concurrent Users ("ADPCU")	680,869	570,694	673,413	729,372	798,354
Monthly Average Paying Accounts ("APA")	<u>2,542,271</u>	<u>2,369,662</u>	<u>3,036,203</u>	<u>3,430,132</u>	<u>3,272,023</u>
	In June 2019	In March 2019	In December 2018	In September 2018	In June 2018
<b>Office Software*</b>					
Monthly Active Users ("MAU") (Million)	<u>348</u>	<u>328</u>	<u>310</u>	<u>287</u>	<u>280</u>

\* Office Software products include WPS Office and Kingsoft Powerword.

# FINANCIAL HIGHLIGHTS

	<b>For the three months ended</b>		
	<b>30 June 2019 RMB'000 (Unaudited)</b>	30 June 2018 RMB'000 (Unaudited)	31 March 2019 RMB'000 (Unaudited)
<b>Revenue</b>			
Online games	569,838	581,882	599,653
Cloud services	918,239	468,731	839,270
Office software and services and others	385,992	295,176	287,589
	<u>1,874,069</u>	<u>1,345,789</u>	<u>1,726,512</u>
Cost of revenue	<u>(1,159,999)</u>	<u>(674,538)</u>	<u>(1,068,565)</u>
<b>Gross profit</b>	<b>714,070</b>	671,251	657,947
Research and development costs, net	(498,483)	(430,589)	(482,978)
Selling and distribution expenses	(241,879)	(157,763)	(157,535)
Administrative expenses	(107,450)	(105,883)	(110,413)
Share-based compensation costs	(56,979)	(51,827)	(56,077)
Other income	60,109	89,364	70,000
Other expenses	(12,409)	(1,225)	(2,604)
	<u>(143,021)</u>	<u>13,328</u>	<u>(81,660)</u>
Other gains/(losses), net	(1,326,704)	(73,645)	24,578
Finance income	75,119	83,877	75,153
Finance costs	(99,297)	(88,403)	(95,242)
Share of profits and losses of:			
Joint ventures	8,756	15,434	2,455
Associates	(58,296)	65,851	(77,942)
	<u>(1,543,443)</u>	<u>16,442</u>	<u>(152,658)</u>
Income tax expense	(5,143)	(57,033)	(47,656)
	<u>(1,548,586)</u>	<u>(40,591)</u>	<u>(200,314)</u>
<b>Profit/(loss) for the period</b>	<b>(1,548,586)</b>	(40,591)	(200,314)
<b>Attributable to:</b>			
Owners of the parent	(1,415,205)	100,945	(67,764)
Non-controlling interests	(133,381)	(141,536)	(132,550)
	<u>(1,548,586)</u>	<u>(40,591)</u>	<u>(200,314)</u>
	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)
<b>Earnings/(loss) per share attributable to ordinary equity holders of the parent</b>			
Basic	<u>(1.04)</u>	<u>0.07</u>	<u>(0.05)</u>
Diluted	<u>(1.04)</u>	<u>0.07</u>	<u>(0.05)</u>

## FINANCIAL HIGHLIGHTS (CONTINUED)

	<b>For the six months ended</b>	
	<b>30 June 2019</b>	30 June 2018
	<b>RMB'000</b>	RMB'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Revenue</b>		
Online games	<b>1,169,491</b>	1,214,260
Cloud services	<b>1,757,509</b>	887,651
Office software and services and others	<b>673,581</b>	507,605
	<u><b>3,600,581</b></u>	<u>2,609,516</u>
Cost of revenue	<u><b>(2,228,564)</b></u>	<u>(1,322,622)</u>
<b>Gross profit</b>	<b>1,372,017</b>	1,286,894
Research and development costs, net	<b>(981,461)</b>	(810,903)
Selling and distribution expenses	<b>(399,414)</b>	(284,395)
Administrative expenses	<b>(217,863)</b>	(188,768)
Share-based compensation costs	<b>(113,056)</b>	(109,887)
Other income	<b>130,109</b>	148,216
Other expenses	<b>(15,013)</b>	(1,871)
	<u><b>(224,681)</b></u>	<u>39,286</u>
<b>Operating profit/(loss)</b>	<b>(224,681)</b>	39,286
Other losses, net	<b>(1,302,126)</b>	(54,470)
Finance income	<b>150,272</b>	149,618
Finance costs	<b>(194,539)</b>	(139,936)
Share of profits and losses of:		
Joint ventures	<b>11,211</b>	32,797
Associates	<b>(136,238)</b>	85,613
	<u><b>(1,696,101)</b></u>	<u>112,908</u>
<b>Profit/(loss) before tax</b>	<b>(1,696,101)</b>	112,908
Income tax expense	<b>(52,799)</b>	(100,114)
	<u><b>(1,748,900)</b></u>	<u>12,794</u>
<b>Profit/(loss) for the period</b>	<b>(1,748,900)</b>	12,794
<b>Attributable to:</b>		
Owners of the parent	<b>(1,482,969)</b>	219,333
Non-controlling interests	<b>(265,931)</b>	(206,539)
	<u><b>(1,748,900)</b></u>	<u>12,794</u>
	<b>RMB</b>	<b>RMB</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Earnings/(loss) per share attributable to ordinary equity holders of the parent</b>		
Basic	<u><b>(1.09)</b></u>	<u>0.16</u>
Diluted	<u><b>(1.09)</b></u>	<u>0.16</u>

# MANAGEMENT DISCUSSION AND ANALYSIS

## Second Quarter of 2019 Compared to Second Quarter of 2018 and First Quarter of 2019

### Revenue

Revenue for the second quarter of 2019 increased 39% year-on-year and 9% quarter-on-quarter to RMB1,874.1 million. Revenue from the online games, cloud services and office software and services and others represented 30%, 49% and 21%, respectively, of the Group's total revenue for the second quarter of 2019. Revenue from these business lines is reported net of intra-group transactions.

Revenue from the online games business for the second quarter of 2019 decreased 2% year-on-year and 5% quarter-on-quarter to RMB569.8 million. The slight decreases were mainly due to the natural declining life cycles of existing games, partially offset by the revenue contribution from newly launched mobile games.

Revenue from the cloud services for the second quarter of 2019 increased 96% year-on-year and 9% quarter-on-quarter to RMB918.2 million. The increases were mainly driven by fast-growing demand from mobile video and internet sectors, as well as increased revenue from enterprise cloud, through continuous improvement of our cloud services and further development of enterprise cloud market.

Revenue from the office software and services and others for the second quarter of 2019 increased 31% year-on-year and 34% quarter-on-quarter to RMB386.0 million. The healthy increases were largely due to sustainable growth from value-added services of WPS Office personal edition and sales of its enterprise edition, 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 2019 increased 72% year-on-year and 9% quarter-on-quarter to RMB1,160.0 million. The increases were 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 2019 increased 6% year-on-year and 9% quarter-on-quarter to RMB714.1 million. The Group's gross profit margin decreased by twelve percentage points year-on-year and kept flat quarter-on-quarter to 38%. The decrease of the Group's year-on-year gross profit margin was mainly due to greater revenue contribution from cloud services, which has a relatively lower gross profit margin and higher growth potential.

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

Net R&D costs for the second quarter of 2019 increased 16% year-on-year and 3% quarter-on-quarter to RMB498.5 million. The year-on-year increase was primarily attributable to increased investment on technology innovation and enhancement of products and services.

## **Selling and Distribution Expenses**

Selling and distribution expenses for the second quarter of 2019 increased 53% year-on-year and 54% quarter-on-quarter to RMB241.9 million. The increases mainly reflected our further expansion into enterprise market and more marketing and promotional activities for online games.

## **Administrative Expenses**

Administrative expenses for the second quarter of 2019 increased 1% year-on-year and decreased 3% quarter-on-quarter to RMB107.5 million.

## **Share-based Compensation Costs**

Share-based compensation costs for the second quarter of 2019 increased 10% year-on-year and 2% quarter-on-quarter to RMB57.0 million. The increases were primarily due to the new grants of awarded shares and options to the selected employees of certain subsidiaries of the Company.

## **Operating Profit/(Loss) before Share-based Compensation Costs**

Operating loss before share-based compensation costs for the second quarter of 2019 was RMB86.0 million, compared with profit of RMB65.2 million in the corresponding period last year, and loss of RMB25.6 million for the first quarter of 2019.

## **Other Gains/(Losses), net**

Net other losses for the second quarter of 2019 were RMB1,326.7 million, compared with losses of RMB73.6 million in the corresponding period last year, and gains of RMB24.6 million in the first quarter of 2019. The losses in the second quarter of 2019 were mainly due to provision for impairment on the carrying value of investments in Cheetah.

## **Share of Profits and Losses of Associates**

We recorded share of losses of associates of RMB58.3 million for the second quarter of 2019, compared with share of profits of RMB65.9 million for the second quarter of 2018 and share of losses of RMB77.9 million for the first quarter of 2019.

## **Income Tax Expense**

Income tax expense for the second quarter of 2019 decreased 91% year-on-year and 89% quarter-on-quarter to RMB5.1 million.

## **Profit/(Loss) Attributable to Owners of the Parent**

As a result of the reasons discussed above, loss attributable to owners of the parent was RMB1,415.2 million for the three months ended 30 June 2019, compared with profit attributable to owners of the parent of RMB100.9 million and loss attributable to owners of the parent of RMB67.8 million for the three months ended 30 June 2018 and 31 March 2019, 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.

Loss attributable to owners of the parent before share-based compensation costs was RMB1,372.4 million for the three months ended 30 June 2019, compared with profit of RMB138.9 million and loss of RMB33.3 million for the three months ended 30 June 2018 and 31 March 2019, respectively. The net profit/(loss) margin excluding the effect of share-based compensation costs was (73%), 10% and (2%) for the three months ended 30 June 2019, 30 June 2018 and 31 March 2019, respectively.

# First Half of 2019 Compared to First Half of 2018

## Revenue

Revenue for the first half of 2019 increased 38% year-on-year to RMB3,600.6 million. Revenue from the online games, cloud services and office software and services and others represented 32%, 49% and 19%, respectively, of the Group's total revenue for the first half of 2019.

Revenue from the online games business for the first half of 2019 decreased 4% year-on-year to RMB1,169.5 million. The minor decrease was mainly due to reduced revenue from existing PC client games, partially offset by enriched mobile game portfolio and improved performance of some existing mobile games.

Revenue from the cloud services for the first half of 2019 increased 98% year-on-year to RMB1,757.5 million. The rapid increase was primarily due to robust customer usage of cloud services from mobile video and internet sectors, as well as revenue growth from enterprise cloud, through our continuous technology innovations and artificial intelligence (“AI”) applications.

Revenue from office software and services and others for the first half of 2019 increased 33% year-on-year to RMB673.6 million. The year-on-year increase was largely due to solid growth from value-added services of WPS Office personal edition and sales of its enterprise edition, 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 2019 increased 68% year-on-year to RMB2,228.6 million. The year-on-year increase was primarily due to higher bandwidth and IDC cost associated with increased customer usage of cloud services, and increased investments in cloud infrastructure as well.

Gross profit for the first half of 2019 increased 7% year-on-year to RMB1,372.0 million. The Group's gross profit margin decreased by eleven percentage points year-on-year to 38%.

## R&D Costs, net

Net R&D costs for the first half of 2019 increased 21% year-on-year to RMB981.5 million. The year-on-year increase was mainly due to increased investments on new products and features, as well as technology update.

## Selling and Distribution Expenses

Selling and distribution expenses for the first half of 2019 increased 40% year-on-year to RMB399.4 million. The increase was primarily due to increased investment in developing enterprise market and sales channels, as well as an increase in promotional spending for online games.

## **Administrative Expenses**

Administrative expenses for the first half of 2019 increased 15% year-on-year to RMB217.9 million. The year-on-year increase was mainly due to increased staff-related costs and professional fees.

## **Share-based Compensation Costs**

Share-based compensation costs for the first half of 2019 increased 3% year-on-year to RMB113.1 million.

## **Operating Profit/(Loss) before Share-based Compensation Costs**

Operating loss before share-based compensation costs for the first half of 2019 was RMB111.6 million for the first half of 2019, compared with profit of RMB149.2 million in the same period last year.

## **Other Losses, net**

Net other losses for the first half of 2019 was RMB1,302.1 million, compared with losses of RMB54.5 million in the same period last year. The losses in the first half of 2019 were mainly due to the provisions for impairment on the investments in Cheetah.

## **Share of Profits and Losses of Associates**

We recorded share of losses of associates of RMB136.2 million for the first half of 2019, compared with share of profits of RMB85.6 million for the first half of 2018.

## **Income Tax Expense**

Income tax expense for the first half of 2019 decreased 47% year-on-year to RMB52.8 million.

## **Profit/(Loss) Attributable to Owners of the Parent**

As a result of the reasons discussed above, loss attributable to owners of the parent was RMB1,483.0 million for the first half of 2019, compared with profit of RMB219.3 million in the same period last year.

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

Loss attributable to owners of the parent before share-based compensation costs for the first half of 2019 was RMB1,405.7 million, compared with profit of RMB296.5 million in the prior year period. The net profit/(loss) margin excluding the effect of share-based compensation costs was (39%) and 11% for the six months ended 30 June 2019 and 30 June 2018, respectively.

## **Liquidity and Financial Resource**

The Group had a strong cash position towards the end of reporting period. As at 30 June 2019, the Group had major financial resources in the forms of cash and bank deposits amounting to RMB8,980.5 million, which totally represented 48% of the Group's total assets.

As at 30 June 2019, the Group's gearing ratio, which represents total liabilities divided by total assets, was 40%, compared to 36% as at 31 December 2018. As at 30 June 2019, the Group had bank loans of RMB214.4 million, US\$75.0 million (equivalent to RMB515.6 million).

## **Foreign Currency Risk Management**

As at 30 June 2019, RMB2,691.8 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 was RMB244.2 million and RMB362.5 million for the six months ended 30 June 2019 and 30 June 2018, respectively.

## **Capital Expenditures**

Capital expenditures represent cash payments for acquisition of business, fix assets and intangible assets. Cash used for capital expenditures was RMB603.5 million and RMB499.4 million for the six months ended 30 June 2019 and 30 June 2018, respectively.

## BUSINESS REVIEW AND OUTLOOK

Mr. Jun LEI, Chairman of the Company, commented, “We maintained a stable performance in the second quarter of 2019. The debut of JX Online III mobile game in June received positive market response and we are aiming to bring better experience to attract more gamers in the second half. As cloud services business experienced robust growth with a significant increase in revenue, we fully expect it to maintain its growth momentum throughout the year. Meanwhile, our value-added services of office software business have been growing quickly, and we will keep improving our products and services to provide better experience for the users. However, the second quarter of 2019 was also a challenging period for Kingsoft as we had to make provisions for impairment on the carrying value of investments in Cheetah, which directly affected our earnings, even though it would not affect our operating profit or cash flows. We still remain firmly committed to our core businesses and are on track to address the problems we are currently facing.”

Mr. Tao ZOU, Chief Executive Officer of the Company, added, “Our revenue for the second quarter was RMB1,874.1 million, up 39% year-on-year and 9% quarter-on-quarter. Revenue in the first half of 2019 was RMB3,600.6 million, up 38% year-on-year. Building upon the solid momentum achieved in the first quarter, revenue generated from cloud services and office software and services and others businesses maintained a steady growth in the second quarter of the year, up 96% and 31% year-on-year, respectively.

Throughout the quarter, revenue from online games remained stable. JX Online I mobile game, launched in 2016, contributed a steady monthly gross billing. On 12 June, the long-anticipated title, JX Online III mobile game, was officially released and it was ranked as the number one in the iOS downloads chart for games in China on its debut, according to App Annie data. Meanwhile, we have been fixing technical issues such as improving the stability of our servers and optimizing the game content to meet the demands of our users. Together with Tencent, we will provide large scale content and feature upgrades in the fourth quarter. We also launched a new season for our flagship JX Online III PC game on 20 June, and will celebrate its 10th anniversary in the third quarter. In the second half of the year, we are going to launch Final Fantasy Brave Exvius in China and Double Life World in Japan, and aim to make breakthroughs in different genres.

In the second quarter, the revenue of cloud services business maintained its rapid growth. Our video cloud business focuses on innovative technologies, such as promoting edge computing, edge node computing platforms, PCDN, smart high definition and AI, and helps to push the product bandwidth capability to the next level. Meanwhile, our finance cloud business achieved phased results by launching four solution systems: finance cloud structure, finance cloud intelligence, finance cloud native application and finance cloud value chain. We reached a strategic cooperation with Xiaomi Finance, Nanjing Yang Zi State-owned Investment Group, and Nanjing Digital Finance Industry Research Institute to jointly operate China's first digital financial integrated service platform, helping Jiangbei New District to become a financial hub. Our government cloud services achieved rapid growth and helped to develop regional smart city projects, including a cutting-edge security program for the Beijing Belt and Road Summit, World Horticultural Exhibitions, etc. According to the International Data Corporation, Kingsoft Cloud was among the top ten public cloud IaaS service providers in the world in 2018 and was also featured in Gartner’s latest global CDN report, making it one of the world's leading CDN service providers. Looking ahead, we will continue to leverage

our experience and unrivalled expertise in the cloud business, AI, edge computing and CDN field, and work with partners to create better quality and user-friendly industry solutions, and help to accelerate the digital transformation of enterprises customers.

Office software and services and others business maintained its strong momentum in the second quarter. We optimized membership benefits for WPS and Docer (“稻壳儿”) and launched products and services that improved the user experience, which in turn promoted the growth of the personal value-added services of WPS Office. We collaborated with China National Offshore Oil Corporation and other key enterprise customers to develop full life-cycle platforms of WPS + Office Cloud. We entered into a strategic cooperation with Shanghai Development Research Center of Economy and Information and other government enterprises on the deployment of smart government technologies. Regarding foreign markets, WPS Office actively expanded its presence overseas. As of June 2019, the MAUs of WPS Office overseas exceeded 80 million. During the period, we continued to push forward ‘Cloud + AI’ strategy. At the 2019 Fourth Conference on Machine Translation, our AI LAB team won the English-Chinese translation task on news text. We will continue to identify global customer needs and transform technological capabilities into products and services, to capture more opportunities.”

Mr. Jun LEI concluded, “In light of our first half performance, we have outlined our targets for the second half of 2019: we expect a solid organic revenue growth on account of steady growth and development of cloud services business and office software and services and others business, as well as the launch of our new mobile games. We are confident in our strategy, the strength of our business model and our development going forward. We remain committed to creating long-term value for our shareholders through steady growth and sustainable development.”

## **OTHER INFORMATION**

### **Employee and Remuneration Policies**

As at 30 June 2019, the Group had 6,486 full-time employees (30 June 2018: 5,496), inclusive of all its staff in Mainland China and overseas offices, most of whom are based in Beijing and Zhuhai, the PRC. The number of employees employed by the Group varies from time to time depending on business needs. Employee remuneration is determined with reference to 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 (including capitalized remuneration cost) incurred by the Group for the six months ended 30 June 2019 was RMB1,262.9 million (for the six months ended 30 June 2018: RMB999.4 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 2019.

### **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. Our 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 2019.

### **Compliance with Model Code for Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listing 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 2019.

### **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 provisions 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 Director Mr. Chi Ping LAU did not attend the annual general meeting of the Company held on 15 May 2019 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, 20 August 2019

*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.*