



( continued into the Cayman Islands with limited liability )  
Stock Code: 03888

## KINGSOFT CORPORATION LIMITED

### 2019 INTERIM REPORT



剑侠情缘网络版叁



剑侠情缘手游



WPS Office



Kingsoft Cloud

Beijing / Zhuhai / Chengdu / Guangzhou / Dalian / Shanghai  
Wuhan / Hongkong / America / Malaysia



# Kingsoft Corporation Limited

Interim Report 2019 | KINGSOFT CORPORATION LIMITED

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# CORPORATE INFORMATION

## LEGAL NAME OF THE COMPANY

Kingsoft Corporation Limited

## STOCK CODE

03888

## DATE OF LISTING

9 October 2007

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Kingsoft Tower

No. 33 Xiaoying West Road

Haidian District

Beijing 100085

PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

## REGISTERED OFFICE

PO Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

## EXECUTIVE DIRECTORS

Mr. Tao ZOU

Mr. Yuk Keung NG

## NON-EXECUTIVE DIRECTORS

Mr. Jun LEI (Chairman)

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

## AUDIT COMMITTEE

Ms. Wenjie WU (Chairman)

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

## REMUNERATION COMMITTEE

Mr. Shun Tak WONG (Chairman)

Mr. Jun LEI

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

## NOMINATION COMMITTEE

Mr. Shun Tak WONG (Chairman)

Mr. Chi Ping LAU

Ms. Wenjie WU

## BOARD SECRETARY/COMPANY SECRETARY

Mr. Yuk Keung NG

Ms. Hongyu LV

## AUTHORISED REPRESENTATIVES

Mr. Tao ZOU

Mr. Yuk Keung NG

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited

PO Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

# CORPORATE INFORMATION (continued)

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17/F. Hopewell Centre  
183 Queen's Road East  
Hong Kong

## **AUDITOR**

Ernst & Young  
Certified Public Accountants  
22th Floor, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

## **LEGAL ADVISERS ON HONG KONG LAW**

Baker & McKenzie  
14th Floor, One TaiKoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

## **PRINCIPAL BANKERS**

China CITIC Bank Corp., Ltd.  
China Merchants Bank Co., Ltd.  
Industrial and Commercial Bank of China (Asia) Limited  
The Hongkong and Shanghai Banking Corp., Ltd.  
Bank of Beijing Co., Ltd.  
Shanghai Pudong Development Bank Co., Ltd.  
Bank of Communications Co., Ltd.  
Hang Seng Bank Limited

China Guangfa Bank Co., Ltd.  
The Bank of East Asia (China) Limited  
China Minsheng Banking Corp., Ltd.  
Bank of Hangzhou Co., Ltd.  
China Everbright Bank Company Limited  
Bank of Nanjing Co., Ltd.  
China Zheshang Bank Co., Ltd.

## **INVESTOR AND MEDIA RELATIONS**

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Email: [ir@kingsoft.com](mailto:ir@kingsoft.com)  
Website: [www.kingsoft.com](http://www.kingsoft.com)

# OPERATIONAL HIGHLIGHTS

	FOR THE THREE MONTHS ENDED				
	30	31	31	30	30
	JUNE	MARCH	DECEMBER	SEPTEMBER	JUNE
	2019	2019	2018	2018	2018
<b>ONLINE GAMES</b>					
ADPCU	680,869	570,694	673,413	729,372	798,354
APA	2,542,271	2,369,662	3,036,203	3,430,132	3,272,023
<b>OFFICE SOFTWARE*</b>					
MAU (Million)	348	328	310	287	280

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

# FINANCIAL HIGHLIGHTS

	FOR THE THREE MONTHS ENDED		
	30 JUNE 2019	30 JUNE 2018	31 MARCH 2019
	RMB'000	RMB'000	RMB'000
	(UNAUDITED)	(UNAUDITED)	(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
	<b>1,874,069</b>	1,345,789	1,726,512
Cost of revenue	<b>(1,159,999)</b>	(674,538)	(1,068,565)
<b>GROSS PROFIT</b>	<b>714,070</b>	671,251	657,947
R&D costs, net	<b>(498,483)</b>	(430,589)	(482,978)
Selling and distribution expenses	<b>(241,879)</b>	(157,763)	(157,535)
Administrative expenses	<b>(107,450)</b>	(105,883)	(110,413)
Share-based compensation costs	<b>(56,979)</b>	(51,827)	(56,077)
Other income	<b>60,109</b>	89,364	70,000
Other expenses	<b>(12,409)</b>	(1,225)	(2,604)
<b>OPERATING PROFIT/(LOSS)</b>	<b>(143,021)</b>	13,328	(81,660)
Other gains/(losses), net	<b>(1,326,704)</b>	(73,645)	24,578
Finance income	<b>75,119</b>	83,877	75,153
Finance costs	<b>(99,297)</b>	(88,403)	(95,242)
Share of profits and losses of:			
Joint ventures	<b>8,756</b>	15,434	2,455
Associates	<b>(58,296)</b>	65,851	(77,942)
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>(1,543,443)</b>	16,442	(152,658)
Income tax expense	<b>(5,143)</b>	(57,033)	(47,656)
<b>LOSS FOR THE PERIOD</b>	<b>(1,548,586)</b>	(40,591)	(200,314)
<b>Attributable to:</b>			
Owners of the parent	<b>(1,415,205)</b>	100,945	(67,764)
Non-controlling interests	<b>(133,381)</b>	(141,536)	(132,550)
	<b>(1,548,586)</b>	(40,591)	(200,314)
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
	<b>(UNAUDITED)</b>	<b>(UNAUDITED)</b>	<b>(UNAUDITED)</b>
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic	<b>(1.04)</b>	0.07	(0.05)
Diluted	<b>(1.04)</b>	0.07	(0.05)

## FINANCIAL HIGHLIGHTS (continued)

	<b>FOR THE SIX MONTHS ENDED</b>	
	<b>30 JUNE 2019</b>	<b>30 JUNE 2018</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(UNAUDITED)</b>	<b>(UNAUDITED)</b>
<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
	<b>3,600,581</b>	2,609,516
Cost of revenue	<b>(2,228,564)</b>	(1,322,622)
<b>GROSS PROFIT</b>	<b>1,372,017</b>	1,286,894
R&D 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)
<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
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>(1,696,101)</b>	112,908
Income tax expense	<b>(52,799)</b>	(100,114)
<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)
	<b>(1,748,900)</b>	12,794
	<b>RMB</b>	<b>RMB</b>
	<b>(UNAUDITED)</b>	<b>(UNAUDITED)</b>
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>		
Basic	<b>(1.09)</b>	0.16
Diluted	<b>(1.09)</b>	0.16

# 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 Shenzhen Tencent Computer Systems Company Limited, 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 Shanghai Xiaomi Financial Information Service Co., Ltd., 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 (“稻殼兒”) 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.”

# 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 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.

### *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 provisions 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.

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## *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 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.

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## *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, 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.

## OTHER INFORMATION

### Change of Directors' Information Under Rule 13.51B (1) of the Listing Rules

Below is the change of directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules (as amended from time to time) since the date of the Company's 2018 annual report:

NAME OF DIRECTOR	DETAILS OF CHANGES
Mr. David Yuen Kwan TANG	In June 2019, Mr. TANG was appointed as an independent non-executive director of Standard Chartered PLC. (Stock Code: 2888).

### Directors' Interests in Securities

As at 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of the SFO which (a) were required to be notified to the Company and the Stock

Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

#### *Interest in the shares and underlying shares of the Company:*

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL (NOTE 1)	NATURE OF SHARES INTERESTED
Jun LEI	Interest of controlled corporation	210,116,248	15.31	Long position
	Other	142,710,003	10.40	Long position
	Total	352,826,251 (Note 2)	25.70 (Note 4)	Long position
Pak Kwan KAU	Interest of controlled corporation	108,028,566 (Note 3)	7.87	Long position
Tao ZOU	Beneficial owner	7,409,307	0.54	Long position
Yuk Keung NG	Beneficial owner	3,646,000	0.27	Long position

Notes:

- % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 30 June 2019, which was 1,372,728,717.
- Among these 352,826,251 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a British Virgin Islands

company owned as to 100% by Mr. Jun LEI; (ii) 35,298,057 shares are held by a wholly-owned subsidiary of Xiaomi Corporation, a company controlled by Mr. Jun LEI under the SFO; and (iii) 142,710,003 shares are deemed to be interested by Mr. Jun LEI under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG would vote in the same way as Mr. Jun LEI with these shares.

## OTHER INFORMATION (continued)

3. As at 30 June 2019, these shares were held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Kau Management Limited. Kau Management Limited was a company indirectly owned by a discretionary trust, the beneficiaries of which included Mr. Pak Kwan KAU and his family members. As such, Mr. Pak Kwan KAU was deemed to be interested in these shares under the SFO. On 27 August 2019, Kau Management Limited transferred its equity interest in Topclick Holdings Limited to Mr. Pak Kwan KAU. Since then, Mr. Pak Kwan KAU held these shares through his 100%-owned corporation. In addition, Mr. Jun LEI was also deemed to be interested in these shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares.
4. Any discrepancies in the table between total and sum of amounts listed therein are due to rounding.

### *Interest in the shares and underlying shares of an associated corporation of the Company:*

#### **Seasun Holdings** (Note 1)

<b>NAME OF DIRECTOR</b>	<b>CAPACITY</b>	<b>NUMBER OF SHARES INTERESTED</b>	<b>% OF ISSUED SHARE CAPITAL IN CLASS (NOTE 2)</b>	<b>NATURE OF SHARES INTERESTED</b>
Tao ZOU	Beneficial owner	18,123,462	1.97	Long position

Notes:

1. Seasun Holdings was a non-wholly owned subsidiary of the Company as of 30 June 2019.
2. % of issued share capital in class was calculated on basis of the issued ordinary shares of Seasun Holdings as at 30 June 2019, which was 918,149,438.

#### **Cheetah** (Note 1)

<b>NAME OF DIRECTOR</b>	<b>CAPACITY</b>	<b>NUMBER OF SHARES INTERESTED</b>	<b>% OF ISSUED SHARE CAPITAL IN CLASS (NOTE 2)</b>	<b>NATURE OF SHARES INTERESTED</b>
Jun LEI (Note 3)	Interest of controlled corporation	17,660,294	3.72	Long Position
David Yuen Kwan TANG	Beneficial owner	140,000	0.03	Long Position
Yuk Keung NG	Beneficial owner	1,200	0.00	Long Position

Notes:

1. The Company held over 20% of the issued shares of Cheetah as of 30 June 2019, which is listed on the NYSE.
2. % of the total number of issued shares in class was calculated on basis of the issued Class A Cheetah Shares as at 30 June 2019, which was 475,357,217.
3. Among the 17,660,294 shares, (i) 3,374,580 shares are held by Go Corporate Limited, a British Virgin Islands company owned as to 100% voting power by Mr. Jun LEI; and (ii) 14,285,714 shares are held by Xiaomi Corporation, a company owned as to 30% voting power by Mr. Jun LEI under the SFO.
- Save as disclosed above, none of the Directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 June 2019.

## OTHER INFORMATION (continued)

### Share Option Schemes

#### 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 Directors, excluding any independent non-executive Directors, 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 share options were outstanding under the 2011 Share Option Scheme during the six months ended 30 June 2019.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS				AT 30 JUNE 2019	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK\$ PER SHARE
	AT 1 JANUARY 2019	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD			
<b>Executive Directors</b>							
Tao ZOU	4,000,000	—	—	—	4,000,000	21 April 2017	20.25
Yuk Keung NG	600,000	—	—	—	600,000	23 November 2017	22.75
	4,600,000	—	—	—	4,600,000		

## OTHER INFORMATION (continued)

### *Kingsoft Cloud Share Option Scheme*

On 27 February 2013, the shareholders of the Company and Kingsoft Cloud, approved and adopted the Kingsoft Cloud Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud, its subsidiaries and its invested entities are entitled to participate. The Kingsoft Cloud Share Option Scheme will remain in force for 10 years from 27 February 2013. The Kingsoft Cloud Share Option Scheme was amended and refreshed on 27 June 2013, 20 May 2015 and 26 December 2016. More details regarding the Kingsoft Cloud Share Option Scheme are set out in note 13 to the financial statements.

### *Seasun Holdings Share Option Scheme*

On 27 June 2013, the shareholders of the Company and Seasun Holdings, approved and adopted the Seasun Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Seasun Holdings, its subsidiaries or its invested entities are entitled to participate. The Seasun Holdings Share Option Scheme will remain in force for 10 years from 27 June 2013. The Seasun Holdings Share Option Scheme was amended on 26 December 2016, and amended and refreshed on 24 May 2017. More details regarding the Seasun Holdings Share Option Scheme are set out in note 13 to the financial statements.

## **Share Award Schemes**

### *Share Award Scheme*

The Share Award Scheme was adopted by the Board on 31 March 2008. As approved by the Board from time to time, the term of the Share Award Scheme has been extended to 30 March 2022.

The purpose of the Share Award Scheme is to recognise the contributions by certain employees (including without limitation to employees who are also directors) of the Group and to give incentive thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time) select an employee for participation in the Share Award Scheme and determine the number of shares to be awarded. The Board shall not grant any award of shares which would result in the total number of shares which are the subject of awards granted by the Board under the Share Award Scheme (but not counting any which have lapsed or have been forfeited) representing in aggregate over 10% of the issued share capital of the Company as at the date of such grant.

More details regarding the Share Award Scheme are set out in note 13 to the financial statements.

### *Kingsoft Cloud Share Award Scheme*

On 22 February 2013, the directors of Kingsoft Cloud approved and adopted the Kingsoft Cloud Share Award Scheme, for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud Group are entitled to participate. Unless early terminated by the directors of Kingsoft Cloud, the Kingsoft Cloud Share Award Scheme shall be valid and effective for a term of ten years commencing on 22 February 2013. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 9 January 2015 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 50,000,000 shares, as at the date of such grant. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 3 March 2016 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 68,364,500 shares, as at the date of such grant. The

## OTHER INFORMATION (continued)

Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 8 June 2016 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 69,925,476 shares, as at the date of such grant.

More details regarding the Kingsoft Cloud Share Award Scheme are set out in note 13 to the financial statements.

### Season Holdings Share Award Schemes

On 21 March 2017, the shareholders and directors of Season Holdings approved and adopted the General Share Award Scheme, the Special Share Award Scheme (A) and the Special Share Award Scheme (B) in which selected employees of Season Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of Season Holdings, the Season Holdings Share Award Schemes are valid and effective for a term of ten

years commencing from 21 March 2017. The directors of Season Holdings are authorised to issue up to 50,832,211 shares, among which the total number of shares pursuant to the Special Share Award Scheme (A) shall be no greater than 3,138,889 and the total number of shares pursuant to the General Share Award Scheme and the Special Share Award Scheme (B) shall be no greater than 47,693,322, as at the date of such grant.

More details regarding the Season Holdings Share Award Schemes are set out in note 13 to the financial statements.

### Substantial Shareholders

As at 30 June 2019, as far as the Directors are aware of, the following, other than the Directors or chief executive of the Company, had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who were, directly or indirectly, interested in 5% or more of the issued capital of the Company:

### Interest in the shares and underlying shares of the Company

NAME OF SUBSTANTIAL SHAREHOLDER	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL (NOTE 1)	NATURE OF SHARES HELD
Color Link Management Limited (Note 2)	Beneficial owner	174,818,191	12.74	Long position
FMR LLC	Interest of controlled corporation	108,454,623	7.90	Long position
Topclick Holdings Limited (Note 3)	Beneficial owner	108,028,566	7.87	Long position
Tencent Holdings Limited (Note 4)	Interest of controlled corporation	106,784,515	7.78	Long position
FIDELITY INVESTMENT TRUST	Beneficial owner	68,849,760	5.02	Long position

Notes:

- % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 30 June 2019, which was 1,372,728,717.
- Mr. Jun LEI is deemed to be interested in Color Link Management Limited's interest in the Company pursuant to Part XV of the SFO because Color Link Management Limited is wholly owned by Mr. Jun LEI.
- As at 30 June 2019, these shares were held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Kau Management Limited. Kau Management Limited was a company owned by a discretionary trust, the trustee of which was Credit Suisse Trust Limited and the beneficiaries of which included Mr. Pak Kwan KAU and his family members. As such, Mr. Pak Kwan KAU was deemed to be interested in these shares under the SFO. On 27 August 2019, Kau Management Limited transferred its equity interest in Topclick Holdings Limited to Mr. Pak Kwan KAU. Since then, Mr. Pak Kwan KAU held these shares through his 100%-owned corporation. In addition,

## OTHER INFORMATION (continued)

Mr. Jun LEI was also deemed to be interested in these shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares.

4. These shares are held by TCH Saffron Limited, a wholly-owned subsidiary of Tencent Holdings Limited. As such, Tencent Holdings Limited, MIH TC Holdings Limited and Naspers Limited, its beneficial owners, are deemed to be interested in TCH Saffron Limited's interests in the Company pursuant to Part XV of the SFO.

Save as disclosed above, the Directors confirm that they are not aware of any other person who has beneficial interests or short positions in any of the shares or underlying shares in the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of the shares carrying the right to vote in all circumstances at general meetings of the Company.

### **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 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 (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).

### **Directors' Remuneration**

Please refer to note 17 to the financial statements for details of the Directors' remuneration.

### **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.

### **Convertible Bonds**

The Company completed the issue of the 2014 Convertible Bonds in the principal amount of HK\$2,327,000,000 on 11 April 2014. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each 2014 Convertible Bonds at its principal amount together with accrued and unpaid interest thereon on 11 April 2019. The proceeds from the subscription of the 2014 Convertible Bonds, after deduction of commissions and other related expenses, were approximately HK\$2,277 million. Assuming full conversion of the 2014 Convertible Bonds at the initial conversion price of HK\$43.89 per share and no further issue of shares, the 2014 Convertible Bonds will be convertible into approximately 53,018,910 shares of the Company.

## OTHER INFORMATION (continued)

The net price for each conversion share is approximately HK\$42.95, and the initial conversion price was HK\$43.89, which represented a premium of approximately 40.00% over the closing price of HK\$31.35 per share as quoted on the Stock Exchange on 3 April 2014, being the last trading day prior to the announcement of the issue of the 2014 Convertible Bonds. The 2014 Convertible Bonds were offered and sold to no less than six independent places (who were independent individual, corporate and/or institutional investors). The 2014 Convertible Bonds have been listed on the Singapore Exchange Securities Trading Limited since 14 April 2014. The interest is 1.25% per annum of the principal amount of the 2014 Convertible Bonds, payable semi-annually in arrear in equal instalments of HK\$6,250 per calculation amount (i.e. interest in respect of any 2014 Convertible Bond shall be calculated per HK\$1,000,000 in principal amount of the 2014 Convertible Bonds) on 11 April and 11 October in each year, subject to adjustment for non-business days. The Company intended to use the net proceeds from the subscription primarily for general corporate purposes, for strategic investments and acquisitions, if appropriate, and to supplement working capital. On 11 April 2017, being the put option date of the 2014 Convertible Bonds, the Company redeemed an aggregate principal amount of HK\$2,281,000,000 at the principal amount of the 2014 Convertible Bonds together with interest accrued to that date at the option of certain bondholders. As at 31 December 2018, the outstanding 2014 Convertible Bonds at an aggregate principal amount of HK\$46,000,000 are convertible into 1,078,040 shares upon full conversion. As at 11 April 2019, all outstanding 2014 Convertible Bonds at an aggregate principal amount of HK\$46,000,000 were fully redeemed at their principal amount and accrued interests on the maturity date and no 2014 Convertible Bonds remained outstanding. Accordingly, the 2014 Convertible Bonds were delisted from the Singapore Exchange Securities Trading Limited with effect from 11 April 2019. The net proceeds raised from the issue of 2014 Convertible Bonds have been used up as of 31 December 2015. For details, please refer to the 2015 annual report of the Company. References are made to the announcements of the Company dated 4 April 2014 and 11 April 2014 for principal terms of the 2014 Convertible Bonds and the announcements of the Company dated 9 April 2019 and 11 April 2019 for redemption on maturity of the 2014 Convertible Bonds.

### **Material Investment**

Details of the material investments incurred during the six months ended 30 June 2019 are set out in note 18 to the financial statements.

### **Review by Audit Committee**

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

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, 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 as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2019.

## OTHER INFORMATION (continued)

### **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 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

# INDEPENDENT REVIEW REPORT ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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## To the board of directors of Kingsoft Corporation Limited

*(Continued into the Cayman Islands with limited liability)*

### INTRODUCTION

We have reviewed the interim financial information set out on pages 20 to 62, which comprises the condensed consolidated statement of financial position of Kingsoft Corporation Limited (the "Company") and its subsidiaries as at 30 June 2019 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

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

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

**Ernst & Young**  
Certified Public Accountants  
Hong Kong

20 August 2019

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the 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)
Revenue	4	<b>1,874,069</b>	1,345,789	<b>3,600,581</b>	2,609,516
Cost of revenue		<b>(1,159,999)</b>	(674,538)	<b>(2,228,564)</b>	(1,322,622)
Gross profit		<b>714,070</b>	671,251	<b>1,372,017</b>	1,286,894
Research and development costs, net		<b>(498,483)</b>	(430,589)	<b>(981,461)</b>	(810,903)
Selling and distribution expenses		<b>(241,879)</b>	(157,763)	<b>(399,414)</b>	(284,395)
Administrative expenses		<b>(107,450)</b>	(105,883)	<b>(217,863)</b>	(188,768)
Share-based compensation costs		<b>(56,979)</b>	(51,827)	<b>(113,056)</b>	(109,887)
Other income	4	<b>60,109</b>	89,364	<b>130,109</b>	148,216
Other expenses		<b>(12,409)</b>	(1,225)	<b>(15,013)</b>	(1,871)
Other losses, net	5	<b>(1,326,704)</b>	(73,645)	<b>(1,302,126)</b>	(54,470)
Finance income		<b>75,119</b>	83,877	<b>150,272</b>	149,618
Finance costs		<b>(99,297)</b>	(88,403)	<b>(194,539)</b>	(139,936)
Share of profits and losses of:					
Joint ventures		<b>8,756</b>	15,434	<b>11,211</b>	32,797
Associates		<b>(58,296)</b>	65,851	<b>(136,238)</b>	85,613
<b>PROFIT/(LOSS) BEFORE TAX</b>	6	<b>(1,543,443)</b>	16,442	<b>(1,696,101)</b>	112,908
Income tax expense	7	<b>(5,143)</b>	(57,033)	<b>(52,799)</b>	(100,114)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>(1,548,586)</b>	(40,591)	<b>(1,748,900)</b>	12,794
Attributable to:					
Owners of the parent		<b>(1,415,205)</b>	100,945	<b>(1,482,969)</b>	219,333
Non-controlling interests		<b>(133,381)</b>	(141,536)	<b>(265,931)</b>	(206,539)
		<b>(1,548,586)</b>	(40,591)	<b>(1,748,900)</b>	12,794
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	8				
Basic		<b>RMB(1.04)</b>	RMB0.07	<b>RMB(1.09)</b>	RMB0.16
Diluted		<b>RMB(1.04)</b>	RMB0.07	<b>RMB(1.09)</b>	RMB0.16

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 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>	(40,591)	<b>(1,748,900)</b>	12,794
<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
<b>Attributable to:</b>				
Owners of the parent	<b>(1,408,634)</b>	574,374	<b>(1,576,903)</b>	209,583
Non-controlling interests	<b>(145,641)</b>	(123,692)	<b>(272,298)</b>	(199,968)
	<b>(1,554,275)</b>	450,682	<b>(1,849,201)</b>	9,615

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	NOTES	30 JUNE 2019 RMB'000 (UNAUDITED)	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		6,846,868	7,970,189
<b>CURRENT ASSETS</b>			
Inventories		12,145	11,679
Trade receivables	9	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	10	—	98,102
Cash and bank balances	10	8,980,482	9,868,809
Total current assets		11,725,031	12,079,623
<b>CURRENT LIABILITIES</b>			
Trade payables	11	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
Lease liabilities		22,856	—
Liability component of convertible bonds	14	—	40,171
Derivative financial instruments		154,518	154,765
Total current liabilities		4,177,582	4,105,973
<b>NET CURRENT ASSETS</b>		<b>7,547,449</b>	<b>7,973,650</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>14,394,317</b>	<b>15,943,839</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2019

	NOTES	30 JUNE 2019 RMB'000 (UNAUDITED)	31 DECEMBER 2018 RMB'000 (AUDITED)
<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		2,926,438	2,741,771
<hr/>			
Total non-current liabilities		3,230,178	3,022,240
<hr/>			
<b>Net assets</b>		<b>11,164,139</b>	12,921,599
<hr/>			
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	12	5,316	5,316
Share premium account	12	2,972,969	2,972,969
Treasury shares	12	(16,926)	(18,089)
Equity component of convertible bonds	14	—	1,274
Other reserves		8,556,243	10,076,369
<hr/>			
		<b>11,517,602</b>	13,037,839
<hr/>			
<b>Non-controlling interests</b>		<b>(353,463)</b>	(116,240)
<hr/>			
<b>Total equity</b>		<b>11,164,139</b>	12,921,599

**Tao Zou**  
Director

**Yuk Keung NG**  
Director

# INTERIM 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	EQUITY COMPONENT OF CONVERTIBLE BONDS				SHARE-BASED COMPENSATION		OTHER CAPITAL RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED PROFITS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
			TREASURY SHARES	BONDS (NOTE 14)	STATUTORY RESERVES	COMPENSATION RESERVE	RESERVE	RESERVE						
			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 31 DECEMBER 2018</b>	5,316	2,972,969	(18,089)	1,274	275,986 <sup>#</sup>	471,326 <sup>#</sup>	1,857,341 <sup>#</sup>	(1,044,690) <sup>#</sup>	311,094 <sup>#</sup>	8,205,312 <sup>#</sup>	13,037,839	(116,240)	12,921,599	
Effect of adoption of IFRS 16 (note 2.2)	—	—	—	—	—	—	—	—	—	(8,431)	(8,431)	—	(8,431)	
<b>At 1 January 2019 (restated)</b>	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/(loss) 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 (note 14)	—	—	—	(1,274)	—	—	1,446	—	(172)	—	—	—	—	
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(1,748)	—	—	—	(1,748)	(694)	(2,442)	
<b>At 30 June 2019</b>	5,316	2,972,969	(16,926)	—	275,986 <sup>#</sup>	547,257 <sup>#</sup>	1,846,790 <sup>#</sup>	(1,160,473) <sup>#</sup>	332,771 <sup>#</sup>	6,713,912 <sup>#</sup>	11,517,602	(353,463)	11,164,139	

<sup>#</sup> 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.

	ATTRIBUTABLE TO OWNERS OF THE PARENT															
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	EQUITY COMPONENT OF CONVERTIBLE BONDS				OTHER CAPITAL RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE	FAIR VALUE RESERVE	RETAINED PROFITS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY		
			TREASURY SHARES	BONDS (NOTE 14)	STATUTORY RESERVE	COMPENSATION RESERVE									RESERVE	RESERVE
			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 31 DECEMBER 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			
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			
<b>At 30 June 2018</b>	5,319	2,984,875	(20,042)	1,274	228,087	404,371	1,884,173	117,392	(579,093)	8,083,330	13,109,686	229,774	13,339,460			

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Notes	FOR THE SIX MONTHS ENDED 30 JUNE	
		2019 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		<b>(1,696,101)</b>	112,908
Adjustments for:			
Gain on disposal of property, plant and equipment		<b>(230)</b>	(254)
Depreciation of property, plant and equipment	6	<b>321,698</b>	200,703
Depreciation of investment properties	6	<b>719</b>	360
Depreciation of right-of-use assets	6	<b>11,625</b>	—
Amortisation of prepaid land lease payments	6	<b>—</b>	2,524
Amortisation of other intangible assets	6	<b>13,204</b>	13,184
Finance costs	6	<b>194,539</b>	139,936
Finance income		<b>(150,272)</b>	(149,618)
Fair value gains on financial instruments at fair value through profit or loss	5	<b>(14,259)</b>	(11,615)
Share-based compensation costs		<b>113,056</b>	109,887
Impairment of trade and other receivables	6	<b>18,409</b>	20
Share of profits of joint ventures		<b>(11,211)</b>	(32,797)
Share of profits and losses of associates		<b>136,238</b>	(85,613)
Foreign exchange differences, net	5	<b>12,548</b>	53,993
Loss on deemed disposal of an associate	5	<b>3,837</b>	12,092
Impairment of an investment in an associate	5	<b>1,300,000</b>	—
		<b>253,800</b>	365,710
Increase in trade receivables		<b>(499,350)</b>	(18,398)
Increase in prepayments, other receivables and other assets		<b>(56,557)</b>	(26,860)
Decrease/(increase) in other non-current assets		<b>7,154</b>	(7,342)
Increase in inventories		<b>(466)</b>	(9,520)
Increase in trade payables		<b>495,437</b>	51,632
Increase in deferred revenue		<b>99,940</b>	46,941
(Decrease)/increase in other payables and accruals		<b>(38,115)</b>	54,501
Cash generated from operations		<b>261,843</b>	456,664
Interest received		<b>60,649</b>	25,792
Income tax paid		<b>(78,287)</b>	(119,930)
Net cash flows from operating activities		<b>244,205</b>	362,526

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2019

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2019 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	111,765	70,689
Purchases of property, plant and equipment	(610,898)	(488,804)
Purchases of other intangible assets	(2,290)	(9,823)
Purchases of prepaid land lease payment	—	(812)
Decrease/(increase) in time deposits with original maturity of over three months when acquired	564,272	(1,380,009)
Investment in a joint venture	—	(7,000)
Investments in associates	(5,000)	(17,966)
Purchase of equity investments designated at fair value through other comprehensive income	—	(4,122)
Purchase of financial assets at fair value through profit or loss	(20,073)	(6,946)
Disposal of property, plant and equipment	1,046	459
Dividend income from an associate and a joint venture	—	82,002
Increase/(decrease) in other loans	(4,000)	195
Proceeds from disposal of equity investments designated at fair value through other comprehensive income	—	10,000
Receipt of government grants for property, plant and equipment	10,000	—
Proceeds from disposal of financial assets at fair value through profit or loss	—	5,627
Net cash flows from/(used in) investing activities	44,822	(1,746,510)

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2019

	Notes	FOR THE SIX MONTHS ENDED 30 JUNE	
		2019 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of redeemable convertible preferred shares		—	1,323,442
Changes in the ownership of interest in subsidiaries		<b>42,042</b>	—
Cash settlement of share options issued by a subsidiary		<b>(2,441)</b>	(1,961)
Proceeds from issuance of restricted shares of subsidiaries		—	240
Dividends paid to owners of the parent		—	(126,608)
Dividends paid to non-controlling interests		—	(140,446)
New bank loans		—	588,160
Repayment of bank loans		<b>(554,401)</b>	—
Payments of lease liabilities/finance lease		<b>(6,239)</b>	(5,775)
Redemption of convertible bonds		<b>(40,171)</b>	—
Interest paid		<b>(31,850)</b>	(12,955)
Net cash flows (used in)/from financing activities		<b>(593,060)</b>	1,624,097
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		<b>(304,033)</b>	240,113
Cash and cash equivalents at beginning of the period		<b>4,544,784</b>	3,036,488
Effect of foreign exchange rate changes, net		<b>(3,978)</b>	(25,063)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>			
		<b>4,236,773</b>	3,251,538
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	10	<b>1,612,696</b>	628,066
Deposits with original maturity of less than three months when acquired	10	<b>2,624,077</b>	2,623,472
<b>CASH AND CASH EQUIVALENTS AS STATED IN THE CONDENSED STATEMENT OF CASH FLOWS</b>			
		<b>4,236,773</b>	3,251,538

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

Kingsoft Corporation Limited (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 registered office of the Company is located at Clifton House, 75 Fort Street, George Town, Grand Cayman, Cayman Islands. The Company’s shares have been listed on the Stock Exchange of Hong Kong Limited since 9 October 2007.

During the six months ended 30 June 2019, the Company and its subsidiaries (together, the “Group”) were principally involved in the following principal 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 office software products and services of WPS Office.

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

### 2.1. Basis of preparation

The interim financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board.

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 consolidated financial statements as at 31 December 2018, and the interim condensed consolidated statement of profit and loss for the three months ended 30 June 2019 and 2018 included in page 20 of the interim financial information is only for reference.

### 2.2. New standards, interpretations and amendments adopted by the Group

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 consolidated 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.

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>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### 2.2. New standards, interpretations and amendments adopted by the Group (continued)

Other than as explained below regarding the impact of IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

- (a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease* SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

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.

#### New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### 2.2. New standards, interpretations and amendments adopted by the Group (continued)

(a) Adoption of IFRS 16 (continued)

As a lessee — Leases previously classified as operating leases

*Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

*Impacts on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments and discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. For leases of certain associate of the Group, the right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the associate of the Group applied the incremental borrowing rate at 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at cost less accumulated depreciation and any impairment losses, the Group has continued to include them as investment properties at 1 January 2019.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### 2.2. New standards, interpretations and amendments adopted by the Group (continued)

(a) Adoption of IFRS 16 (continued)

As a lessee — Leases previously classified as operating leases (continued)

*Impacts on transition (continued)*

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

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

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	<b>RMB'000 (UNAUDITED)</b>
<b>Operating lease commitments as at 31 December 2018</b>	221,454
Less: Operating lease commitments regarding a lease commenced in 2019	(158,040)
Weighted average incremental borrowing rate as at 1 January 2019	4.79%
Discounted operating lease commitments as at 1 January 2019	61,413
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(25,292)
Commitments relating to leases of low-value assets	(202)
<b>Lease liabilities as at 1 January 2019</b>	<b>35,919</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### 2.2. New standards, interpretations and amendments adopted by the Group (continued)

#### (a) Adoption of IFRS 16 (continued)

##### Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

##### *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventory". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at cost less accumulated depreciation and any impairment losses, in accordance with the Group's policy for "investment properties".

##### *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### 2.2. New standards, interpretations and amendments adopted by the Group (continued)

(a) Adoption of IFRS 16 (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	RIGHT-OF-USE ASSETS				LEASE LIABILITIES RMB'000
	BUILDING RMB'000	LAND USE RIGHT RMB'000	SUBTOTAL RMB'000	INVESTMENT PROPERTIES RMB'000	
<b>AS AT 1 JANUARY 2019</b>	<b>36,018</b>	<b>293,252</b>	<b>329,270</b>	<b>5,478</b>	<b>35,919</b>
Additions	<b>105,824</b>	—	<b>105,824</b>	—	<b>97,328</b>
Depreciation charge	<b>(9,135)</b>	<b>(2,490)</b>	<b>(11,625)</b>	<b>(83)</b>	—
Interest expense	—	—	—	—	<b>2,756</b>
Payments	—	—	—	—	<b>(6,239)</b>
Exchange realignment	<b>(6)</b>	—	<b>(6)</b>	—	<b>(6)</b>
<b>As at 30 June 2019</b>	<b>132,701</b>	<b>290,762</b>	<b>423,463</b>	<b>5,395</b>	<b>129,758</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

### 2.2. New standards, interpretations and amendments adopted by the Group (continued)

- (b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

## 3. SEGMENT INFORMATION

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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. SEGMENT INFORMATION (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources 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.

	<b>ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED)</b>	<b>CLOUD SERVICES RMB'000 (UNAUDITED)</b>	<b>OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000 (UNAUDITED)</b>	<b>TOTAL RMB'000 (UNAUDITED)</b>
<i>For the six months ended 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>
Loss before tax				<b>(1,696,101)</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. SEGMENT INFORMATION (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
Profit before tax				112,908

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. SEGMENT INFORMATION (continued)

### Geographical information

(a) Revenue from external customers:

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2019 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)
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>	<b>3,600,581</b>	2,609,516

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

(b) Non-current assets:

	30 JUNE 2019 RMB'000 (UNAUDITED)	31 DECEMBER 2018 RMB'000 (AUDITED)
	China	2,890,903
Other countries and regions	5,657	3,079
<b>Total</b>	<b>2,896,560</b>	2,534,603

The non-current asset information above is based on the locations of the assets and excludes financial instruments, deferred tax assets and investments in associates and joint ventures.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2019 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)
<i>Revenue from contracts with customers</i>		
Cloud services	<b>1,725,013</b>	854,906
Game services	<b>878,246</b>	945,763
Sales and subscription of software and related services	<b>488,986</b>	305,251
Royalties	<b>289,377</b>	268,497
Online marketing services	<b>165,222</b>	184,616
Others	<b>36,928</b>	41,801
	<b>3,583,772</b>	2,600,834
<i>Revenue from other sources</i>		
Gross rental income	<b>16,809</b>	8,682
	<b>3,600,581</b>	2,609,516

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. REVENUE AND OTHER INCOME (continued)

### Disaggregated revenue information for revenue from contracts with customers

SEGMENTS	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 2019</i>				
<b>Type of goods or services</b>				
Cloud services	—	1,725,013	—	1,725,013
Game services	878,246	—	—	878,246
Sales and subscription of software and related services	—	—	488,986	488,986
Royalties	289,377	—	—	289,377
Online marketing services	—	—	165,222	165,222
Others	1,868	32,496	2,564	36,928
Total revenue from contracts with customers	1,169,491	1,757,509	656,772	3,583,772
<b>Geographical markets</b>				
Mainland China	1,102,953	1,736,723	637,634	3,477,310
Hong Kong	59,081	20,786	18,684	98,551
Other countries and regions	7,457	—	454	7,911
Total revenue from contracts with customers	1,169,491	1,757,509	656,772	3,583,772
<b>Timing of revenue recognition</b>				
Goods or services transferred at a point in time	1,868	180,668	377,695	560,231
Services transferred over time	1,167,623	1,576,841	279,077	3,023,541
Total revenue from contracts with customers	1,169,491	1,757,509	656,772	3,583,772

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. REVENUE AND OTHER INCOME (continued)

### Disaggregated revenue information for revenue from contracts with customers (continued)

SEGMENTS	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>Type of goods or services</b>				
Cloud services	—	854,906	—	854,906
Game services	945,763	—	—	945,763
Sales and subscription of software and related services	—	—	305,251	305,251
Royalties	268,497	—	—	268,497
Online marketing services	—	—	184,616	184,616
Others	—	32,745	9,056	41,801
Total revenue from contracts with customers	1,214,260	887,651	498,923	2,600,834
<b>Geographical markets</b>				
Mainland China	1,128,378	887,651	481,747	2,497,776
Hong Kong	80,782	—	16,065	96,847
Other countries and regions	5,100	—	1,111	6,211
Total revenue from contracts with customers	1,214,260	887,651	498,923	2,600,834
<b>Timing of revenue recognition</b>				
Goods or services transferred at a point in time	10,382	15,438	328,163	353,983
Services transferred over time	1,203,878	872,213	170,760	2,246,851
Total revenue from contracts with customers	1,214,260	887,651	498,923	2,600,834
<b>Other income</b>				
			<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>	
			<b>2019 RMB'000 (UNAUDITED)</b>	<b>2018 RMB'000 (UNAUDITED)</b>
Government grants			<b>129,225</b>	144,972
Others			<b>884</b>	3,244
			<b>130,109</b>	148,216

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. OTHER LOSSES, NET

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2019 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)
Loss on deemed disposal of an associate	(3,837)	(12,092)
Foreign exchange differences, net	(12,548)	(53,993)
Fair value gains on financial instruments at fair value through profit or loss, net	14,259	11,615
Impairment of an investment in an associate*	(1,300,000)	—
	<b>(1,302,126)</b>	(54,470)

\* 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.

## 6. 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	—
Amortisation of other intangible assets	13,204	13,184
Interest on bank loans, lease liabilities, convertible bonds and redeemable convertible preferred shares	194,539	139,936
Impairment of trade and other receivables	18,409	20

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. INCOME TAX EXPENSE

The major components of income tax expense are as follows:

	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	52,799	100,114

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

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

## 8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,365,424,321 (six months ended 30 June 2018: 1,360,416,996) 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 per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. No adjustment has been made to the basic 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 8. 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)
<i>Earnings/(loss)</i>		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	<b>(1,482,969)</b>	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)
Adjusted profit/(loss) attributable to ordinary equity holders of the parent	<b>(1,482,969)</b>	216,322

	NUMBER OF SHARES FOR THE SIX MONTHS ENDED 30 JUNE	
	2019 (UNAUDITED)	2018 (UNAUDITED)
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the period, used in the basic earnings per share calculation	<b>1,365,424,321</b>	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
	<b>1,365,424,321</b>	1,369,082,423

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 9. TRADE RECEIVABLES

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

	<b>30 JUNE 2019 RMB'000 (UNAUDITED)</b>	<b>31 DECEMBER 2018 RMB'000 (AUDITED)</b>
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 years	<b>16,836</b>	4,610
	<b>1,665,535</b>	1,184,650

## 10. CASH AND BANK BALANCES AND RESTRICTED CASH

	NOTE	<b>30 JUNE 2019 RMB'000 (UNAUDITED)</b>	<b>31 DECEMBER 2018 RMB'000 (AUDITED)</b>
Cash and bank balances		<b>1,612,696</b>	1,524,403
Non-pledged time deposits with original maturity of less than three months when acquired		<b>1,693,597</b>	1,854,211
Principal protected structure deposits with original maturity of less than three months when acquired		<b>930,480</b>	1,166,170
		<b>4,236,773</b>	4,544,784
Non-pledged time deposits with original maturity of over three months when acquired		<b>1,150,772</b>	2,811,271
Principal protected structure deposits with original maturity of over three months when acquired		<b>3,592,937</b>	2,512,754
		<b>4,743,709</b>	5,324,025
Cash and bank balances		<b>8,980,482</b>	9,868,809
Restricted cash	(iii)	—	98,102
		<b>8,980,482</b>	9,966,911

Notes:

- (i) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of one day to and a year depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 10. CASH AND BANK BALANCES AND RESTRICTED CASH (continued)

Notes: (continued)

- (ii) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.
- (iii) As at 31 December 2018, restricted cash of RMB98,102,000 was not a part of cash and cash equivalents, which are not available for the Group's use.

The restricted cash represents the amount and its related interest income held by the Company, which shall be joint-controlled by the Company and a company whose parent has a significant influence on the Company in accordance with the terms of the share purchase agreement in connection with the share transfer transaction of Season Holdings Limited ("Season Holdings"), a subsidiary of the Group.

## 11. 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>	<b>31 DECEMBER 2018 RMB'000 (AUDITED)</b>
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>1,443,272</b>	947,702

Trade payables are non-interest-bearing and are normally settled within three months.

## 12. SHARE CAPITAL

The movement of the Company's share capital is as follows:

	<b>NUMBER OF SHARES IN ISSUE (UNAUDITED)</b>	<b>ISSUED SHARE CAPITAL RMB'000 (UNAUDITED)</b>	<b>SHARE PREMIUM ACCOUNT RMB'000 (UNAUDITED)</b>	<b>TREASURY SHARES RMB'000 (UNAUDITED)</b>	<b>TOTAL RMB'000 (UNAUDITED)</b>
At 1 January 2019	<b>1,365,064,780</b>	<b>5,316</b>	<b>2,972,969</b>	<b>(18,089)</b>	<b>2,960,196</b>
Vested awarded shares transferred to employees	<b>497,800</b>	<b>—</b>	<b>—</b>	<b>1,163</b>	<b>1,163</b>
At 30 June 2019	<b>1,365,562,580*</b>	<b>5,316</b>	<b>2,972,969</b>	<b>(16,926)</b>	<b>2,961,359</b>

\* Excluding 7,166,137 (31 December 2018: 7,663,937) shares held by the Share Award Scheme Trust as at 30 June 2019.

### **Share options**

Details of the Company's share option schemes and the share options issued under these schemes are included in note 13 to the financial statement.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 13. SHARE-BASED COMPENSATION COSTS

### Share Option Schemes

#### (a) The Company's 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 the 2011 Share Option Schemes for the six months ended 30 June 2019 and 2018.

	<b>2019 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>	<b>2018 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>
Outstanding at 1 January	<b>4,600,000</b>	4,600,000
Granted during the period	—	—
Exercised during the period	—	—
Outstanding at 30 June	<b>4,600,000</b>	4,600,000
Exercisable at 30 June	<b>1,720,000</b>	800,000

#### (b) Kingsoft Cloud Holdings Limited ("Kingsoft Cloud") Share Option Scheme

On 27 February 2013 (the "Kingsoft Cloud Share Option Adoption Date"), the shareholders of the Company and Kingsoft Cloud approved and adopted the Kingsoft Cloud Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud, its subsidiaries or its invested entities are entitled to participate. On 27 June 2013, the shareholders of the Company and Kingsoft Cloud approved to amend certain existing provisions of the Kingsoft Cloud Share Option Scheme. Pursuant to the amendment, the total number of additional options to be granted under the Kingsoft Cloud Share Option Scheme on or after 27 June 2013 shall not in aggregate exceed 209,750,000 shares. The Kingsoft Cloud Share Option Scheme shall be valid and effective for a term of ten years commencing on the Kingsoft Cloud Share Option Adoption Date. The exercise price and exercise period of share options are determinable by the board of Kingsoft Cloud.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 13. SHARE-BASED COMPENSATION COSTS (continued)

### Share Option Schemes (continued)

#### (b) Kingsoft Cloud Holdings Limited (“Kingsoft Cloud”) Share Option Scheme (continued)

The following table illustrates the number of and movements in the Kingsoft Cloud Share Option Schemes for the six months ended 30 June 2019 and 2018.

	<b>2019 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>	<b>2018 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>
Outstanding at 1 January	<b>172,654,000</b>	187,090,000
Granted during the period	<b>29,220,000</b>	16,760,000
Forfeited during the period	<b>(8,982,000)</b>	(24,700,000)
Outstanding at 30 June	<b>192,892,000</b>	179,150,000
Exercisable at 30 June	<b>104,838,000</b>	77,172,000

#### (c) Seasun Holdings Share Option Scheme

On 27 June 2013 (the “Seasun Holdings Share Option Adoption Date”), the shareholders of the Company and Seasun Holdings, a subsidiary of the Company, approved and adopted the Seasun Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Seasun Holdings, its subsidiaries or its invested entities are entitled to participate. The maximum number of ordinary shares under the Seasun Holdings Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 80,000,000 shares (representing 10% of the shares in issue). On 24 May 2017, the shareholders of the Company and Seasun Holdings approved to amend the maximum number of ordinary shares, which may be issued upon exercise in the Seasun Holdings Share Option Scheme, to be 40,000,000 shares. The Seasun Holdings Share Option Scheme shall be valid and effective for a term of ten years commencing on the Seasun Share Option Adoption Date. The exercise price and exercise period of share options are determinable by the board of Seasun Holdings.

The following table illustrates the numbers of and movements in the Seasun Holdings Share Option Scheme during the six months ended 30 June 2019 and 2018.

	<b>2019 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>	<b>2018 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>
Outstanding at 1 January	<b>21,709,111</b>	24,956,711
Granted during the period	<b>2,160,000</b>	3,685,000
Forfeited during the period	<b>(587,611)</b>	(694,200)
Cancelled during the period	<b>(600,000)</b>	(4,782,500)
Outstanding at 30 June	<b>22,681,500</b>	23,165,011
Exercisable at 30 June	<b>6,323,400</b>	4,956,500

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 13. SHARE-BASED COMPENSATION COSTS (continued)

### Share Award Schemes

#### (a) Share Award Scheme adopted by the Company

On 31 March 2008, the directors of the Company approved and adopted the Share Award Scheme in which selected employees of the Group are entitled to participate. Unless early terminated by the directors of the Company, 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 of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2013 to 30 March 2017. On 19 November 2016, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2017 to 30 March 2022. The directors will not grant any awarded shares which would result in the total number of shares (but not counting those which have lapsed or have been forfeited), in aggregate, over 10% of the issued capital of the Company as at the date of such grant.

The following table illustrates the number of and movements in the Share Award Scheme during the six months ended 30 June 2019 and 2018.

	<b>2019 NUMBER OF AWARDED SHARES (UNAUDITED)</b>	<b>2018 NUMBER OF AWARDED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>4,372,900</b>	5,830,300
Granted during the period	—	455,000
Forfeited during the period	<b>(20,900)</b>	(12,200)
Vested and transferred during the period	<b>(497,800)</b>	(1,059,800)
Outstanding at 30 June	<b>3,854,200</b>	5,213,300
Exercisable at 30 June	<b>500</b>	500

#### (b) Kingsoft Cloud Share Award Scheme adopted by Kingsoft Cloud

On 22 February 2013, the directors of the Company and Kingsoft Cloud approved and adopted the Kingsoft Cloud Share Award Scheme, in which selected employees of Kingsoft Cloud and its subsidiaries are entitled to participate. Unless early terminated by the directors of Kingsoft Cloud, the Kingsoft Cloud Share Award Scheme is valid and effective for a term of ten years commencing from 22 February 2013. The directors of Kingsoft Cloud will not grant those awarded shares which would result in the total number of shares (but not counting any shares which have lapsed or have been forfeited) being greater than 48,000,000 shares, as at the date of such grant. According to the resolutions of the board and shareholders of Kingsoft Cloud, the limit of the total number of shares under the Kingsoft Cloud Share Award Scheme was increased to 69,925,476.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 13. SHARE-BASED COMPENSATION COSTS (continued)

### Share Award Schemes (continued)

#### (b) Kingsoft Cloud Share Award Scheme adopted by Kingsoft Cloud (continued)

The following table illustrates the number of and movements in the Kingsoft Cloud Awarded Shares during the six months ended 30 June 2019 and 2018.

	<b>2019 NUMBER OF AWARDED SHARES (UNAUDITED)</b>	<b>2018 NUMBER OF AWARDED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>47,976,256</b>	53,992,576
Granted during the period	<b>17,000,000</b>	—
Forfeited during the period	<b>(514,080)</b>	(6,016,320)
Outstanding at 30 June	<b>64,462,176</b>	47,976,256
Exercisable at 30 June	<b>39,001,200</b>	39,001,200

#### (c) Seasun Holdings Share Award Scheme adopted by Seasun Holdings

On 21 March 2017, the directors of the Company and Seasun Holdings approved and adopted the Seasun Holdings Share Award Scheme, in which selected employees of Seasun Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of Seasun Holdings, the Seasun Holdings Share Award Scheme is valid and effective for a term of ten years commencing from 21 March 2017. The directors of Seasun Holdings will not grant those awarded shares which would result in the total number of shares (but not counting any shares which have lapsed or have been forfeited) being greater than 50,832,211 shares, as at the date of such grant.

The following table illustrates the number of and movements in the Seasun Holdings Awarded Shares during the six months ended 30 June 2019 and 2018.

	<b>2019 NUMBER OF AWARDED SHARES (UNAUDITED)</b>	<b>2018 NUMBER OF AWARDED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>43,044,438</b>	39,785,102
Granted during the period	<b>1,200,000</b>	4,754,836
Forfeited during the period	<b>(282,389)</b>	—
Outstanding at 30 June	<b>43,962,049</b>	44,539,938
Exercisable at 30 June	—	—

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 13. SHARE-BASED COMPENSATION COSTS (continued)

### Other Restricted Share Schemes

In addition to the awarded shares granted under the above disclosed share award schemes, the restricted shares of below subsidiaries were granted to eligible persons or their controlled companies for their employment or consultant service with the Group.

#### (a) Restricted shares granted by Beijing Kingsoft Office Software Co., Ltd. (“Beijing Kingsoft Office”)

On 3 December 2012, the directors of the Company and Kingsoft Office Holdings Limited (“KOS Holdings”) approved and adopted the share award scheme (the “KOS Share Award Scheme”), in which selected employees of KOS Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of KOS Holdings, the KOS Share Award Scheme shall be valid and effective for a term of ten years from 3 December 2012. In November 2015, pursuant to the approval of the directors and the shareholders of KOS Holdings and a series of agreements, all the outstanding awarded shares under the KOS Share Award Scheme were replaced by the restricted shares of Beijing Kingsoft Office, held through certain limited partnerships. The limited partnerships were set up for the purpose of holding the shares of Beijing Kingsoft Office, the assets and liabilities of which are included in the condensed consolidated statement of financial position.

The following table illustrates the number of and movements in the restricted shares granted by Beijing Kingsoft Office during the six months ended 30 June 2019 and 2018.

	<b>2019 NUMBER OF RESTRICTED SHARES (UNAUDITED)</b>	<b>2018 NUMBER OF RESTRICTED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>24,176,822</b>	24,176,822
Granted during the period	—	210,603
Forfeited during the period	—	(210,603)
Outstanding at 30 June	<b>24,176,822</b>	24,176,822
Exercisable at 30 June	—	—

#### (b) Restricted shares granted by Kingsoft Cloud

The outstanding number of restricted shares granted by Kingsoft Cloud at 30 June 2019 was 6,000,000 (30 June 2018: 6,000,000). There was no movement of outstanding restricted shares granted by Kingsoft Cloud during the six months ended 30 June 2019 and 2018.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 14. CONVERTIBLE BONDS

	Notes	30 JUNE 2019 RMB'000 (UNAUDITED)	31 DECEMBER 2018 RMB'000 (AUDITED)
Liability component			
2013 Convertible Bonds	(i)	—	—
2014 Convertible Bonds	(ii)	—	40,171
		—	40,171
Less: Current portion		—	(40,171)
Non-current portion		—	—
Equity component			
2013 Convertible Bonds	(i)	—	—
2014 Convertible Bonds	(ii)	—	1,274
		—	1,274

Notes:

- (i) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK\$1,356,000,000, 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 ordinary shares of the Company 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 fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

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

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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 14. CONVERTIBLE BONDS (continued)

(i) (continued)

The movements of the liability component and the equity component of the 2013 Convertible Bonds for the six months ended 30 June 2018 are set out below:

	<b>LIABILITY COMPONENT RMB'000 (UNAUDITED)</b>	<b>EQUITY COMPONENT RMB'000 (UNAUDITED)</b>
At 1 January 2018	832,876	6,290
Conversion	(807,012)	(6,290)
Interest expenses	12	—
Exchange realignment	(25,876)	—
At 30 June 2018	—	—

(ii) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HK\$2,327,000,000 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 ordinary shares of the Company 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 the principal amount together with the 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 fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

Similar to the 2013 Convertible Bonds, in accordance with the respective terms and conditions of the 2014 Convertible Bonds, the conversion price of the 2014 Convertible Bonds was adjusted to HK\$43.29 per share on 2 June 2015 and further adjusted to HK\$42.67 per share on 2 June 2016.

On 11 April 2017, the Company redeemed, at the options of certain bondholders of the 2014 Convertible Bonds, a portion of the 2014 Convertible Bonds representing the principal amount of HK\$2,281,000,000 at an aggregate principal amount together with accrued and unpaid interest to such date.

On 11 April 2019, all outstanding 2014 Convertible Bonds were fully redeemed.

The movements of the liability component and the equity component of the 2014 Convertible Bonds for the six months ended 30 June 2019 are set out below:

	<b>LIABILITY COMPONENT RMB'000 (UNAUDITED)</b>	<b>EQUITY COMPONENT RMB'000 (UNAUDITED)</b>
At 1 January 2019	<b>40,171</b>	<b>1,274</b>
Redemption of the convertible bonds	<b>(40,386)</b>	<b>(1,274)</b>
Interest expenses	<b>137</b>	—
Exchange realignment	<b>78</b>	—
At 30 June 2019	—	—

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 15. 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).

## 16. CAPITAL COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

NOTE	30 JUNE 2019 RMB'000 (UNAUDITED)	31 DECEMBER 2018 RMB'000 (AUDITED)
Contracted, but not provided for:		
Development of land and buildings (a)	325,359	403,671
Purchase of property, plant and equipment	1,395	—
	<b>326,754</b>	403,671

(a) The capital commitment for the development of land and buildings at 30 June 2019 represented the commitment to invest in an aggregate amount of RMB325,359,000 (31 December 2018: RMB403,671,000) in the development of a piece of land in Zhuhai.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these interim condensed consolidated financial statements, the Group had the following transactions with related parties during the period:

	NOTES	FOR THE SIX MONTHS ENDED 30 JUNE	
		2019 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)
Interest income from associates of the Group		25	—
Interest income from non-controlling shareholders of subsidiaries		647	647
Provision of services to a company controlled by a director of the Company	(i)	321,816	246,243
Provision of services to an associate	(ii)	7,409	4,629
Licence fee from a company whose parent has a significant influence on the Company	(iii)	262,093	191,111
Licence fee from companies controlled by a director of the Company	(iv)	6,333	11,067
Licence fee from an associate	(v)	5,409	3,419
Sales of product to a company controlled by a director of the Company		23,047	—
Purchases of products from a company controlled by a director of the Company	(vi)	2,693	2,430
Purchases of services from a company controlled by a director of the Company	(vii)	20,096	20,250
Licence fee to a joint venture	(viii)	93,207	106,376
Rental to a company controlled by a director of the Company	(ix)	4,248	—

Notes:

- (i) In 2014 and 2016, the Group entered into various agreements with a company controlled by a director of the Company. Pursuant to the agreements, the Group provides cloud storage services and promotion services to this related company and its affiliates at the prevailing fair market price in the same industry for similar transactions.
- (ii) In 2019, the Group entered into agreements with an associate to provide technology support and leasing services to it at the prevailing fair market price.
- (iii) In 2016, the Group entered into various licensing agreements with a company whose parent has a significant influence on the Company to operate the Group's online games with this related company at the prevailing fair market price.
- (iv) In 2015 and 2016, the Group entered into various licensing agreements with companies controlled by a director of the Company to operate the Group's online games with these related companies at the prevailing fair market price.
- (v) On 1 January 2009, the Group entered into an exclusive licensing agreement with an associate to grant the exclusive right to use certain office software.
- (vi) The Group purchased hardware products, including but not limited to smart phones and phone accessories at market price from this related company.
- (vii) In 2014 and 2016, the Group entered into framework agreements with a company controlled by a director of the Company. Pursuant to the framework agreements, this related company provides various forms of promotion services to the Group through the internet platforms. The price is based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting similar transactions.
- (viii) In 2015 and 2016, the Group entered into the game joint development and operation agreement with a joint venture to jointly develop and operate the Group's online games at the prevailing fair market price.
- (ix) On 27 November 2018, the Group entered into a lease agreement with a company controlled by a director of the Company. Pursuant to the lease agreement, the related company agreed to lease premises to a subsidiary of the Group for a term of fifteen years commencing from 1 January 2019 at market price. The annual rent (including VAT) for the three years from 1 January 2019 to 31 December 2021 is RMB9,345,000. For every three years since 1 January 2019, the rental rate will be increased by 6%. At the commencement date, the Group recognised a right-of-use asset amounting to RMB104,135,000 and a lease liability amounting to RMB95,639,000 in accordance with IFRS 16.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 17. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel of the Group (including directors' remuneration):

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2019 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)
Salaries, allowances, and benefits in kind	2,819	4,069
Pension scheme contributions	112	134
Share-based compensation costs	51,099	56,387
<b>Total compensation paid to key management personnel</b>	<b>54,030</b>	60,590

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	CARRYING AMOUNTS		FAIR VALUES	
	30 JUNE 2019 RMB'000 (UNAUDITED)	31 DECEMBER 2018 RMB'000 (AUDITED)	30 JUNE 2019 RMB'000 (UNAUDITED)	31 DECEMBER 2018 RMB'000 (AUDITED)
<b>Financial assets</b>				
Loan receivables	3,170	3,326	3,170	3,326
Equity investments designated at fair value through other comprehensive income	662,960	756,718	662,960	756,718
Financial assets at fair value through profit or loss	118,540	84,044	118,540	84,044
	<b>784,670</b>	844,088	<b>784,670</b>	844,088
<b>Financial liabilities</b>				
Derivative financial instruments	154,518	154,765	154,518	154,765
Contingent consideration	5,000	10,000	5,000	10,000
Liability component of convertible bonds	—	40,171	—	40,171
Liability components of redeemable convertible preferred shares	2,926,438	2,741,771	2,926,438	2,741,771
Interest-bearing bank loans	729,977	1,284,617	729,977	1,284,617
Lease liabilities	129,758	—	129,758	—
	<b>3,945,691</b>	4,231,324	<b>3,945,691</b>	4,231,324

Management has assessed that the fair values of cash and bank balances, restricted cash, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer ("CFO") and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the CFO and the valuation process and results are discussed with the audit committee.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of loan receivables and interest-bearing bank loans and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans and lease liabilities as at 30 June 2019 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds and the liability component of the redeemable convertible preferred shares are estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments are based on quoted prices in active markets or have been estimated using market approach or equity valuation allocation model, which is based on certain unobservable inputs. The valuation requires the directors to make estimates about the comparable companies and discount for lack of marketability. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of other financial asset has been estimated using the Black Scholes Model or equity valuation allocation model. The valuation techniques are based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about underlying equity value, life of option, expected volatility. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in the condensed consolidated statement of profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of derivative financial instruments have been estimated using the equity valuation allocation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about underlying equity value expected volatility and risk-free rate. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in the condensed consolidated profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of contingent consideration have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in the condensed consolidated profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

*Assets measured at fair value:*

#### As at 30 June 2019

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Equity investments designated at fair value through other comprehensive income	656,861	—	6,099	662,960
Financial assets at fair value through profit or loss	—	—	118,540	118,540
	656,861	—	124,639	781,500

#### As at 31 December 2018

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Equity investments designated at fair value through other comprehensive income	751,678	—	5,040	756,718
Financial assets at fair value through profit or loss	5,000	—	79,044	84,044
	756,678	—	84,084	840,762

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy (continued)

Assets measured at fair value: (continued)

The movement of assets in fair value measurements in Level 3 during the period is as follows:

	RMB'000
Financial assets at fair value:	
At 1 January 2019	<b>84,084</b>
Additions	<b>20,073</b>
Transfer from Level 1	<b>5,000</b>
Total gain recognised in profit or loss	<b>13,767</b>
Total gain recognised in other comprehensive income	<b>1,715</b>
At 30 June 2019 (Unaudited)	<b>124,639</b>

Below is a summary of significant unobservable inputs to the valuation of financial assets together with a quantitative sensitivity analysis as at 30 June 2019:

	Valuation techniques	Significant unobservable inputs	Sensitivity of fair value to the input
Equity investments designated at fair value through other comprehensive income	Equity valuation allocation model	Discount for lack of marketability	5% increase (decrease) in discount for lack of marketability would result in decrease (increase) in fair value by RMB86,000 (RMB86,000)
Financial assets at fair value through profit or loss	Black Scholes Model	Fair value per share	5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB6,107,000 (RMB6,107,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB147,000 (RMB5,000)
		Volatility	5% increase (decrease) in volatility would result in increase (decrease) in fair value by RMB292,000 (RMB13,000)

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy (continued)

Liabilities measured at fair value:

#### As at 30 June 2019

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Contingent consideration	—	—	5,000	5,000
Derivative financial instruments	—	—	154,518	154,518
	—	—	159,518	159,518

#### As at 31 December 2018

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Contingent consideration	—	—	10,000	10,000
Derivative financial instruments	—	—	154,765	154,765
	—	—	164,765	164,765

The movement of liabilities in fair value measurements in Level 3 during the period is as follows:

	RMB'000
Financial liabilities at fair value through profit or loss:	
At 1 January 2019	164,765
Settled	(5,000)
Total gain recognised in profit or loss	(492)
Total loss recognised in other comprehensive income	245
At 30 June 2019 (Unaudited)	159,518

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy (continued)

*Liabilities measured at fair value: (continued)*

Below is a summary of significant unobservable inputs to the valuation of financial liabilities together with a quantitative sensitivity analysis as at 30 June 2019.

	<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Sensitivity of the Group's financial liabilities of fair value to the input</b>
Derivative financial instruments	Equity valuation allocation model	Fair Value of equity value	5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB29,292,000 (RMB27,276,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB1,019,000 (RMB3,468,000)
		Volatility	5% increase (decrease) in volatility would result in increase (decrease) in fair value by RMB600,000 (RMB4,720,000)
		Probability of IPO	5% increase (decrease) in probability of IPO would result in decrease (increase) in fair value by RMB9,371,000 (RMB9,371,000)

During the six months ended 30 June 2019, except disclosed above, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy (continued)

Assets for which fair values are disclosed:

#### As at 30 June 2019

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Loan receivables	—	3,170	—	3,170

#### As at 31 December 2018

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Loan receivables	—	3,326	—	3,326

Liabilities for which fair values are disclosed:

#### As at 30 June 2019

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Liability component of redeemable convertible preferred shares	—	—	2,926,438	2,926,438
Interest-bearing bank loans	—	729,977	—	729,977
Lease liabilities	—	129,758	—	129,758
	—	859,735	2,926,438	3,786,173

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy (continued)

Liabilities for which fair values are disclosed: (continued)

As at 31 December 2018

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Liability component of convertible bonds	—	—	40,171	40,171
Liability component of redeemable convertible preferred shares	—	—	2,741,771	2,741,771
Interest-bearing bank loans	—	1,284,617	—	1,284,617
	—	1,284,617	2,781,942	4,066,559

## 19. CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no significant contingent liabilities (31 December 2018: nil).

## 20. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the interim condensed consolidated financial statements, due to the adoption of new and revised IFRSs during the period, the accounting treatment and presentation of certain items and balances in the interim condensed consolidated financial statements have been revised to comply with the new requirements. Accordingly, certain prior period adjustments have been made, and certain comparative amounts have been reclassified and restated to conform with the current period's presentation and accounting treatment.

## 21. SUBSEQUENT EVENTS

On 20 August 2019, Cheetah announced that the board of directors approved a special cash dividend of US\$0.50 per ADS, or US\$0.05 per ordinary share. The cash dividend will be paid on 30 September 2019 to shareholders of record at the close of business on 13 September 2019. The Group is expected to receive a cash dividend of US\$33,730,000 (equivalent to RMB237,644,000) from Cheetah. The distribution will reduce the carrying amount of the investment in associate in the consolidated statement of financial position.

## 22. APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 20 August 2019.

# TERMS AND GLOSSARIES

"2011 Share Option Scheme"	the share option scheme adopted by the Company on 9 December 2011
"2014 Convertible Bonds"	the convertible bonds issued by the Company on 11 April 2014
"ADPCU"	daily average peak concurrent users
"AI"	artificial intelligence
"APA"	average paying accounts
"Audit Committee"	the audit committee of the Company
"Board"	the board of directors of the Company
"CDN"	content delivery network
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Cheetah"	Cheetah Mobile Inc., an associated corporation of the Company and was listed on NYSE in May 2014
"Cheetah Share(s)"	ordinary share(s) of Cheetah Mobile Inc.
"Company"	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its shares listed on the Stock Exchange (stock code: 03888)
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IaaS"	Infrastructure as a Service
"IDC"	internet data center
"IFRSs"	International Financial Reporting Standards
"IPO"	initial public offering
"Kingsoft Cloud"	Kingsoft Cloud Holdings Limited, a subsidiary of the Company
"Kingsoft Cloud Group"	Kingsoft Cloud and its subsidiaries

## TERMS AND GLOSSARIES (continued)

“Kingsoft Cloud Share Award Scheme”	the share award scheme approved and adopted by the directors of Kingsoft Cloud Holdings Limited on 22 February 2013
“Kingsoft Cloud Share Option Scheme”	the share option scheme approved and adopted by the shareholders of the Company and Kingsoft Cloud Holdings Limited on 27 February 2013
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MAU”	monthly active users
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“NYSE”	New York Stock Exchange
“PCDN”	P2P CDN
“PRC”, “China” or “Mainland China”	the People’s Republic of China excluding, for the purpose of this interim report only, Hong Kong, the Macau Special Administrative Region and Taiwan
“R&D”	research and development
“RMB” or “Renminbi”	the lawful currency of the PRC
“Season Holdings”	Season Holdings Limited, a subsidiary of the Company
“Season Holdings Share Award Schemes”	the General Share Award Scheme, the Special Share Award Scheme (A) and the Special Share Award Scheme (B) approved and adopted by the shareholders and directors of Season Holdings on 21 March 2017
“Season Holdings Share Option Scheme”	the share option scheme of Season Holdings approved and adopted by the shareholders of the Company and Season Holdings on 27 June 2013
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share Award Scheme”	the share award scheme of the Company adopted by the Board on 31 March 2008
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“U.S.”	United States of America
“US\$”	United States dollars, the lawful currency of the U.S.