

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2017**

The board (“**Board**”) of directors (the “**Directors**”) of Kingsoft Corporation Limited (the “**Company**”) announces the unaudited results of the Company and its subsidiaries (the “**Group**” or “**Kingsoft**”) for the three and six months ended 30 June 2017. These interim results have been reviewed by the auditors of the Company, and the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three and six months ended 30 June 2017

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited) (Restated)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited) (Restated)
CONTINUING OPERATIONS					
Revenue					
Online games		805,000	476,794	1,622,151	933,664
Cloud services		304,027	154,314	572,473	283,124
Office software and services and others		175,385	119,856	303,154	200,587
		<u>1,284,412</u>	<u>750,964</u>	<u>2,497,778</u>	<u>1,417,375</u>
Cost of revenue		<u>(488,898)</u>	<u>(252,649)</u>	<u>(998,345)</u>	<u>(444,062)</u>
Gross profit		795,514	498,315	1,499,433	973,313
Research and development costs, net		(368,273)	(242,587)	(689,712)	(482,459)
Selling and distribution expenses		(135,262)	(74,671)	(216,435)	(129,805)
Administrative expenses		(58,645)	(45,774)	(114,708)	(94,424)
Share-based compensation costs	5	(61,063)	(14,325)	(109,800)	(36,939)
Other income		92,778	8,074	163,555	9,944
Other expenses		<u>(4,250)</u>	<u>(29)</u>	<u>(6,332)</u>	<u>(613)</u>
Operating profit		260,799	129,003	526,001	239,017
Other losses, net		(42,332)	(891,714)	(134,586)	(863,722)
Finance income		44,115	33,966	91,892	75,987
Finance costs		(21,155)	(26,042)	(53,832)	(47,044)
Share of profits and losses of:					
Joint ventures		32,646	4,359	71,472	1,187
Associates		<u>(3,085)</u>	<u>(2,566)</u>	<u>(5,480)</u>	<u>(2,568)</u>
Profit/(loss) before tax from continuing operations	4	270,988	(752,994)	495,467	(597,143)
Income tax expense	6	<u>(48,174)</u>	<u>(32,310)</u>	<u>(94,261)</u>	<u>(78,149)</u>
Profit/(loss) for the period from continuing operations		222,814	(785,304)	401,206	(675,292)
DISCONTINUED OPERATION					
Profit/(loss) for the period from a discontinued operation		61,840	(128,107)	163,713	(110,182)
PROFIT/(LOSS) FOR THE PERIOD		284,654	(913,411)	564,919	(785,474)
Attributable to:					
Owners of the parent		250,044	(807,554)	488,513	(673,751)
Non-controlling interests		<u>34,610</u>	<u>(105,857)</u>	<u>76,406</u>	<u>(111,723)</u>
		<u>284,654</u>	<u>(913,411)</u>	<u>564,919</u>	<u>(785,474)</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

	<i>Notes</i>	For the three months ended 30 June		For the six months ended 30 June	
		2017 <i>RMB</i> <i>(Unaudited)</i>	2016 <i>RMB</i> <i>(Unaudited)</i> <i>(Restated)</i>	2017 <i>RMB</i> <i>(Unaudited)</i>	2016 <i>RMB</i> <i>(Unaudited)</i> <i>(Restated)</i>
Earnings per share attributable to ordinary equity holders of the parent	8				
Basic					
— For profit/(loss) for the period		0.19	(0.63)	0.38	(0.52)
— For profit/(loss) from continuing operations		0.16	(0.58)	0.30	(0.49)
Diluted					
— For profit/(loss) for the period		0.19	(0.63)	0.37	(0.52)
— For profit/(loss) from continuing operations		0.16	(0.58)	0.30	(0.49)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2017

	For the three months ended 30 June		For the six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	284,654	(913,411)	564,919	(785,474)
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Available-for-sale investments:				
Change in fair value	(10,250)	(758,171)	—	(856,221)
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss				
— impairment losses	—	914,541	—	914,541
Income tax effect	—	—	—	(9,500)
Exchange differences on translation of foreign operations	(96,520)	143,272	(107,188)	117,145
Disposal of an associate	—	—	—	129
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>(106,770)</u>	<u>299,642</u>	<u>(107,188)</u>	<u>166,094</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>(106,770)</u>	<u>299,642</u>	<u>(107,188)</u>	<u>166,094</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>177,884</u>	<u>(613,769)</u>	<u>457,731</u>	<u>(619,380)</u>
Attributable to:				
Owners of the parent	169,483	(537,928)	412,271	(533,429)
Non-controlling interests	8,401	(75,841)	45,460	(85,951)
	<u>177,884</u>	<u>(613,769)</u>	<u>457,731</u>	<u>(619,380)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		As at 30 June 2017 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2016 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,042,871	1,097,766
Prepaid land lease payments		265,876	268,046
Goodwill		9,559	954,656
Other intangible assets		60,956	295,751
Investments in joint ventures		178,648	165,512
Investments in associates		23,793	406,773
Available-for-sale investments		516,762	1,050,654
Other financial assets		50,584	71,091
Deferred tax assets		33,760	119,868
Other non-current assets		9,986	43,459
		<u>2,192,795</u>	<u>4,473,576</u>
CURRENT ASSETS			
Inventories		12,113	11,098
Trade receivables	9	981,251	1,774,156
Prepayments, deposits and other receivables		525,910	1,122,028
Available-for-sale investments		88,000	204,849
Restricted cash		96,833	98,381
Pledged deposits		—	69,370
Cash and bank deposits		7,007,760	9,825,494
		<u>8,711,867</u>	<u>13,105,376</u>
Assets of a disposal group classified as held for sale		5,683,788	—
		<u>14,395,655</u>	<u>13,105,376</u>
CURRENT LIABILITIES			
Trade payables	10	157,267	560,488
Interest-bearing bank loans	11	—	379,544
Other payables and accruals		1,029,582	2,123,794
Deferred revenue		573,081	547,462
Income tax payable		99,417	119,931
		<u>1,859,347</u>	<u>3,731,219</u>
Liabilities of a disposal group classified as held for sale		2,323,403	—
		<u>4,182,750</u>	<u>3,731,219</u>
NET CURRENT ASSETS		<u>10,212,905</u>	<u>9,374,157</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>12,405,700</u>	<u>13,847,733</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2017

		As at 30 June 2017 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2016 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Other liabilities		310	19,681
Deferred revenue		29,576	37,609
Deferred tax liabilities		37,646	122,201
Interest-bearing bank loans	11	335,138	438,330
Liability component of convertible bonds	12	901,252	2,911,354
Liability component of redeemable convertible preferred shares		325,458	316,834
		<hr/>	<hr/>
Total non-current liabilities		1,629,380	3,846,009
		<hr/>	<hr/>
NET ASSETS			
		10,776,320	10,001,724
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		5,115	5,097
Share premium account		2,273,297	2,369,129
Treasury shares		(23,215)	(25,477)
Equity component of convertible bonds	12	7,564	72,295
Other reserves		6,398,805	5,466,163
		<hr/>	<hr/>
		8,661,566	7,887,207
		<hr/>	<hr/>
Non-controlling interests		2,114,754	2,114,517
		<hr/>	<hr/>
TOTAL EQUITY		10,776,320	10,001,724
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the parent												
	Issued capital	Share premium	Treasury shares	Equity component of convertible bonds	Statutory reserve	Share-based compensation reserve	Other capital reserve	Available-for-sale investment revaluation reserve	Foreign currency translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2017	5,097	2,369,129	(25,477)	72,295	225,276 [†]	468,930 [†]	1,339,013 [†]	30,075 [†]	297,789 [†]	3,105,080 [†]	7,887,207	2,114,517	10,001,724
Profit for the period	—	—	—	—	—	—	—	—	—	488,513	488,513	76,406	564,919
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(76,242)	—	(76,242)	(30,946)	(107,188)
Total comprehensive income for the period	—	—	—	—	—	—	—	—	(76,242)	488,513	412,271	45,460	457,731
Approved and paid final dividend in respect of the previous year	—	(112,678)	—	—	—	—	—	—	—	—	(112,678)	—	(112,678)
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(161,218)	(161,218)
Share-based compensation costs	—	—	—	—	—	103,182	—	—	—	—	103,182	55,079	158,261
Exercise of share options	18	16,846	—	—	—	(4,540)	—	—	—	—	12,324	—	12,324
Vested awarded shares transferred to employees	—	—	2,262	—	—	(49,649)	60,327	—	—	—	12,940	—	12,940
Shares of reserves of an associate	—	—	—	—	—	—	126	—	—	—	126	130	256
Redemption of convertible bonds	—	—	—	(64,731)	—	—	27,085	—	—	—	(37,646)	—	(37,646)
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	383,840	—	—	—	383,840	60,786	444,626
At 30 June 2017	<u>5,115</u>	<u>2,273,297</u>	<u>(23,215)</u>	<u>7,564</u>	<u>225,276[†]</u>	<u>517,923[†]</u>	<u>1,810,391[†]</u>	<u>30,075[†]</u>	<u>221,547[†]</u>	<u>3,593,593[†]</u>	<u>8,661,566</u>	<u>2,114,754</u>	<u>10,776,320</u>

[#] These reserve accounts comprise the consolidated other reserves of RMB6,398,805,000 (31 December 2016: RMB5,466,163,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2016

	Attributable to owners of the parent												
	Issued capital	Share premium	Treasury shares	Equity component of convertible bonds	Statutory reserve	Share-based compensation reserve	Other capital reserve	Available-for-sale investment revaluation reserves	Foreign currency translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2016	5,092	2,474,663	(34,766)	72,295	197,881	375,240	1,276,487	(7,511)	106,151	3,405,108	7,870,640	2,040,715	9,911,355
Loss for the period	—	—	—	—	—	—	—	—	—	(673,751)	(673,751)	(111,723)	(785,474)
Other comprehensive income for the period:													
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	48,398	—	—	48,398	422	48,820
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	91,795	—	91,795	25,350	117,145
Disposal of an associate	—	—	—	—	—	—	—	—	129	—	129	—	129
Total comprehensive income for the period	—	—	—	—	—	—	—	48,398	91,924	(673,751)	(533,429)	(85,951)	(619,380)
Approved and paid final dividend in respect of the previous year	—	(110,111)	—	—	—	—	—	—	—	—	(110,111)	—	(110,111)
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	3,393	3,393
Share-based compensation costs	—	—	—	—	—	117,947	—	—	—	—	117,947	98,900	216,847
Exercise of share options	—	505	—	—	—	(236)	—	—	—	—	269	—	269
Vested awarded shares transferred to employees	—	—	3,357	—	—	(63,196)	78,444	—	—	—	18,605	—	18,605
Shares of reserves of an associate	—	—	—	—	—	—	124	—	—	—	124	132	256
Subsidiaries' business combination under common control	—	—	—	—	—	—	—	—	1,242	(1,901)	(659)	659	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(41,199)	—	—	—	(41,199)	(156,651)	(197,850)
At 30 June 2016	<u>5,092</u>	<u>2,365,057</u>	<u>(31,409)</u>	<u>72,295</u>	<u>197,881</u>	<u>429,755</u>	<u>1,313,856</u>	<u>40,887</u>	<u>199,317</u>	<u>2,729,456</u>	<u>7,322,187</u>	<u>1,901,197</u>	<u>9,223,384</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	1,117,828	444,205
Net cash flows used in investing activities	(238,808)	(2,040,368)
Net cash flows from/(used in) financing activities	(1,557,098)	229,508
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(678,078)	(1,366,655)
Cash and cash equivalents at beginning of the period	5,776,336	6,629,275
Effect of foreign exchange rate changes, net	(125,544)	102,819
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	4,972,714	5,365,439
Non-pledged time deposits with original maturity of over three months when acquired	391,684	1,269,422
Principle protected structure deposits with original maturity of over three months when acquired	3,492,000	1,946,381
Less: Cash and cash equivalents attributable to a discontinued operation	(1,848,638)	—
	<hr/>	<hr/>
Cash and bank deposits as stated in the condensed consolidated statement of financial position	7,007,760	8,581,242
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

During the six months ended 30 June 2017, there are no material changes in the principal activities of the Group, except that the operation of Cheetah Mobile Inc. and its subsidiaries (collectively, "Cheetah Mobile") is reclassified as a discontinued operation of the Group. The continued operation of the Group was principally involved in the following activities:

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

The discontinued operation of the Group was involved in research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices through Cheetah Mobile.

The interim condensed consolidated financial statements for the six months ended 30 June 2017 were approved and authorized for issue in accordance with a resolution of the Board on 22 August 2017.

2. Basis of preparation and significant accounting policies

Basis of preparation

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

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

Discontinued operation

On 12 February 2017, the Company entered into a voting proxy agreement with Mr. Sheng Fu, the chief executive officer and director of Cheetah Mobile Inc.. Pursuant to this agreement, the Company will delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah Mobile Inc. to Mr. Sheng Fu (as the representative of the management of Cheetah Mobile Inc.), subject to the approval of the shareholders of the Company (the “Shareholders”) and signing of the definitive agreement in relation to the possible investment in robotics business between Cheetah Mobile and Mr. Sheng Fu. On 26 May 2017, Beijing Kingsoft Internet Security Software Co., Ltd. (a wholly-owned subsidiary of Cheetah Mobile Inc.) entered into a capital injection agreement with Mr. Sheng Fu, Beijing OrionStar Technology Co., Ltd. (as the target company), other investors and existing shareholders in relation to the investment in robotics business. Upon completion of the above delegation, the Group will lose control over Cheetah Mobile and Cheetah Mobile will be accounted for as an associate of the Company.

Cheetah Mobile carries out the “information security and internet services segment” of the Group. As at 30 June 2017, the Directors assessed that the completion of the above delegation is highly probable. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the assets and liabilities of Cheetah Mobile have been classified as a disposal group held for sale, and the operating results of Cheetah Mobile have been presented as a discontinued operation in the interim condensed consolidated statement of profit or loss for the three and six months ended 30 June 2017. The comparative figures for the interim condensed consolidated statement of profit or loss are restated to reflect the reclassification between continuing operations and a discontinued operation of the Group accordingly.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016, 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 2017. The following amendments to IFRSs did not have any significant impact on the accounting policies, financial position or performance of the Group:

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Annual Improvements to 2014–2016 Cycle	<i>Amendments to a number of IFRSs</i>

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

3. Operating segments

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

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

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

As Cheetah Mobile has been classified as a discontinued operation and was excluded from the segment information for the period ended 30 June 2017, the comparative figures of segment information for the period ended 30 June 2016 were restated accordingly.

3. Operating segments (continued)

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

3. Operating segments (continued)

	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 2016 (Restated)</i>				
Segment revenue:				
Sales to external customers	933,664	283,124	200,587	1,417,375
Sales to discontinued operation	399	9,518	19,662	29,579
Intersegments sales	538	6,052	26,725	33,315
	934,601	298,694	246,974	1,480,269
<i>Reconciliation:</i>				
Elimination with discontinued operation				(29,579)
Elimination of intersegments sales				(33,315)
Revenue from continuing operations				<u>1,417,375</u>
Segment results	476,449	(142,470)	59,729	393,708
<i>Reconciliation:</i>				
Elimination with discontinued results				(29,579)
Elimination of intersegments results				(3,080)
Administrative expenses				(94,424)
Share-based compensation costs				(36,939)
Other income				9,944
Other expenses				(613)
Other losses, net				(863,722)
Finance income				75,987
Finance costs				(47,044)
Share of profits and losses of:				
Joint ventures				1,187
Associates				(2,568)
Loss before tax from continuing operations				<u>(597,143)</u>

3. Operating segments (continued)

Geographical information

(a) Revenue of continuing operations from external customers:

	For the three months ended 30 June		For the six months ended 30 June	
	2017 <i>RMB'000</i> <i>(Unaudited)</i>	2016 <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>	2017 <i>RMB'000</i> <i>(Unaudited)</i>	2016 <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>
Mainland China	1,216,632	735,130	2,350,784	1,385,379
Hong Kong	65,622	13,819	142,902	27,215
Other countries	2,158	2,015	4,092	4,781
Total	<u>1,284,412</u>	<u>750,964</u>	<u>2,497,778</u>	<u>1,417,375</u>

(b) Non-current assets:

	30 June 2017 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2016 <i>RMB'000</i> <i>(Audited)</i>
China	1,584,747	2,276,874
France	—	664,317
Other countries	2,256	260,153
Total	<u>1,587,003</u>	<u>3,201,344</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

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

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

	For the three months ended 30 June		For the six months ended 30 June	
	2017 <i>RMB'000</i> <i>(Unaudited)</i>	2016 <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>	2017 <i>RMB'000</i> <i>(Unaudited)</i>	2016 <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>
Employee benefit expenses	413,389	292,673	804,590	595,555
Depreciation of property, plant and equipment	78,191	62,444	150,761	121,524
Amortization of prepaid land lease payments	1,085	1,085	2,170	2,170
Amortization of other intangible assets	8,458	3,448	16,594	10,062
Interest on bank loans, convertible bonds and redeemable convertible preferred shares	21,155	26,042	53,832	47,044
Impairment of trade and other receivables	2,729	18	3,588	18

5. Share-based compensation costs

(a) Share option schemes

2004 and 2007 Pre-IPO Share Option Schemes

The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme (collectively, the “**Pre-IPO Share Option Schemes**”) in June 2004 and January 2007, respectively. The Pre-IPO Share Option Schemes were terminated on 3 September 2007. The following table illustrates the number of and movements in the Company’s share options of Pre-IPO Share Option Schemes for the six months ended 30 June 2017 and 2016.

	2017	2016
	Number of	Number of
	Share options	Share options
	(Unaudited)	(Unaudited)
Outstanding at 1 January	3,089,700	4,622,100
Exercised during the period	(3,089,700)	(169,500)
Outstanding at 30 June	<u>—</u>	<u>4,452,600</u>
Exercisable at 30 June	<u>—</u>	<u>4,452,600</u>

2011 Share Option Scheme

The Company operates the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Share Option Scheme include the Company’s directors. The 2011 Share Option Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The following table illustrates the number of and movements in the Company’s share options of 2011 Share Option Schemes for the six months ended 30 June 2017 and 2016.

	2017	2016
	Number of	Number of
	Share options	Share options
	(Unaudited)	(Unaudited)
Outstanding at 1 January	5,900,000	5,900,000
Granted during period	4,000,000	—
Vested and transferred during the period	(2,120,000)	—
Outstanding at 30 June	<u>7,780,000</u>	<u>5,900,000</u>
Exercisable at 30 June	<u>3,180,000</u>	<u>4,700,000</u>

5. Share-based compensation costs (continued)

(b) Awarded Shares

Share Award Scheme

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

No Shares were acquired by the Share Award Scheme Trust during the six months ended 30 June 2017 and 2016.

The following table illustrates the number of and movements in the Company’s Awarded Shares during the six months ended 30 June 2017 and 2016.

	2017	2016
	Number of	Number of
	Awarded	Awarded
	shares	shares
	(Unaudited)	(Unaudited)
Outstanding at 1 January	1,606,301	6,109,601
Awarded during the period	4,785,000	30,000
Forfeited during the period	(46,700)	(611,700)
Vested and transferred during the period	(958,100)	(1,412,400)
	<u>5,386,501</u>	<u>4,115,501</u>
Outstanding at 30 June		
	<u>47,500</u>	<u>11,100</u>

6. Income tax expense

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

	For the three months ended 30 June		For the six months ended 30 June	
	2017 <i>RMB'000</i> <i>(Unaudited)</i>	2016 <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>	2017 <i>RMB'000</i> <i>(Unaudited)</i>	2016 <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>
Current income tax	49,231	26,340	128,600	62,093
Deferred income tax	(1,057)	5,970	(34,339)	16,056
Income tax expense	<u>48,174</u>	<u>32,310</u>	<u>94,261</u>	<u>78,149</u>

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

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2016: 16.5%) on estimated assessable profits arising in Hong Kong for the six months ended 30 June 2017.

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

7. Dividends

Final dividend

A final dividend of HK\$0.1 per ordinary share for 2016 proposed by the Board was approved by the Shareholders on 24 May 2017. The actual 2016 final dividend paid was RMB112.7 million.

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

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

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

The calculation of diluted earnings 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's subsidiaries. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares.

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
<i>Earnings</i>		
Profit/(loss) attributable to ordinary equity holders of the parent:		
From continuing operations	394,504	(630,277)
From a discontinued operation	94,009	(43,474)
	488,513	(673,751)
Increase in earnings adjusted for the convertible bonds of the Company, the share option schemes and the award share schemes adopted by the Group's subsidiaries	13,907	—
	502,420	(673,751)
Attributable to:		
Continuing operations	410,396	(630,277)
Discontinued operation	92,024	(43,474)
	502,420	(673,751)

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

	Number of shares For the six months ended 30 June	
	2017 <i>(Unaudited)</i>	2016 <i>(Unaudited)</i>
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme	1,296,789,525	1,288,345,473
Effect of dilution — weighted average number of ordinary shares:		
Share options	4,675,494	—
Awarded shares	1,898,878	—
Convertible bonds	60,753,341	—
	<u>1,364,117,238</u>	<u>1,288,345,473</u>

9. Trade receivables

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

	30 June 2017 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2016 <i>RMB'000</i> <i>(Audited)</i>
0–30 days	403,233	908,394
31–60 days	99,524	191,128
61–90 days	148,827	456,060
91–365 days	248,450	144,024
Over one year	81,217	74,550
	<u>981,251</u>	<u>1,774,156</u>

10. Trade payables

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
0–30 days	49,562	331,638
31–60 days	32,403	60,214
61–90 days	29,354	111,861
91–365 days	44,840	51,213
Over one year	1,108	5,562
	<u>157,267</u>	<u>560,488</u>

11. Interest-bearing bank loans

	<i>Note</i>	Effective interest rate	Maturity	Principal amount <i>RMB'000</i>
At 30 June 2017 (Unaudited)				
Non-current				
Bank loan — unsecured		4.28% per annum	2018–2021	<u>335,138</u>
				<u><u>335,138</u></u>
At 31 December 2016 (Audited)				
Current				
Bank loans — secured	(a)	2.07%–2.41% per annum	2017	346,850
Current portion of long term bank loans — unsecured		0.00%–3.02% per annum	2017	<u>32,694</u>
				379,544
Non-current				
Bank loans — unsecured		0.00%–4.28% per annum	2018–2021	<u>438,330</u>
				<u><u>817,874</u></u>

Note:

- (a) As at 30 June 2017, the Group's bank loans are secured by the pledged of certain of the Group's time deposits amounting to nil (31 December 2016: RMB69.4 million).
- (b) As at 30 June 2017, interest-bearing bank loans of the Group amounting to nil, nil and RMB335.1 million were denominated in US\$, Euro and RMB, respectively (31 December 2016: RMB447.4 million, RMB51.0 million and RMB319.5 million, respectively).

12. Convertible bonds

- (a) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK\$1,356.0 million, which bear interest at a rate of 3% per annum payable semi-annually (the “**2013 Convertible Bonds**”). The 2013 Convertible Bonds are convertible at the option of the bondholders into Shares from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$16.9363 per Share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2013 Convertible Bonds at principal amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days’ prior notice. On the maturity date, any 2013 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

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

There was no conversion or redemption of the 2013 Convertible Bonds during the six months ended 30 June 2017. The aggregate outstanding principal amount of the 2013 Convertible Bonds as at 30 June 2017 is HK\$1,000.0 million.

- (b) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HK\$2,327.0 million which bear interest at a rate of 1.25% per annum payable semi-annually (the “**2014 Convertible Bonds**”). The 2014 Convertible Bonds are convertible at the option of the bondholders into Shares from 22 May 2014 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$43.89 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2014 Convertible Bonds at principal amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days’ prior notice. On the maturity date, any 2014 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

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

On 11 April 2017, the Company redeemed, at the options of certain bondholders of the 2014 Convertible Bonds, representing the principal amount of HK\$2,281.0 million of the 2014 Convertible Bonds at an aggregate principal amount together with accrued and unpaid interest to such date. The aggregate outstanding principal amount of the 2014 Convertible Bonds as at 30 June 2017 is HK\$46.0 million.

OPERATIONAL HIGHLIGHTS

				For the three months ended					
	30 June 2017	31 March 2017	31 December 2016	30 September 2016	30 June 2016	31 March 2016	31 December 2015	30 September 2015	
Online Games									
Daily Average Peak Concurrent Users (“ADPCU”)	934,115	937,438	1,018,826	982,914	909,591	543,836	542,384	562,354	
Monthly Average Paying Accounts (“APA”)	<u>4,321,447</u>	<u>4,200,840</u>	<u>4,523,832</u>	<u>4,482,024</u>	<u>4,822,356</u>	<u>2,960,358</u>	<u>2,919,683</u>	<u>3,301,297</u>	

FINANCIAL HIGHLIGHTS

	For the three months ended		
	30 June 2017 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2016 <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>	31 March 2017 <i>RMB'000</i> <i>(Unaudited)</i>
CONTINUING OPERATIONS			
Revenue			
Online games	805,000	476,794	817,151
Cloud services	304,027	154,314	268,446
Office software and services and others	175,385	119,856	127,769
	1,284,412	750,964	1,213,366
Cost of revenue	(488,898)	(252,649)	(509,447)
Gross profit	795,514	498,315	703,919
Research and development costs, net	(368,273)	(242,587)	(321,439)
Selling and distribution expenses	(135,262)	(74,671)	(81,173)
Administrative expenses	(58,645)	(45,774)	(56,063)
Share-based compensation costs	(61,063)	(14,325)	(48,737)
Other income	92,778	8,074	70,777
Other expenses	(4,250)	(29)	(2,082)
Operating profit	260,799	129,003	265,202
Other losses, net	(42,332)	(891,714)	(92,254)
Finance income	44,115	33,966	47,777
Finance costs	(21,155)	(26,042)	(32,677)
Share of profits and losses of:			
Joint ventures	32,646	4,359	38,826
Associates	(3,085)	(2,566)	(2,395)
Profit/(loss) before tax from continuing operations	270,988	(752,994)	224,479
Income tax expense	(48,174)	(32,310)	(46,087)
Profit/(loss) for the period from continuing operations	222,814	(785,304)	178,392
DISCONTINUED OPERATION			
Profit/(loss) for the period from a discontinued operation	61,840	(128,107)	101,873
PROFIT/(LOSS) FOR THE PERIOD	284,654	(913,411)	280,265
Attributable to:			
Owners of the parent	250,044	(807,554)	238,469
Non-controlling interests	34,610	(105,857)	41,796
	284,654	(913,411)	280,265

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the three months ended		
	30 June 2017	30 June 2016	31 March 2017
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>(Restated)</i>	
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit/(loss) for the period	0.19	(0.63)	0.18
— For profit/(loss) from continuing operations	0.16	(0.58)	0.14
	<u><u>0.16</u></u>	<u><u>(0.58)</u></u>	<u><u>0.14</u></u>
Diluted			
— For profit/(loss) for the period	0.19	(0.63)	0.18
— For profit/(loss) from continuing operations	0.16	(0.58)	0.14
	<u><u>0.16</u></u>	<u><u>(0.58)</u></u>	<u><u>0.14</u></u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>(Restated)</i>
CONTINUING OPERATIONS		
Revenue		
Online games	1,622,151	933,664
Cloud services	572,473	283,124
Office software and services and others	303,154	200,587
	<u>2,497,778</u>	<u>1,417,375</u>
Cost of revenue	(998,345)	(444,062)
	<u>1,499,433</u>	973,313
Gross profit		
Research and development costs, net	(689,712)	(482,459)
Selling and distribution expenses	(216,435)	(129,805)
Administrative expenses	(114,708)	(94,424)
Share-based compensation costs	(109,800)	(36,939)
Other income	163,555	9,944
Other expenses	(6,332)	(613)
	<u>526,001</u>	239,017
Operating profit		
Other losses, net	(134,586)	(863,722)
Finance income	91,892	75,987
Finance costs	(53,832)	(47,044)
Share of profits and losses of:		
Joint ventures	71,472	1,187
Associates	(5,480)	(2,568)
	<u>495,467</u>	(597,143)
Profit/(loss) before tax from continuing operations		
Income tax expense	(94,261)	(78,149)
	<u>401,206</u>	(675,292)
Profit/(loss) for the period from continuing operations		
DISCONTINUED OPERATION		
Profit/(loss) for the period from a discontinued operation	163,713	(110,182)
	<u>564,919</u>	(785,474)
PROFIT/(LOSS) FOR THE PERIOD		
Attributable to:		
Owners of the parent	488,513	(673,751)
Non-controlling interests	76,406	(111,723)
	<u>564,919</u>	(785,474)

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the six months ended 30 June	
	2017	2016
	<i>RMB</i>	<i>RMB</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>(Restated)</i>
Earnings per share attributable to ordinary equity holders of the parent		
Basic		
— For profit/(loss) for the period	0.38	(0.52)
— For profit/(loss) from continuing operations	0.30	(0.49)
Diluted		
— For profit/(loss) for the period	0.37	(0.52)
— For profit/(loss) from continuing operations	0.30	(0.49)

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2017 Compared to Second Quarter of 2016 and First Quarter of 2017

Revenue

Revenue for the second quarter of 2017 increased 71% year-over-year and 6% quarter-over-quarter to RMB1,284.4 million. Revenue from the online games, cloud services and office software and services and others represented 63%, 24% and 13%, respectively, of the Group's total revenue for the second quarter of 2017. Revenue from these business lines is reported net of intra-group transactions.

Revenue from the online games business for the second quarter of 2017 increased 69% year-over-year and decreased 1% quarter-over-quarter to RMB805.0 million. The remarkable year-over-year increase reflected our impressive progress on upgrading the user experience of JX Online III, and significant revenue contribution of JX Online I mobile game launched in May 2016. The slight quarter-over-quarter decrease was mainly due to the natural decline in revenue of JX Online I mobile game, which was partially offset by revenue growth of JX Online III.

ADPCU for the Group's online games for the second quarter of 2017 increased 3% year-over-year and kept flat quarter-over-quarter to 0.9 million. APA for the Group's online games for the second quarter of 2017 decreased 10% year-over-year and increased 3% quarter-over-quarter to 4.3 million. The year-over-year decrease reflected the natural declining life cycle of JX Online I mobile game.

Revenue from the cloud services for the second quarter of 2017 increased 97% year-over-year and 13% quarter-over-quarter to RMB304.0 million. The strong year-over-year increase was primarily due to remarkable achievements of Kingsoft Cloud Holdings Limited and its subsidiaries (collectively, "**Kingsoft Cloud**") on expanding the market, especially in video, mobile game and internet sectors. The steady quarter-over-quarter increase primarily reflected increased customer usage of our cloud services.

Revenue from the office software and services and others for the second quarter of 2017 increased 46% year-over-year and 37% quarter-over-quarter to RMB175.4 million. The robust year-over-year and quarter-over-quarter increases reflected the combination of strong revenue growth from WPS online marketing services driven by higher demand from advertisers, and increased sales of WPS Office to governments and enterprises.

Cost of Revenue and Gross Profit

Cost of revenue for the second quarter of 2017 increased 94% year-over-year and decreased 4% quarter-over-quarter to RMB488.9 million. The year-over-year increase was primarily due to higher bandwidth and internet data center (“IDC”) cost associated with increased user usage of cloud services, and the greater sharing cost along with JX Online I mobile game. The quarter-over-quarter decrease was mainly due to reduction in sharing cost associated with mobile games.

Gross profit for the second quarter of 2017 increased 60% year-over-year and 13% quarter-over-quarter to RMB795.5 million. The Group’s gross profit margin decreased by four percentage points year-over-year and increased by four percentage points quarter-over-quarter to 62%.

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

R&D costs, net, for the second quarter of 2017 increased 52% year-over-year and 15% quarter-over-quarter to RMB368.3 million. The year-over-year and quarter-over-quarter increases were primarily due to increase in R&D investments and higher staff-related costs.

Selling and Distribution Expenses

Selling and distribution expenses for the second quarter of 2017 increased 81% year-over-year and 67% quarter-over-quarter to RMB135.3 million. The year-over-year and quarter-over-quarter increases were primarily due to increased marketing and advertising expenses for online games.

Administrative Expenses

Administrative expenses for the second quarter of 2017 increased 28% year-over-year and 5% quarter-over-quarter to RMB58.6 million. The year-over-year and quarter-over-quarter increases were mainly due to an increase in headcounts and staff-related costs.

Share-based Compensation Costs

Share-based compensation costs for the second quarter of 2017 increased 326% year-over-year and 25% quarter-over-quarter to RMB61.1 million. The increases primary reflected the new grants of awarded shares and options to selected employees as well as an increase in the fair value of awarded shares and options of certain subsidiaries.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the second quarter of 2017 increased 125% year-over-year and 3% quarter-over-quarter to RMB321.9 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the second quarter of 2017 increased by six percentage points year-over-year and decreased by one percentage point quarter-over-quarter to 25%.

Other Losses, net

Net other losses for the second quarter of 2017 were RMB42.3 million, compared to losses of RMB891.7 million in the corresponding period last year, and losses of RMB92.3 million in the first quarter of 2017. The losses in the second quarter of 2017 were mainly due to the additional provision for impairment on the investments in 21Vianet Group, Inc. (“**21Vianet**”) and XunLei Limited (“**XunLei**”). The losses in the second quarter of 2016 and the first quarter of 2017 were mainly due to the provisions for impairment on the investments in XunLei and 21Vianet, respectively, as there was a significant or prolonged decline in the market value of the investments in XunLei and 21Vianet below the costs.

Income Tax Expense

Income tax expense for the second quarter of 2017 increased 49% year-over-year and 5% quarter-over-quarter to RMB48.2 million. Excluding share-based compensation costs and the non-tax-deductible impairment loss of investments, our effective tax rate would have been 12% in the second quarter of 2017.

Profit/(loss) for the Period from a Discontinued Operation

Profit/(loss) for the period from a discontinued operation reflected profit/(loss) from Cheetah Mobile, which was RMB61.8 million, RMB(128.1) million and RMB101.9 million for the three months ended 30 June 2017, 30 June 2016 and 31 March 2017, respectively. Excluding the one-off impact of impairment losses or disposal gains of certain investment assets, the operating profit of Cheetah Mobile achieved encouraging year-over-year and quarter-over-quarter increases, primarily driven by the Cheetah Mobile’s efforts in optimizing its utility products’ cost and expense structure.

Profit/(loss) Attributable to Owners of the Parent

As a result of the reasons discussed above, profit/(loss) attributable to owners of the parent (including that from continuing operations and a discontinued operation) was RMB250.0 million, RMB(807.6) million and RMB238.5 million for the three months ended 30 June 2017, 30 June 2016 and 31 March 2017, 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 or any other operating performance measure that is calculated in accordance with IFRSs. In addition, our profit/(loss) attributable to owners of the parent before share-based compensation costs may not be comparable to similarly titled measures utilized by other companies.

Profit/(loss) attributable to owners of the parent before share-based compensation costs for the second quarter of 2017 (including that from continuing operations and a discontinued operation) was RMB305.9 million, RMB(754.5) million and RMB285.9 million for the three months ended 30 June 2017, 30 June 2016 and 31 March 2017, respectively. The net profit/(loss) margin excluding the effect of share-based compensation costs was 12%, minus 43% and 12% for the three months ended 30 June 2017, 30 June 2016 and 31 March 2017, respectively.

First Half of 2017 Compared to First Half of 2016

Revenue

Revenue for the first half of 2017 increased 76% year-over-year to RMB2,497.8 million. Revenue from the online games, cloud services and office software and services and others represented 65%, 23% and 12%, respectively, of the Group's total revenue for the first half of 2017.

Revenue from the online games business for the first half of 2017 increased 74% year-over-year to RMB1,622.2 million. The impressive year-over-year increase was due to the revenue contribution from JX Online I mobile game and strong revenue growth of JX Online III.

Revenue from the cloud services for the first half of 2017 increased 102% year-over-year to RMB572.5 million. The robust year-over-year revenue growth reflected rapid revenue growth from certain industry sectors, including video, mobile game and internet sectors, driven by increased usage.

Revenue from office software and services and others for the first half of 2017 increased 51% year-over-year to RMB303.2 million. The year-over-year increase was mainly attributable to the strong revenue growth from WPS online marketing services, resulting from increased users and their engagement, and an increase in sales of WPS Office.

Cost of Revenue and Gross Profit

Cost of revenue for the first half of 2017 increased 125% year-over-year to RMB998.3 million. The year-over-year increase was largely due to higher bandwidth and IDC costs of Kingsoft Cloud as a result of increased customer usage and continued investment in data centers, as well as the greater sharing cost along with JX Online I mobile game.

Gross profit for the first half of 2017 increased 54% year-over-year to RMB1,499.4 million. The Group's gross profit margin decreased by nine percentage points year-over-year to 60%.

R&D Costs, net

R&D costs, net, for the first half of 2017 increased 43% year-over-year to RMB689.7 million. The year-over-year increase was mainly due to an increase in personnel-related costs, driven by the increased investments in development of new games and cloud business.

Selling and Distribution Expenses

Selling and distribution expenses for the first half of 2017 increased 67% year-over-year to RMB216.4 million. The year-over-year increase was mainly attributable to an increase in promotional spending on online games business.

Administrative Expenses

Administrative expenses for the first half of 2017 increased 21% year-over-year to RMB114.7 million. This year-over-year increase was mainly due to an increase in expenses associated with increased headcount and staff benefits.

Share-based Compensation Costs

Share-based compensation costs for the first half of 2017 increased 197% year-over-year to RMB109.8 million. The increase primarily reflected the new grants of awarded shares and options to selected employees.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first half of 2017 increased 130% year-over-year to RMB635.8 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the first half of 2017 increased by six percentage points year-over-year to 25%.

Other Losses, net

Net other losses for the first half of 2017 was RMB134.6 million, compared with losses of RMB863.7 million in the same period last year. The losses in 2017 and 2016 were mainly due to the provisions for impairment on the investments in XunLei and 21Vianet, respectively, as there was a significant or prolonged decline in the market value of the investments in XunLei and 21Vianet below the costs.

Income Tax Expense

Income tax expense for the first half of 2017 increased 21% year-over-year to RMB94.3 million. Excluding shared-based compensation costs and the non-tax-deductible impairment loss of investments, our effective tax rate would have been 12% in the first half of 2017.

Profit/(loss) for the Period from a Discontinued Operation

Profit/(loss) for the period from a discontinued operation reflected profit/(loss) from Cheetah Mobile, which amounting to RMB163.7 million and RMB(110.2) million for the six months ended 30 June 2017 and 30 June 2016, respectively.

Profit/(loss) Attributable to Owners of the Parent

As a result of the reasons discussed above, profit/(loss) attributable to owners of the parent (including that from continuing operations and a discontinued operation) was RMB488.5 million and RMB(673.8) million for the six months ended 30 June 2017 and 30 June 2016, respectively.

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

Profit attributable to owners of the parent before share-based compensation costs for the first half of 2017 (including that from continuing operations and a discontinued operation) was RMB591.8 million, compared to loss attributable to owners of the parent before share-based compensation costs of RMB555.7 million in the prior year period. The net profit/(loss) margin excluding the effect of share-based compensation costs was 12% and minus 16% for the six months ended 30 June 2017 and 30 June 2016, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 30 June 2017, the Group had major financial resources in the forms of cash and cash equivalents, non-pledged deposits with original maturity of over three months amounting to RMB3,124.1 million, RMB3,883.7 million, respectively, which totally represented 42% of the Group's total assets.

As at 30 June 2017, the Group's gearing ratio, which represents total liabilities divided by total assets, was 35%, compared to 43% as at 31 December 2016. As at 30 June 2017, the Group had HK\$1,038.4 million (equivalent of RMB901.3 million) debt of convertible bonds and RMB335.1 million bank loan.

Foreign Currency Risk Management

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

As at 30 June 2017, RMB2,209.3 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Net Cash Generated from Operating Activities

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

Net cash generated from operating activities (including that from continuing operations and a discontinued operation) was RMB1,117.8 million and RMB444.2 million for the six months ended 30 June 2017 and 30 June 2016, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fix assets and intangible assets. Cash used for capital expenditures (including that from continuing operations and a discontinued operation) was RMB254.0 million and RMB670.0 million for the six months ended 30 June 2017 and 30 June 2016, respectively.

BUSINESS REVIEW AND OUTLOOK

Mr. Jun LEI, Chairman of the Company, commented, "During the second quarter of 2017, we achieved remarkable progress in all business segments. Our flagship PC game JX Online III enjoyed a substantial annual growth of 47%. Meanwhile, Kingsoft Cloud has maintained rapid and strong growth in every verticals and launched new services in the artificial intelligence ("AI") field. In addition, WPS Office proposed A-share listing on the ChiNext board of the Shenzhen Stock Exchange to strengthen its market influence. In the second half of 2017, we are striving to maintain the growth momentum in online games, cloud services, and office software and services businesses."

Mr. Tao ZOU, Chief Executive Officer of the Company, added, “Kingsoft recorded a steady growth in the second quarter of 2017, generating a total revenue of RMB1,284.4 million at an annual growth rate of 71%. The operating profit before share-based compensation costs increased 125% year-over-year to RMB321.9 million, which indicates the stable business performance of the Company. The continuous success of our online games business and the accelerating development of Kingsoft Cloud and WPS office in the second quarter have set the stage for our business development and revenue growth.

In the second quarter of 2017, we are pleased to see the online games business delivering satisfying financial results. JX Online III continued its strong growth momentum in the second quarter. The new costume items of JX Online III generated enthusiastic positive feedback from gamers. Moreover, we have successfully organized JX Online III expert player competitions and the peak daily concurrent users watching the webcast reached 2.7 million, further enhancing the game’s popularity. In the coming quarters, we will continue to explore the latest demands from the gamers and expect to maintain the healthy revenue and lifespan growth following the upcoming launch of the JX Online III revamped version. JX World II mobile game will undergo closed beta testing during the third quarter. Both the image quality and the game design have achieved significant advances in this version, and we are highly confident in its market performance after the commercial launch.

With regards to Kingsoft Cloud, all business areas have developed hand-in-hand and achieved a range of goals in the second quarter. Kingsoft video cloud maintained its leading position in live streaming and short video markets, at the same time, achieved breakthrough in the broadcast and television communications industry. Major enterprises in this sector including CNTV, Mango TV and Wasu have started to use Kingsoft’s video cloud services. The game cloud business has been growing steadily by providing diverse valued-added services and enhancing the overall quality of game cloud services. As for healthcare cloud service, with the use of big data and AI technology, Kingsoft Cloud launched management platform for hierarchical medical system, aims to solve the “imbalance” of medical industry and to tackle the challenges in hierarchical medical system implementation. AI applications to various industries in all sectors mentioned above, was based on AI cloud KAP (Kingsoft AI Propeller) launched in this quarter, including IaaS, PaaS, SaaS and industry solutions, among which KDL was the first AI cloud PaaS platform used for business purpose in China cloud computing enterprises. Kingsoft has entered strategic cooperation agreement with industry leaders such as Intel to conduct cooperation at a higher level, to develop extensive customization and special category cooperation in AI area.

By the end of June 2017, the global MAU of WPS Office PC version recorded 92 million, while that of the mobile version exceeded 124 million. In the second quarter, Beijing Kingsoft Office Software, Inc. has officially filed an application to the China Securities Regulatory Commission for an initial public offering (IPO) and listing on the ChiNext Board of the Shenzhen Stock Exchange. This initiative is intended to unleash the true market value of WPS Office and strengthen its market influence. In May 2017, WPS Office Thai edition was officially launched in Thailand, which is not only in line with the globalization directive under the “One Belt, One Road” national strategy, but also marks an important milestone in the international expansion of WPS. In June 2017, WPS Office also won the Gold Award at the China International Software Exposition. WPS Office has continued to advance innovation in its products. It has strengthened the integration of WPS Office Android with WPS Cloud, and the product log-in rate increased substantially from 8% to 21%. At the same time, WPS Office Android has also cooperated with iFLYTEK to expand the application scope of mobile intelligence in the software suite. In addition, WPS Office iOS has also greatly enhanced user loyalty by enriching its content.”

Mr. Jun Lei concluded, “In the future, we will continue to focus on product innovation, accelerate our market expansion, and actively seek business collaboration with potential partners in order to enlarge our user base and enhance our market competency. In order to enhance our game business market competency in the long run, we will focus on our mobile game expansion in the new market and the distribution of JX Online III revamped version in the second half of this year, which may temporarily affect our profitability performance in the third quarter. Meanwhile, the Company will further integrate resources advantage within each business segment to bolster synergies across all operations. Capitalizing on the industry uptrend, we shall strive for sustainable growth and are confident of taking our business to new heights in the coming quarters and bringing solid returns to shareholders and our partners.”

OTHER INFORMATION

Employee and Remuneration Policies

As at 30 June 2017, the Group had 6,998 full-time employees (30 June 2016: 6,603), 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 from continuing operations incurred by the Group for the six months ended 30 June 2017 was RMB804.6 million (for the six months ended 30 June 2016: RMB595.6 million).

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

On 11 April 2017, being the put option date of the 2014 Convertible Bonds, the Company redeemed an aggregate principal amount of HK\$2,281.0 million at the principal amount of the 2014 Convertible Bonds together with interest accrued to that date at the option of certain bondholders. As at the date of this announcement, the outstanding 2014 Convertible Bonds at an aggregate principal amount of HK\$46.0 million are convertible into 1,078,041 Shares upon full conversion. More details regarding the Convertible Bonds are set out in note 12 to the financial statements.

Save as disclosed above, none of the Company or 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 2017.

Review by Audit Committee

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

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with our external auditors has reviewed the Group's unaudited interim financial information for the six months ended 30 June 2017.

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2017.

Corporate Governance Code

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

The code provision A.6.7 of the CG Code is regarding non-executive directors' attendance at general meetings. Non-executive Director Mr. Chi Ping LAU did not attend the annual general meeting of the Company held on 24 May 2017 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 between 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, 22 August 2017

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