



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

KINGSOFT CORPORATION LIMITED

2020 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 2020 | 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

PRINCIPAL PLACE OF BUSINESS IN BEIJING

Building D

Xiaomi Campus

No. 33 Xierqi Middle Road

Haidian District

Beijing 100085

PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3208, 32/F, Tower 5

The Gateway, Harbour City

Tsim Sha Tsui, Kowloon

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

Ocorian 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 ADVISOR 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

Hua Xia Bank Co., Limited

China Construction Bank Corporation

Bank of Ningbo Co., Ltd.

INVESTOR AND MEDIA RELATIONS

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OPERATIONAL HIGHLIGHTS

	IN JUNE 2020	IN MARCH 2020	IN DECEMBER 2019	IN SEPTEMBER 2019	IN JUNE 2019
OFFICE SOFTWARE*					
MAU (Million)	454	447	411	382	348

* Office Software products include WPS Office and Kingsoft Powerword.

FINANCIAL HIGHLIGHTS

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

FINANCIAL HIGHLIGHTS (continued)

	FOR THE THREE MONTHS ENDED		
	30 JUNE 2020 RMB (UNAUDITED)	30 JUNE 2019 RMB (UNAUDITED) (RESTATED)	31 MARCH 2020 RMB (UNAUDITED)
Earnings/(loss) per share attributable to ordinary equity holders of the parent			
Basic			
— For profit/(loss) for the period	6.69	(1.04)	0.00
— For profit/(loss) from continuing operations	0.10	(0.85)	0.19
Diluted			
— For profit/(loss) for the period	6.67	(1.04)	0.00
— For profit/(loss) from continuing operations	0.10	(0.85)	0.18

FINANCIAL HIGHLIGHTS (continued)

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

FINANCIAL HIGHLIGHTS (continued)

	FOR THE SIX MONTHS ENDED	
	30 JUNE 2020	30 JUNE 2019
	RMB	RMB
	(UNAUDITED)	(UNAUDITED)
		(RESTATED)
Earnings/(loss) per share attributable to ordinary equity holders of the parent		
Basic		
— For profit/(loss) for the period	6.70	(1.09)
— For profit/(loss) from continuing operations	0.29	(0.80)
Diluted		
— For profit/(loss) for the period	6.67	(1.09)
— For profit/(loss) from continuing operations	0.28	(0.80)

BUSINESS REVIEW AND OUTLOOK

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Revenue

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

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

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

Cost of Revenue and Gross Profit

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

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

R&D Costs, net

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Share-based Compensation Costs

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

Operating Profit before Share-based Compensation Costs

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

Finance Costs

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Other Gains/(Losses), net

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

Share of Profits and Losses of Associates

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

Income Tax Expense

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

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

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

Profit/(Loss) Attributable to Owners of the Parent

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

First Half of 2020 Compared to First Half of 2019

Revenue

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

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

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

Cost of Revenue and Gross Profit

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

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

R&D Costs, net

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Share-based Compensation Costs

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

Operating Profit before Share-based Compensation Costs

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

Finance Costs

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

Other Losses, net

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

Share of Profits and Losses of Associates

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Income Tax Expense

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

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

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

Profit/(Loss) Attributable to Owners of the Parent

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

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

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

Liquidity and Financial Resource

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

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

Foreign Currency Risk Management

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

Net Cash Generated from Operating Activities

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

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

Capital Expenditures

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

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 2019 annual report:

NAME OF DIRECTOR	DETAILS OF CHANGES
Mr. Tao ZOU	On 2 April 2020, Mr. ZOU ceased to serve as a director of Xunlei Limited (NASDAQ: XNET)
Mr. Chi Ping LAU	On 18 August 2020, Mr. LAU ceased to serve as a director of Leju Holdings Ltd. (NYSE: LEJU)
Ms. Wenjie WU	In July 2020, Ms. WU was appointed as an independent director of BlueCity Holdings Ltd. (NASDAQ: BLCT)

Directors' Interests in Securities

As at 30 June 2020, 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	132,710,003	9.67	Long position
	Total	342,826,251 (Note 2)	24.97 (Note 4)	Long position
Pak Kwan KAU	Interest of controlled corporation	103,028,566	7.51	Long position
	Beneficial owner	1,495,260	0.11	Long position
	Total	104,523,826 (Note 3)	7.61 (Note 4)	Long position
Tao ZOU	Beneficial owner	7,409,307	0.54	Long position
Yuk Keung NG	Beneficial owner	2,148,000	0.16	Long position

Notes:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 30 June 2020, which was 1,372,728,717.
2. Among these 342,826,251 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

OTHER INFORMATION (continued)

are held by a wholly-owned subsidiary of Xiaomi Corporation, a company controlled by Mr. Jun LEI under the SFO; and (iii) 132,710,003 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.

3. Among these 104,523,826 shares, (i) Mr. Pak Kwan KAU was interested in equity-linked notes which may be converted into 1,495,260 shares, and such equity-linked notes had not been converted into the shares as at 30 June 2020. On 27 July 2020, such equity-linked notes were redeemed by

its issuer pursuant to pre-determined terms and conditions and eventually Mr. Pak Kwan KAU did not obtain or dispose of any shares of the Company in such transaction; and (ii) 103,028,566 shares are held by Topclick Holdings Limited, a British Virgin Island company wholly owned by Mr. Pak Kwan KAU. In addition, Mr. Jun LEI is also deemed to be interested in these 103,028,566 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)

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

Notes:

1. Seasun Holdings is a non-wholly owned subsidiary of the Company.
2. % of issued share capital in class was calculated on basis of the issued ordinary shares of Seasun Holdings as at 30 June 2020, which was 918,149,438.

Cheetah Mobile (Note 1)

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL IN CLASS (NOTE 2)	NATURE OF SHARES INTERESTED
Jun LEI (Note 3)	Interest of controlled corporation	14,285,714	3.25	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 48.25% ownership interest and 26.40% voting power of Cheetah Mobile as at 30 June 2020, 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 2020, which was 440,084,177.
3. These shares are held by Xiaomi Corporation, a company owned as to more than 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 2020.

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 Company's 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 2020.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS				AT 30 JUNE 2020	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK\$ PER SHARE
	AT 1 JANUARY 2020	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD			
Executive Directors							
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)

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 14 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 incentives 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 14 to the financial statements.

Seasun Holdings Share Award Schemes

On 21 March 2017, the shareholders and directors of Seasun 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 Seasun Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of Seasun Holdings, the Seasun Holdings Share Award Schemes are valid and effective for a term of ten years commencing from 21 March 2017. The directors of Seasun 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 Seasun Holdings Share Award Schemes are set out in note 14 to the financial statements.

OTHER INFORMATION (continued)

Substantial Shareholders

As at 30 June 2020, 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
Topclick Holdings Limited (Note 3)	Beneficial owner	103,028,566	7.51	Long position
Tencent Holdings Limited (Note 4)	Interest of controlled corporation	106,784,515	7.78	Long position
JPMorgan Chase & Co.	Interest of controlled corporation	12,021,094	0.88	Long position
	Interest of controlled corporation	6,178,150	0.45	Short position
	Investment manager	49,393,000	3.60	Long position
	Person having a security interest in shares	9,177,238	0.67	Long position
	Approved lending agent	13,112,390	0.96	Long position
	Approved lending agent	13,112,390	0.96	Lending pool

Notes:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 30 June 2020, which was 1,372,728,717.
2. 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.
3. These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Mr. Pak Kwan KAU. In addition, Mr. Jun LEI is 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.

OTHER INFORMATION (continued)

Employee and Remuneration Policies

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

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

Directors' Remuneration

Please refer to note 18 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 2020.

Convertible Bonds

The Company completed the issue of the 2020 Convertible Bonds in the principal amount of HK\$3,100,000,000 on 29 April 2020. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each 2020 Convertible Bonds at 105.85% of its principal

amount together with accrued and unpaid interest thereon on 29 April 2025. The net proceeds from the subscription of the 2020 Convertible Bonds, after deduction of commissions and other related expenses, were approximately HK\$3,033.94 million. Assuming full conversion of the 2020 Convertible Bonds at the initial conversion price of HK\$35.7637 per share and no further issue of shares, the 2020 Convertible Bonds will be convertible into approximately 86,680,069 shares of the Company. The net proceeds of approximately HK\$3,033.94 million represents a net issue price of approximately HK\$35.0016 per conversion share based on the initial conversion price of HK\$35.7637 per conversion share.

The initial conversion price for each conversion share was HK\$35.7637, which represented (i) a premium of approximately 27.5% over the last closing price of HK\$28.05 per share as quoted on the Stock Exchange on 23 April 2020, being the trading day on which the subscription agreement was signed); (ii) a premium of approximately 30.2% over the average closing price of approximately HK\$27.46 per share as quoted on the Stock Exchange for the five consecutive trading days up to and including 23 April 2020; and (iii) a premium of approximately 36.6% over the average closing price of approximately HK\$26.19 per share as quoted on the Stock Exchange for the ten consecutive trading days up to and including 23 April 2020. The 2020 Convertible Bonds were offered and sold to no less than six independent places (who were independent individual, corporate and/or institutional investors). The 2020 Convertible Bonds have been listed on the Stock Exchange since 4 May 2020. The interest is 0.625% per annum of the principal amount of the 2020 Convertible Bonds, payable semi-annually in arrear in equal instalments of HK\$3,125 per calculation amount (i.e. interest in respect of any 2020 Convertible Bond shall be calculated per HK\$1,000,000 in principal amount of the 2020 Convertible Bonds) on 29 April and 29 October in each year. 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, which is in accordance with the proposed uses as disclosed in the announcement of the Company dated 24 April 2020. The Directors are of the view that the issue of the 2020 Convertible Bonds can provide the Company with additional funds at lower funding cost for the said purposes.

OTHER INFORMATION (continued)

The actual use of the net proceeds raised from the issue of the 2020 Convertible Bonds as at 30 June 2020 and the expected timeline for use of unutilized proceeds is set out as follows:

PROPOSED USE OF PROCEEDS	ACTUAL USE OF PROCEEDS AS AT 30 JUNE 2020 (HK\$ MILLION)	UNUTILIZED PROCEEDS (HK\$ MILLION)	EXPECTED TIMELINE FOR USE OF UNUTILIZED PROCEEDS
Strategic investments and acquisitions	154.81	2,245.18	By 2023
General corporate purposes	124.60	509.35	By 2025

As at 30 June 2020, no 2020 Convertible Bonds had been converted into new shares of the Company, and the outstanding 2020 Convertible Bonds at an aggregate principal amount of HK\$3,100,000,000 are convertible into 86,680,069 shares upon full conversion. The following table summarizes the potential effects on the shareholding

structure of the Company as a result of the full conversion of the 2020 Convertible Bonds, on the assumptions that there will be no other change to the share capital of the Company from 30 June 2020 to the date of full conversion of the 2020 Convertible Bonds, save for the conversion of the 2020 Convertible Bonds:

NAME OF SHAREHOLDERS	AS AT 30 JUNE 2020		ASSUMING THE 2020 CONVERTIBLE BONDS ARE FULLY CONVERTED AT THE INITIAL CONVERSION PRICE OF HK\$35.7637 PER SHARE	
	NUMBER OF SHARES	% OF TOTAL ISSUED SHARES	NUMBER OF SHARES	% OF THE ENLARGED ISSUED SHARES
Mr. Jun LEI (Note 1)	210,116,248	15.31%	210,116,248	14.40%
Mr. Pak Kwan KAU (Note 2)	104,523,826	7.61%	104,523,826	7.16%
Mr. Tao ZOU (Note 3)	7,409,307	0.54%	7,409,307	0.51%
Mr. Yuk Keung NG (Note 4)	2,148,000	0.16%	2,148,000	0.15%
Tencent Holdings Limited (Note 5)	106,784,515	7.78%	106,784,515	7.32%
Holders of the 2020 Convertible Bonds (Note 6)	0	0.00%	86,680,069	5.94%
Other public shareholders	941,746,821	68.60%	941,746,821	64.53%
Total Issued Shares (Note 7)	1,372,728,717	100.00%	1,459,408,786	100.00%

- Among these 210,116,248 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; and (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. In addition, pursuant to Part XV of the SFO, Mr. Jun LEI is deemed to be interested in Mr. Pak Kwan KAU's interest of 103,028,566 shares (see Note 2 below) as well as 29,681,437 shares held by Mr. Shuen Lung CHEUNG pursuant to a voting consent agreement entered into among Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG whereby Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG would vote in the same way as Mr. Jun LEI with these shares.
- Among these 104,523,826 shares, (i) Mr. Pak Kwan KAU was interested in equity-linked notes which may be converted into 1,495,260 shares, and such equity-linked notes had not been converted into the shares as at 30 June 2020. On 27 July 2020, such equity-linked notes were redeemed by its issuer

- pursuant to pre-determined terms and conditions and eventually Mr. Pak Kwan KAU did not obtain or dispose of any shares of the Company in such transaction; and (ii) 103,028,566 shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Mr. Pak Kwan KAU. In addition, Mr. Jun LEI is also deemed to be interested in these 103,028,566 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.
- Mr. Tao ZOU is a Director of the Company.
- Mr. Yuk Keung NG is a Director of the Company.
- These shares are held by TCH Saffron Limited, a wholly-owned subsidiary of Tencent Holdings Limited. As such, Tencent Holdings Limited is deemed to be interested in TCH Saffron Limited's interests in the Company pursuant to Part XV of the SFO.

OTHER INFORMATION (continued)

6. Assuming that the holders of the 2020 Convertible Bonds do not hold any shares of the Company as at 30 June 2020.
7. Any discrepancies between total and sum of percentage listed therein are due to rounding.

The Group had a strong cash position towards the end of reporting period. As at 30 June 2020, the Group had major financial resources in the forms of cash and bank deposits amounting to RMB14,788.5 million, which totally represented 44% of the Group's total assets. As at 30 June 2020, the Group's gearing ratio, which represents total liabilities divided by total assets, was 19%, compared to 36% as at 31 December 2019. As the reasons discussed above, even though the holders hold the 2020 Convertible Bonds to maturity, the Company is fully capable of redeeming in cash.

References are made to the announcements of the Company dated 24 April 2020 and 29 April 2020 for principal terms of the 2020 Convertible Bonds.

Details of dilutive effect on the basic earnings per share as at 30 June 2020 are set out in note 9 to the financial statements.

Spin-off and Separate Listing of Kingsoft Cloud on NASDAQ

On 8 May 2020, the Company announced that the spin-off and separate listing of Kingsoft Cloud, a non-wholly owned subsidiary of the Company, on NASDAQ has been completed and the trading in the ADSs of Kingsoft Cloud commenced on 8 May 2020 (New York time). Pursuant to its public offering, Kingsoft Cloud would issue 30,000,000 ADSs before any exercise of the over-allotment option and the underwriters had an option to purchase up to an additional 4,500,000 ADSs pursuant to the over-allotment option. The Company and Xiaomi Corporation have subscribed for 1,175,000 ADSs and 2,355,000 ADSs, respectively.

Following completion of the spin-off and separate listing of Kingsoft Cloud (taking into account the Company's subscription of the ADSs), Kingsoft Cloud has ceased to be a subsidiary of the Company. Therefore, the spin-off and separate listing of Kingsoft Cloud constituted a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio in respect of the spin-off and separate listing of Kingsoft Cloud was more than 25% but less than 75%, the spin-off and separate listing of Kingsoft Cloud constituted a major transaction of the Company

and the Company has complied with the requirements under paragraph 3(e)(1) of Practice Note 15 of the Listing Rules and the applicable requirements of Chapter 14 of the Listing Rules (including the announcement, circular, appointment of an independent financial adviser and shareholders' approval requirements).

Furthermore, Xiaomi Corporation is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. Mr. Jun LEI holds a majority of voting power in Xiaomi Corporation, save for resolutions with respect to a limited number of reserved matters. As such, Xiaomi Corporation is a connected person of the Company pursuant to Chapter 14A of the Listing Rules and the subscription of the ADSs by Xiaomi Corporation was therefore a connected transaction of the Company. As at the date of such transactions, Xiaomi Corporation held over 10% equity interest in Kingsoft Cloud, and therefore Kingsoft Cloud was a connected subsidiary of the Company by virtue of Rule 14A.16 of the Listing Rules. As such, the subscription of the ADSs by the Company was also a connected transaction of the Company. As each of the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the subscriptions of the ADSs by the Company and Xiaomi Corporation exceeded 0.1% but was less than 5%, each of the subscriptions of the ADSs by the Company and Xiaomi Corporation was subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

In addition, to give due regard to the interests of the shareholders of the Company as required by Practice Note 15 of the Listing Rules, the Company declared and distributed a special dividend to its shareholders by way of a distribution in specie, and the cheques for cash payment were despatched on 16 June 2020 (Hong Kong time) and the distributing ADSs were despatched on 16 June 2020 (New York time).

For more details, please refer to announcements of the Company dated 14 November 2019, 22 December 2019, 20 March 2020, 17 April 2020, 28 April 2020, 4 May 2020, 5 May 2020, 8 May 2020 and 16 June 2020 and the circular of the Company dated 26 February 2020, and note 8 to the financial statement.

Material Investment

Details of the material investments incurred during the six months ended 30 June 2020 are set out in note 19 to the financial statements.

OTHER INFORMATION (continued)

Review by Audit Committee

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

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

Compliance with Model Code for Securities Transactions

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

Corporate Governance Code

The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in the 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 27 May 2020 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, 18 August 2020

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED) (RESTATED)	2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED) (RESTATED)
CONTINUING OPERATIONS					
REVENUE	4	1,420,118	955,830	2,591,443	1,843,072
Cost of revenue		(217,922)	(182,436)	(419,099)	(357,543)
Gross profit		1,202,196	773,394	2,172,344	1,485,529
Research and development costs, net		(390,265)	(375,083)	(745,289)	(744,417)
Selling and distribution expenses		(192,909)	(179,400)	(339,654)	(286,586)
Administrative expenses		(101,418)	(75,016)	(194,671)	(154,401)
Share-based compensation costs		(36,559)	(34,933)	(67,479)	(74,208)
Other income	4	65,979	54,034	112,860	109,627
Other expenses		1,705	2,045	(4,223)	1,332
Operating profit		548,729	165,041	933,888	336,876
Other losses, net	5	(104,743)	(1,287,947)	(101,425)	(1,289,278)
Finance income		110,400	51,421	208,089	100,587
Finance costs		(28,387)	(4,714)	(34,129)	(10,902)
Share of profits and losses of:					
Joint ventures		3,764	8,756	11,121	11,211
Associates		(172,697)	(58,264)	(236,706)	(135,795)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	6	357,066	(1,125,707)	780,838	(987,301)
Income tax expense	7	(83,121)	(5,065)	(147,176)	(48,240)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		273,945	(1,130,772)	633,662	(1,035,541)
DISCONTINUED OPERATION					
Profit/(loss) for the period from a discontinued operation	8	8,927,436	(417,814)	8,446,504	(713,359)
PROFIT/(LOSS) FOR THE PERIOD		9,201,381	(1,548,586)	9,080,166	(1,748,900)
Attributable to:					
Owners of the parent		9,151,331	(1,415,205)	9,157,588	(1,482,969)
Non-controlling interests		50,050	(133,381)	(77,422)	(265,931)
		9,201,381	(1,548,586)	9,080,166	(1,748,900)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

For the six months ended 30 June 2020

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2020 RMB (UNAUDITED)	2019 RMB (UNAUDITED) (RESTATED)	2020 RMB (UNAUDITED)	2019 RMB (UNAUDITED) (RESTATED)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
	9				
Basic					
— For profit/(loss) for the period		6.69	(1.04)	6.70	(1.09)
— For profit/(loss) from continuing operations		0.10	(0.85)	0.29	(0.80)
Diluted					
— For profit/(loss) for the period		6.67	(1.04)	6.67	(1.09)
— For profit/(loss) from continuing operations		0.10	(0.85)	0.28	(0.80)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	NOTES	30 JUNE 2020 RMB'000 (UNAUDITED)	31 DECEMBER 2019 RMB'000 (AUDITED)
NON-CURRENT ASSETS			
Property, plant and equipment		1,160,035	2,913,460
Investment properties		64,769	62,504
Right-of-use assets		541,046	403,737
Other intangible assets		22,285	30,938
Investments in joint ventures		250,069	270,303
Investments in associates		12,940,477	2,437,522
Equity investments designated at fair value through other comprehensive income		1,015,751	746,992
Financial assets at fair value through profit or loss		201,209	49,314
Deferred tax assets		126,899	107,038
Other non-current assets		9,164	47,276
Total non-current assets		16,331,704	7,069,084
CURRENT ASSETS			
Inventories		16,381	16,378
Trade receivables	10	704,191	2,059,031
Prepayments, other receivables and other assets		1,609,555	1,365,093
Equity investments designated at fair value through other comprehensive income		10,000	10,000
Financial assets at fair value through profit or loss		268,840	89,920
Cash and bank deposits	11	14,788,526	13,792,117
Total current assets		17,397,493	17,332,539
CURRENT LIABILITIES			
Trade payables	12	303,563	1,501,604
Other payables and accruals		874,319	1,690,263
Interest-bearing bank loans		—	623,215
Lease liabilities		58,453	18,260
Deferred revenue		1,105,923	879,440
Income tax payable		143,757	93,430
Derivative financial instruments		—	128,236
Total current liabilities		2,486,015	4,934,448
NET CURRENT ASSETS		14,911,478	12,398,091
TOTAL ASSETS LESS CURRENT LIABILITIES		31,243,182	19,467,175

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2020

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

Tao ZOU
Director

Yuk Keung NG
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	TREASURY SHARES	EQUITY COMPONENT OF CONVERTIBLE BONDS	STATUTORY RESERVES	SHARE-BASED COMPENSATION RESERVE	OTHER CAPITAL RESERVE	FAIR VALUE RESERVE OF FINANCIAL ASSETS AT	FOREIGN CURRENCY RESERVE	RETAINED PROFITS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
								FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME					
								FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME					
RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	
AT 1 JANUARY 2020	5,316	2,995,605	(14,631)	—	348,987 [#]	556,591 [#]	4,008,820 [#]	(1,072,927) [#]	391,892 [#]	6,577,495 [#]	13,797,148	1,812,233	15,609,381
Profit/(loss) for the period	—	—	—	—	—	—	—	—	—	9,157,588	9,157,588	(77,422)	9,080,166
Other comprehensive income/(loss) for the period:													
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	816,507	—	—	816,507	—	816,507
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	8,966	—	8,966	(15,599)	(6,633)
Reclassification adjustments for deemed disposal of a subsidiary (note 8)	—	—	—	—	—	—	—	—	64,475	—	64,475	—	64,475
Share of other comprehensive income of associates	—	—	—	—	—	—	—	11,731	26,987	—	38,718	—	38,718
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	—	828,238	100,428	9,157,588	10,086,254	(93,021)	9,993,233
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(155,057)	(155,057)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	—	—	—	—	—	—	—	465,906	—	(465,906)	—	—	—
Final 2019 dividend declared	—	(124,861)	—	—	—	—	—	—	—	—	(124,861)	—	(124,861)
Distribution in specie	—	(130,033)	—	—	—	—	—	—	—	—	(130,033)	—	(130,033)
Issue of convertible bonds (note 15)	—	—	—	468,700	—	—	—	—	—	—	468,700	—	468,700
Share-based compensation costs	—	—	—	—	—	91,920	—	—	—	—	91,920	37,582	129,502
Vesting and settlement of share-based awards	—	6,933	1,088	—	—	(24,004)	17,949	—	—	—	1,966	1,590	3,556
Share of reserves of associates	—	—	—	—	—	—	28,781	—	—	—	28,781	—	28,781
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(5,619)	—	—	—	(5,619)	(26,351)	(31,970)
Deemed disposal of a subsidiary (note 8)	—	—	—	—	(7,571)	(96,782)	(195,714)	—	—	300,067	—	1,693,847	1,693,847
At 30 June 2020	5,316	2,747,644	(13,543)	468,700	341,416 [#]	527,725 [#]	3,854,217 [#]	221,217 [#]	492,320 [#]	15,569,244 [#]	24,214,256	3,270,823	27,485,079

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

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	TREASURY SHARES	EQUITY COMPONENT OF CONVERTIBLE BONDS	STATUTORY RESERVES	SHARE-BASED COMPENSATION RESERVE	OTHER CAPITAL RESERVE	FAIR VALUE RESERVE OF FINANCIAL ASSETS AT	FOREIGN CURRENCY RESERVE	RETAINED PROFITS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
								FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME					
								FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME					
RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	
AT 31 DECEMBER 2018	5,316	2,972,969	(18,089)	1,274	275,986	471,326	1,857,341	(1,044,690)	311,094	8,205,312	13,037,839	(116,240)	12,921,599
Effect of adoption of IFRS 16	—	—	—	—	—	—	—	—	—	(8,431)	(8,431)	—	(8,431)
At 1 January 2019 (restated)	5,316	2,972,969	(18,089)	1,274	275,986	471,326	1,857,341	(1,044,690)	311,094	8,196,881	13,029,408	(116,240)	12,913,168
Loss for the period	—	—	—	—	—	—	—	—	—	(1,482,969)	(1,482,969)	(265,931)	(1,748,900)
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(522)	—	(522)	(6,367)	(6,889)
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	(95,855)	—	—	(95,855)	—	(95,855)
Share of other comprehensive income/(loss) of associates	—	—	—	—	—	—	—	(19,928)	22,371	—	2,443	—	2,443
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	—	(115,783)	21,849	(1,482,969)	(1,576,903)	(272,298)	(1,849,201)
Share-based compensation costs	—	—	—	—	—	77,392	—	—	—	—	77,392	35,769	113,161
Vesting of awarded shares	—	—	1,163	—	—	(1,461)	298	—	—	—	—	—	—
Share of reserves of associates	—	—	—	—	—	—	(10,547)	—	—	—	(10,547)	—	(10,547)
Redemption of convertible bonds	—	—	—	(1,274)	—	—	1,446	—	(172)	—	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(1,748)	—	—	—	(1,748)	(694)	(2,442)
At 30 June 2019	5,316	2,972,969	(16,926)	—	275,986	547,257	1,846,790	(1,160,473)	332,771	6,713,912	11,517,602	(553,463)	11,164,139

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	NOTES	FOR THE SIX MONTHS ENDED 30 JUNE	
		2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax			
From continuing operations		780,838	(987,301)
From a discontinued operation		9,523,089	(708,800)
Adjustments for:			
Gain on disposal of property, plant and equipment		(99)	(230)
Depreciation of property, plant and equipment		327,896	321,698
Depreciation of investment properties		750	719
Depreciation of right-of-use assets		44,609	11,625
Amortisation of other intangible assets		11,199	13,204
Finance costs		203,233	194,539
Finance income		(219,073)	(150,272)
Fair value losses/(gains) on financial instruments at fair value through profit or loss, net	5	20,268	(14,259)
Share-based compensation costs		128,943	113,056
Impairment of trade and other receivables		15,508	18,409
Share of profits of joint ventures		(9,672)	(11,211)
Share of losses of associates		254,351	136,238
Foreign exchange differences, net		31,082	12,548
Loss on deemed disposal of an associate	5	40,045	3,837
Gain on deemed disposal of a subsidiary	8	(10,166,559)	—
Impairment of loans to an associate	5	38,517	—
Gain on distribution in specie	5	(3,688)	—
Loss on exchange for equity investments designated at fair value through other comprehensive income	5	676	—
Impairment of investments in associates	5	3,932	1,300,000
		1,025,845	253,800
Increase in trade receivables		(601,096)	(499,350)
Decrease/(increase) in prepayments, other receivables and other assets		5,125	(56,557)
Decrease in other non-current assets		5,188	7,154
Increase in inventories		(2,389)	(466)
Increase in trade payables		643,835	495,437
Increase in deferred revenue		295,472	99,940
Decrease in other payables and accruals		(10,582)	(38,115)
Cash generated from operations		1,361,398	261,843
Interest received		74,961	60,649
Income tax paid		(128,301)	(78,287)
Net cash flows from operating activities		1,308,058	244,205

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2020

	NOTES	FOR THE SIX MONTHS ENDED 30 JUNE	
		2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		134,066	111,765
Purchases of property, plant and equipment		(401,382)	(610,898)
Purchases of other intangible assets		(4,024)	(2,290)
(Increase)/decrease in time deposits with original maturity of over three months when acquired		(4,421,306)	564,272
Investments in joint ventures		(41,100)	—
Investments in associates		(174,910)	(5,000)
Purchase of financial assets at fair value through profit or loss		—	(20,073)
Disposal of property, plant and equipment		65	1,046
Increase in other loans		(9,490)	(4,000)
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		412,111	—
Receipt of government grants for property, plant and equipment		1,020	10,000
Acquisition of a subsidiary, net of cash acquired		201	—
Deemed disposal of a subsidiary	8	(1,771,891)	—
Net cash flows (used in)/from investing activities		(6,276,640)	44,822

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2020

	NOTES	FOR THE SIX MONTHS ENDED 30 JUNE	
		2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of convertible bonds	15	2,767,564	—
Changes in the ownership of interest in subsidiaries		—	42,042
Cash settlement of share options issued by a subsidiary		(924)	(2,441)
Repayment of bank loans		(530,663)	(554,401)
Principal portion of lease payments		(42,319)	(6,239)
Redemption of convertible bonds		—	(40,171)
Dividends paid		(113,987)	—
Dividends paid to non-controlling interests		(118,027)	—
Interest paid		(7,429)	(31,850)
Net cash flows from/(used in) financing activities		1,954,215	(593,060)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,014,367)	(304,033)
Cash and cash equivalents at beginning of the period		7,329,845	4,544,784
Effect of foreign exchange rate changes, net		5,350	(3,978)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		4,320,828	4,236,773
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	11	1,293,192	1,612,696
Deposits with original maturity of less than three months when acquired	11	3,027,636	2,624,077
CASH AND CASH EQUIVALENTS AS STATED IN THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS		4,320,828	4,236,773

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

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 principal place of business of the Company is located at Suite 3208, 32/F, Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong. 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 2020, there are no material changes in the principal activities of the Group, except that the operation of Kingsoft Cloud Holdings Limited ("Kingsoft Cloud") and its subsidiaries (collectively, "Kingsoft Cloud Group") before the deemed disposal is reclassified as a discontinued operation of the Group. The continuing operations of the Group were involved in the following principal activities:

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1. 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.

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 for the year ended 31 December 2019. The interim condensed consolidated statement of profit or loss for the three months ended 30 June 2020 and 2019 included in page 23 of the interim financial information is only for reference.

2.2. Changes in accounting policies and disclosures

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. Changes in accounting policies and disclosures (continued)

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group.
- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

3. OPERATING SEGMENTS

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

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

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

As disclosed in note 8, the operating results of Kingsoft Cloud Group before the deemed disposal were classified as a discontinued operation of the Group and were excluded from the segment information for the six months ended 30 June 2020, the comparative figures of segment information for the six months ended 30 June 2019 were restated accordingly.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

3. OPERATING SEGMENTS (continued)

	ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED) (RESTATED)	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000 (UNAUDITED) (RESTATED)	TOTAL RMB'000 (UNAUDITED) (RESTATED)
<i>For the six months ended 30 June 2019</i>			
Segment revenue (note 4)			
Sales to external customers	1,169,491	673,581	1,843,072
Segment results	302,038	152,115	454,153
<i>Reconciliation:</i>			
Administrative expenses			(154,401)
Share-based compensation costs			(74,208)
Other income			109,627
Other expenses			1,332
Other losses, net			(1,289,278)
Finance income			100,587
Finance costs (other than interest on lease liabilities)			(10,529)
Share of profits and losses of:			
Joint ventures			11,211
Associates			(135,795)
Loss before tax from continuing operations			(987,301)

Geographical information

(a) Revenue of continuing operations from external customers:

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED) (RESTATED)
Mainland China	2,487,178	1,757,396
Hong Kong	96,991	77,765
Other countries and regions	7,274	7,911
Total	2,591,443	1,843,072

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

3. OPERATING SEGMENTS (continued)

Geographical information (continued)

(b) *Non-current assets:*

	30 JUNE 2020 RMB'000 (UNAUDITED)	31 DECEMBER 2019 RMB'000 (AUDITED)
China	1,793,251	3,450,842
Other countries and regions	297	2,785
Total	1,793,548	3,453,627

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.

4. REVENUE AND OTHER INCOME

An analysis of revenue of continuing operations is as follows:

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED) (RESTATED)
<i>Revenue from contracts with customers</i>	2,579,844	1,826,263
<i>Revenue from other sources</i>		
Gross rental income	11,599	16,809
Total	2,591,443	1,843,072

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

4. REVENUE AND OTHER INCOME (continued)

Disaggregated revenue information for revenue from contracts with customers

SEGMENTS	ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED)	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
<i>For the six months ended 30 June 2020</i>			
Types of goods or services			
Game services	1,323,076	—	1,323,076
Sales and subscription of software and related services	—	744,685	744,685
Royalties	287,582	—	287,582
Online marketing services	—	168,859	168,859
Others	39,243	16,399	55,642
Total revenue from contracts with customers	1,649,901	929,943	2,579,844
Geographical markets			
Mainland China	1,575,370	900,209	2,475,579
Hong Kong	68,021	28,970	96,991
Other countries	6,510	764	7,274
Total revenue from contracts with customers	1,649,901	929,943	2,579,844
Timing of revenue recognition			
Goods or services transferred at a point in time	43,189	240,198	283,387
Services transferred over time	1,606,712	689,745	2,296,457
Total revenue from contracts with customers	1,649,901	929,943	2,579,844

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

4. REVENUE AND OTHER INCOME (continued)

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

SEGMENTS	ENTERTAINMENT	OFFICE	TOTAL
	SOFTWARE	SOFTWARE	
	AND SERVICES	AND SERVICES	
	AND OTHERS	AND OTHERS	
	RMB'000	RMB'000	RMB'000
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
	(RESTATED)	(RESTATED)	(RESTATED)
<i>For the six months ended 30 June 2019</i>			
Types of goods or services			
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	2,564	4,432
Total revenue from contracts with customers	1,169,491	656,772	1,826,263
Geographical markets			
Mainland China	1,102,953	637,634	1,740,587
Hong Kong	59,081	18,684	77,765
Other countries	7,457	454	7,911
Total revenue from contracts with customers	1,169,491	656,772	1,826,263
Timing of revenue recognition			
Goods or services transferred at a point in time	1,868	212,473	214,341
Services transferred over time	1,167,623	444,299	1,611,922
Total revenue from contracts with customers	1,169,491	656,772	1,826,263
Other income			
	FOR THE SIX MONTHS ENDED 30 JUNE		
	2020	2019	
	RMB'000	RMB'000	
	(UNAUDITED)	(UNAUDITED)	
		(RESTATED)	
Government grants	112,451	109,123	
Others	409	504	
	112,860	109,627	

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

5. OTHER LOSSES, NET

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED) (RESTATED)
Loss on deemed disposal of an associate	(40,045)	(3,837)
Foreign exchange differences, net	(1,675)	427
Fair value (losses)/gains on financial instruments at fair value through profit or loss, net	(20,268)	14,132
Impairment of investments in associates	(3,932)	(1,300,000)*
Impairment of loans to an associate	(38,517)	—
Gain on distribution in specie	3,688	—
Loss on exchange for equity investments designated at fair value through other comprehensive income	(676)	—
	(101,425)	(1,289,278)

* As at 30 June 2019, the Group held certain ordinary shares in Cheetah Mobile Inc. ("Cheetah Mobile") which are listed on the New York Stock Exchange in the form of American depositary shares. As Cheetah Mobile share price has been struggled with sluggish performance, the Group performed an impairment assessment and made an impairment loss of approximately RMB1,300,000,000, being the difference of carrying amount in excess of the fair value of the investment in Cheetah Mobile.

6. PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS

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

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED) (RESTATED)
Employee benefit expenses	911,754	861,306
Depreciation of property, plant and equipment	53,442	45,209
Depreciation of investment properties	750	719
Depreciation of right-of-use assets	30,220	11,132
Amortisation of other intangible assets	6,273	10,280
Interest on bank loans, lease liabilities and convertible bonds	34,129	10,902
Impairment of trade and other receivables	38	1,682

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

7. INCOME TAX EXPENSE

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

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

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

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED) (RESTATED)
Current income tax	190,258	61,919
Deferred income tax	(43,082)	(13,679)
Total tax charge for the period from continuing operations	147,176	48,240
Total tax charge for the period from a discontinued operation (note 8)	1,076,585	4,559
	1,223,761	52,799

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

8. DISCONTINUED OPERATION

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

8. DISCONTINUED OPERATION (continued)

The net assets of Kingsoft Cloud Group disposed of as at 8 May 2020 were as follows:

	RMB'000 (UNAUDITED)
Net assets disposed of:	
Property, plant and equipment	1,761,924
Other intangible assets	7,517
Investments in joint ventures	59,856
Investments in associates	39,563
Financial assets at fair value through profit or loss	9,072
Inventories	2,388
Trade receivables	1,902,446
Prepayments, other receivables and other assets	562,944
Right-of-use assets	271,903
Cash and cash equivalents	1,771,891
Time deposits with original maturity of over three months when acquired	228,530
Trade payables	(1,848,288)
Other payables and accruals	(1,007,791)
Interest-bearing bank loans	(174,351)
Lease liabilities	(279,770)
Deferred revenue	(8,925)
Income tax payable	(18,139)
Deferred tax liabilities	(147)
Derivative financial instruments	(129,723)
Liability component of redeemable convertible preferred shares	(3,785,716)
Non-controlling interests	1,693,847
	1,059,031
Exchange fluctuation reserve	64,475
	1,123,506
Gain on deemed disposal of a subsidiary	10,166,559
Investment in an associate	11,290,065

An analysis of the net outflows of cash and cash equivalents in respect of the deemed disposal of Kingsoft Cloud Group is as follows:

	FOR THE SIX MONTHS ENDED 30 JUNE 2020 RMB'000 (UNAUDITED)
Cash consideration	—
Cash and cash equivalents disposed of	(1,771,891)
Net cash outflows from the deemed disposal of a subsidiary	(1,771,891)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

8. DISCONTINUED OPERATION (continued)

The results of Kingsoft Cloud Group for the period are presented below:

	FOR THE SIX MONTHS ENDED	
	2020*	2019
	RMB'000	RMB'000
	(UNAUDITED)	(UNAUDITED)
Revenue	1,788,395	1,757,509
Total expenses	(2,431,865)	(2,466,309)
Loss before tax from the discontinued operation	(643,470)	(708,800)
Gain on deemed disposal of a subsidiary	10,166,559	—
Income tax:		
Related to pre-tax profit	(6,450)	(4,559)
Related to gain on deemed disposal	(1,070,135)	—
Profit for the period from the discontinued operation	8,446,504	(713,359)

* These figures represent the operating results prior to the deemed disposal on 8 May 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

8. DISCONTINUED OPERATION (continued)

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

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2020 (UNAUDITED)	2019 (UNAUDITED)
Earnings/(loss) per share:		
Basic, from the discontinued operation	RMB6.41	RMB(0.29)
Diluted, from the discontinued operation	RMB6.39	RMB(0.29)
Profit/(loss) attributable to ordinary equity holders of the parent from the discontinued operation	RMB8,764,699,000	RMB(392,353,000)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation (note 9)	1,366,890,596	1,365,424,321
Weighted average number of ordinary shares used in the diluted earnings per share calculation (note 9)	1,370,720,358	1,365,424,321

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

9. 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	
	2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED) (RESTATED)
<i>Earnings/(loss)</i>		
Profit/(loss) attributable to ordinary equity holders of the parent used in the basic earnings per share calculation:		
From continuing operations	392,889	(1,090,616)
From a discontinued operation	8,764,699	(392,353)
	9,157,588	(1,482,969)
Decrease in earnings/increase in loss adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries and associates	(10,790)	(5,685)
	9,146,798	(1,488,654)
Attributable to:		
Continuing operations	382,099	(1,096,301)
Discontinued operation	8,764,699	(392,353)
	9,146,798	(1,488,654)
	NUMBER OF SHARES FOR THE SIX MONTHS ENDED 30 JUNE	
	2020 (UNAUDITED)	2019 (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	1,366,890,596	1,365,424,321
Effect of dilution — weighted average number of ordinary shares:		
Share options	834,941	—
Awarded shares	2,994,821	—
	1,370,720,358	1,365,424,321

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

10. TRADE RECEIVABLES

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

	30 JUNE 2020 RMB'000 (UNAUDITED)	31 DECEMBER 2019 RMB'000 (AUDITED)
0–30 days	315,435	817,869
31–60 days	82,319	377,336
61–90 days	94,861	154,914
91–365 days	152,194	631,294
1 to 2 years	47,577	47,683
Over 2 years	11,805	29,935
	704,191	2,059,031

11. CASH AND BANK DEPOSITS

	30 JUNE 2020 RMB'000 (UNAUDITED)	31 DECEMBER 2019 RMB'000 (AUDITED)
Cash and bank balances	1,293,192	3,248,496
Non-pledged time deposits with original maturity of less than three months when acquired	1,162,756	955,889
Principal protected structure deposits with original maturity of less than three months when acquired	1,864,880	3,125,460
	4,320,828	7,329,845
Non-pledged time deposits with original maturity of over three months when acquired	2,476,926	264,788
Principal protected structure deposits with original maturity of over three months when acquired	7,990,772	6,197,484
	10,467,698	6,462,272
Cash and bank deposits	14,788,526	13,792,117

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 a year depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.
- (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 authorized to conduct foreign exchange business.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

12. TRADE PAYABLES

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

	30 JUNE 2020 RMB'000 (UNAUDITED)	31 DECEMBER 2019 RMB'000 (AUDITED)
0–30 days	129,078	829,998
31–60 days	31,462	295,064
61–90 days	41,868	106,092
91–365 days	89,424	167,157
Over one year	11,731	103,293
	303,563	1,501,604

13. SHARE CAPITAL

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

	NUMBER OF SHARES IN ISSUE (UNAUDITED)	ISSUED SHARE CAPITAL RMB'000 (UNAUDITED)	SHARE PREMIUM ACCOUNT RMB'000 (UNAUDITED)	TREASURY SHARES RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
At 1 January 2020	1,366,552,580	5,316	2,995,605	(14,631)	2,986,290
Vesting of awarded shares	469,960	—	6,933	1,088	8,021
Final 2019 dividend declared	—	—	(124,861)	—	(124,861)
Distribution in specie	—	—	(130,033)	—	(130,033)
At 30 June 2020	1,367,022,540*	5,316	2,747,644	(13,543)	2,739,417

* Excluding 5,706,177 (31 December 2019: 6,176,137) shares held by the Share Award Scheme Trust as at 30 June 2020.

Share options

Details of the Company's share option schemes and the share options issued under these schemes are included in note 14 to the financial statement.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

14. 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 executive 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 share options outstanding under the 2011 Share Option Scheme during the six months ended 30 June 2020 and 2019, and their weighted average exercise prices ("WAEP"):

	2020 NUMBER OF SHARE OPTIONS (UNAUDITED)	2020 WAEP HK\$ PER SHARE (UNAUDITED)	2019 NUMBER OF SHARE OPTIONS (UNAUDITED)	2019 WAEP HK\$ PER SHARE (UNAUDITED)
Outstanding at 1 January and 30 June	4,600,000	20.58	4,600,000	20.58
Exercisable at 30 June	2,640,000	20.48	1,720,000	20.42

The share options outstanding as at the end of reporting period were granted during 21 April 2017 to 23 November 2017 and the vesting periods of these share options were various from 0.6 to 4.6 years. The exercise period of the share options granted under the 2011 Share Option Scheme shall be any time after the end of the vesting period and before the tenth anniversary of the grant date.

(b) 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 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 Holdings Share Option Adoption Date. The exercise price and exercise period of share options are determinable by the board of Seasun Holdings.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

14. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(b) Season Holdings Share Option Scheme (continued)

The following table illustrates the numbers of and movements in the Season Holdings Share Option Scheme during the six months ended 30 June 2020 and 2019.

	2020	2020	2019	2019
	NUMBER	WAEP RMB	NUMBER	WAEP RMB
	OF SHARE	PER SHARE	OF SHARE	PER SHARE
	OPTIONS	(UNAUDITED)	OPTIONS	(UNAUDITED)
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Outstanding at 1 January	22,541,500	4.31	21,709,111	3.84
Granted during the period	—	—	2,160,000	8.68
Forfeited during the period	(130,000)	3.77	(587,611)	4.79
Cancelled during the period	—	—	(600,000)	1.82
Outstanding at 30 June	22,411,500	4.32	22,681,500	4.33
Exercisable at 30 June	9,058,000	1.80	6,323,400	1.45

The share options outstanding as at the end of reporting period were granted during 18 July 2013 to 20 May 2019 and the vesting period of these share options were various from 4 to 5 years. The exercise period of the share options granted under the Season Holdings Share Option Scheme shall be any time after the end of the vesting period and before the tenth anniversary of the grant date.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

14. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

The following table illustrates the number of and movements in the Share Award Scheme during the six months ended 30 June 2020 and 2019.

	2020 NUMBER OF AWARDED SHARES (UNAUDITED)	2019 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	3,462,200	4,372,900
Granted during the period	810,000	—
Forfeited during the period	(3,200)	(20,900)
Vested during the period	(469,960)	(497,800)
Outstanding at 30 June	3,799,040	3,854,200

(b) Season Holdings Share Award Scheme adopted by Season Holdings

On 21 March 2017, the directors of the Company and Season Holdings approved and adopted the Season Holdings Share Award Scheme, 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 Scheme is valid and effective for a term of ten years commencing from 21 March 2017. The directors of Season 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 Season Holdings Awarded Shares during the six months ended 30 June 2020 and 2019.

	2020 NUMBER OF AWARDED SHARES (UNAUDITED)	2019 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	43,162,049	43,044,438
Granted during the period	—	1,200,000
Forfeited during the period	(15,250)	(282,389)
Outstanding at 30 June	43,146,799	43,962,049

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

14. SHARE-BASED COMPENSATION COSTS (continued)

Other Restricted Share Scheme

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 Software, Inc. (“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 interim 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 2020 and 2019.

	2020 NUMBER OF RESTRICTED SHARES (UNAUDITED)	2019 NUMBER OF RESTRICTED SHARES (UNAUDITED)
Outstanding at 1 January	8,441,832	24,176,822
Vested during the period	(153,000)	—
Outstanding at 30 June	8,288,832	24,176,822

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

15. CONVERTIBLE BONDS

On 29 April 2020, the Company issued five-year convertible bonds in the principal amount of HK\$3,100,000,000 which bear interest at a rate of 0.625% per annum payable semi-annually (the "2020 Convertible Bonds"). The 2020 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 9 June 2020 to 3:00 p.m. on the date falling 10 days prior to the maturity date, at a price of HK\$35.7637 per share, subject to adjustments. The Company may redeem under certain circumstances the outstanding 2020 Convertible Bonds at a predetermined amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days' prior notice. On the maturity date, any 2020 Convertible Bonds not converted will be redeemed by the Company at 105.85% of the principal amount together with accrued and unpaid interest thereon. There was no conversion or redemption of the 2020 Convertible Bonds during the six months ended 30 June 2020.

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

The 2020 Convertible Bonds have been split into the liability and equity components as follows:

	RMB'000
Nominal value of the 2020 Convertible Bonds issued	2,827,820
Direct transaction costs attributable to the liability component	(60,256)
Net proceeds from the issue of 2020 Convertible Bonds	2,767,564
Equity component at the issuance date	(468,700)
Liability component at the issuance date	2,298,864
Exchange realignment	3,037
Interest expenses	20,861
Liability component at 30 June 2020	2,322,762

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

16. DIVIDENDS

Final dividend

A final dividend of HK\$0.10 per ordinary share for 2019 proposed by the board of directors of the Company ("Board") was approved by the shareholders of the Company on 27 May 2020.

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

Distribution in specie

In May 2020, Kingsoft Cloud completed its initial public offering on National Association of Securities Dealers Automated Quotations. In accordance with the requirements of Practice Note 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Company must give due regard to the interests of its existing shareholders by providing them with an assured entitlement to shares in Kingsoft Cloud, either by way of a distribution in specie of existing shares in Kingsoft Cloud or by way of preferred application in any offering of existing or new shares in Kingsoft Cloud.

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

According to the final record of the distribution in specie, total amount of cash payment distributed to the Company's shareholders electing to receive cash is HK\$124,000,000, and total number of ADSs distributed to the Company's shareholders electing to receive ADSs is 110,265 ADSs.

17. COMMITMENTS

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

NOTE	30 JUNE 2020 RMB'000 (UNAUDITED)	31 DECEMBER 2019 RMB'000 (AUDITED)
Contracted, but not provided for:		
Development of land and buildings (a)	211,108	268,304
Purchase of property, plant and equipment	557	6,545
	211,665	274,849

- (a) As at 30 June 2020, the Group's capital commitment for the development of a piece of land in Zhuhai, leasehold improvements and construction of an exhibition hall were RMB202,839,000, RMB8,269,000 and nil respectively (31 December 2019: RMB227,335,000, RMB19,323,000 and RMB21,646,000, respectively).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

18. 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	
		2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED) (RESTATED)
Interest income from associates of the Group		60	25
Interest income from non-controlling shareholders of subsidiaries		486	647
Provision of services to a company controlled by a director of the Company*	(i)	221,642	321,816
Provision of services to associates	(ii)	7,942	7,409
Licence fee from a company whose parent has a significant influence on the Company	(iii)	195,210	231,559
Licence fee from an associate	(iv)	5,605	5,409
Sales of products to a company controlled by a director of the Company		82	23,047
Purchases of products from a company controlled by a director of the Company	(v)	1,902	2,693
Purchases of services from a company controlled by a director of the Company	(vi)	16,598	20,096
Licence fee to a joint venture	(vii)	84,989	93,207
Rental to a company controlled by a director of the Company*	(viii)	37,807	4,248
Purchases of services from an associate	(ix)	16,734	—

* The amounts for the six months ended 30 June 2020 included the transactions from the discontinued operation prior to the deemed disposal on 8 May 2020.

- (i) 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, the Group provides various of services, mainly including 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 2017, the Group entered into agreements with associates to provide technology support and leasing services to them at the prevailing fair market price.
- (iii) During 2015 to 2019, 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 2017, the Group entered into an exclusive licensing agreement with an associate to grant the exclusive right to use certain office software.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

18. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

- (v) 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, the Group purchased hardware products, including but not limited to smart phones and phone accessories at market price from affiliates of this related company.
- (vi) 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.
- (vii) 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.
- (viii) In November 2018, the discontinued operation entered into a fifteen-year lease agreement with a company controlled by a director of the Company. The annual rent (including value-added tax) for 2019 and 2020 is RMB9,345,000 and RMB4,673,000, respectively.

In December 2019, the Group entered into lease agreements with a company controlled by a director of the Company. The annual rent (including value-added tax) for 2020 is RMB93,432,000. As at 30 June 2020, the carrying amounts of right-of-use assets and lease liabilities in respect to the lease agreements are RMB235,170,000 and RMB235,791,000 respectively.

- (ix) During 2014 to 2020, the continuing operations of the Group entered into cloud service agreements with the discontinued operation. Pursuant to the agreements, the discontinued operation provides cloud services to the continuing operations at market price. After 8 May 2020, the discontinued operation becomes an associate of the Group and the transactions are disclosed as related party transactions accordingly.
 - (x) 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, the Group jointly operates the Group's online games with an affiliate of this related company at the prevailing fair market price. The affiliate of this related company acted as a distribution platform to collect payment from players on behalf of the Group and remitted the net amount of RMB3,280,000 (2019: RMB6,333,000) after deduction of commission to the Group in accordance with the co-operation agreements.
- (b) Since 2016, the Group has guaranteed certain bank loan of the discontinued operation of the Group. After 8 May 2020, the discontinued operation becomes an associate of the Group and the guarantee is disclosed as a related party transaction accordingly. The outstanding balance of the bank loan as at the end of the reporting period was RMB124,351,000.
- (c) Compensation of key management personnel of the Group (including directors' remuneration):

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2020 RMB'000 (UNAUDITED)	2019 RMB'000 (UNAUDITED)
Salaries, allowances, and benefits in kind	4,245	2,819
Pension scheme contributions	20	112
Share-based compensation costs	46,447	51,099
Total compensation paid to key management personnel	50,712	54,030

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

19. 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 2020 RMB'000 (UNAUDITED)	31 DECEMBER 2019 RMB'000 (AUDITED)	30 JUNE 2020 RMB'000 (UNAUDITED)	31 DECEMBER 2019 RMB'000 (AUDITED)
Financial assets				
Loan receivables	3,751	4,288	3,751	4,288
Equity investments designated at fair value through other comprehensive income	1,025,751	756,992	1,025,751	756,992
Financial assets at fair value through profit or loss	470,049	139,234	470,049	139,234
	1,499,551	900,514	1,499,551	900,514
Financial liabilities				
Derivative financial instruments	—	128,236	—	128,236
Liability component of convertible bonds	2,322,762	—	2,322,762	—
Liability components of redeemable convertible preferred shares	—	3,583,019	—	3,583,019
Interest-bearing bank loans	—	697,566	—	697,566
	2,322,762	4,408,821	2,322,762	4,408,821

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

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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 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 fair values 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 designated at fair value through other comprehensive income have been estimated by reference with market value or using a market-based valuation technique and equity valuation allocation model. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to revenue multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the interim 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 financial assets at fair value through profit or loss have been estimated as follows: (i) for subscription options, the fair values have been estimated by using the Black Scholes Model. The valuation requires the directors to make estimates about the underlying equity value, life of option, dividend yield and expected volatility; (ii) for convertible bonds, the fair value has been estimated by probability expected return method. The valuation requires the directors to make estimates about the possibility of different scenarios; and (iii) for other financial assets at fair value through profit or loss, the fair values have been estimated by reference with market approach or discount cashflow approach, and using equity valuation allocation model. The valuation requires the directors to make estimates about underlying equity value, expected volatility and risk-free rate. The estimation of underlying equity value is based on estimation of price multiple or expected future cash flows. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from these valuation techniques, which are recorded in the interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in the interim 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 interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in the interim condensed consolidated statement of 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)

30 June 2020

19. 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 2020

	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	1,016,108	—	9,643	1,025,751
Financial assets at fair value through profit or loss	—	—	470,049	470,049
	1,016,108	—	479,692	1,495,800

As at 31 December 2019

	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	749,705	—	7,287	756,992
Financial assets at fair value through profit or loss	—	—	139,234	139,234
	749,705	—	146,521	896,226

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

19. 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
Equity investments designated at fair value through other comprehensive income/financial assets at fair value through profit or loss:	
At 1 January 2020	146,521
Additions	380,917
Deemed disposal of a subsidiary	(9,072)
Total losses recognised in profit or loss	(42,176)
Total gains recognised in other comprehensive income	3,502
At 30 June 2020 (Unaudited)	479,692

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

Set out below is a summary of significant unobservable inputs to the valuation of financial assets together with a quantitative sensitivity analysis as at 30 June 2020:

	Valuation techniques	Significant unobservable inputs	Sensitivity of fair value to the input
Equity investments designated at fair value through other comprehensive income	Valuation multiples	Discount for lack of marketability	5% increase (decrease) in discount for lack of marketability would result in decrease (increase) in fair value by RMB157,000 (RMB156,000)
Financial assets at fair value through profit or loss	Equity valuation allocation model	Risk-free rate	5% increase (decrease) in risk-free rate would result in decrease (increase) in fair value by RMB17,000 (RMB 18,000)
		Volatility	5% increase (decrease) in volatility would result in decrease (increase) in fair value by RMB249,000 (RMB 244,000)
	Black Scholes Model	Fair value per share	5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB4,680,000 (RMB4,534,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB10,000 (RMB90,000)
		Volatility	5% increase (decrease) in volatility would result in increase (decrease) in fair value by RMB729,000 (RMB556,000)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 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)	
Derivative financial instruments	—	—	128,236	128,236

The Group did not have any financial liabilities measured at fair value as at 30 June 2020.

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 2020	128,236
Deemed disposal of a subsidiary	(128,236)
At 30 June 2020 (Unaudited)	—

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2019: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30 June 2020

20. CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no significant contingent liabilities (31 December 2019: nil).

21. COMPARATIVE AMOUNTS

As further explained in note 8 to the interim condensed consolidated financial statements, the comparative interim condensed consolidated statement of profit or loss has been re-presented as if the operation discontinued during the current period had been discontinued at the beginning of the comparative period.

22. APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 18 August 2020.

TERMS AND GLOSSARIES

“2011 Share Option Scheme”	the share option scheme adopted by the Company on 9 December 2011
“2020 Convertible Bonds”	the convertible bonds issued by the Company on 29 April 2020
“ADS(s)”	the American depositary share(s)
“Audit Committee”	the audit committee of the Company
“Board”	the board of directors of the Company
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
“Cheetah Mobile”	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
“IFRSs”	International Financial Reporting Standards
“Kingsoft Cloud”	Kingsoft Cloud Holdings Limited, a subsidiary of the Company until its separate listing on NASDAQ in May 2020
“Kingsoft Cloud Group”	Kingsoft Cloud and its subsidiaries
“Kingsoft Office”	Beijing Kingsoft Office Software, Inc., a subsidiary of the Company and was listed on the STAR Market of Shanghai Stock Exchange in November 2019
“Kingsoft Office Group”	Kingsoft Office and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MAU”	monthly active users

TERMS AND GLOSSARIES (continued)

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"NASDAQ"	National Association of Securities Dealers Automated Quotations
"NYSE"	New York Stock Exchange
"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"	the lawful currency of the PRC
"Seasun Holdings"	Seasun Holdings Limited, a subsidiary of the Company
"Seasun 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 Seasun Holdings on 21 March 2017
"Seasun Holdings Share Option Scheme"	the share option scheme of Seasun Holdings approved and adopted by the shareholders of the Company and Seasun 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.