



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

# KINGSOFT CORPORATION LIMITED

## 2017 INTERIM REPORT



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# Kingsoft Corporation Limited

Interim Report 2017 | 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**

Kingsoft Tower

No. 33 Xiaoying West Road

Haidian District

Beijing 100085

PRC

## **Principal Place of Business in Hong Kong**

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

## **Registered Office**

PO Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

## **Executive Directors**

Mr. Tao ZOU

Mr. Yuk Keung NG

## **Non-executive Directors**

Mr. Jun LEI (Chairman)

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

## **Independent Non-executive Directors**

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

## **Audit Committee**

Ms. Wenjie WU (Chairman)

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

## **Remuneration Committee**

Mr. Shun Tak WONG (Chairman)

Mr. Jun LEI

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

## **Nomination Committee**

Mr. Shun Tak WONG (Chairman)

Mr. Chi Ping LAU

Ms. Wenjie WU

## **Board Secretary/Company Secretary**

Mr. Yuk Keung NG

## **Authorised Representatives**

Mr. Tao ZOU

Mr. Yuk Keung NG

# CORPORATE INFORMATION (continued)

## **Principal Share Registrar and Transfer Office**

Estera Trust (Cayman) Limited  
PO Box 1350  
Clifton House  
75 Fort Street  
Grand Cayman KY1-1108  
Cayman Islands

## **Hong Kong Branch Share Registrar and Transfer Office**

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

## **Auditor**

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

## **Legal Advisers on Hong Kong law**

Baker & Mckenzie  
14th Floor, Hutchison House  
10 Harcourt Road  
Hong Kong

## **Principal Bankers**

China CITIC Bank Corp., Ltd.  
China Merchant Bank Co., Ltd.  
Industrial and Commercial Bank of China (Asia) Limited  
The Hongkong and Shanghai Banking Corp., Ltd.  
Bank of Beijing Co., Ltd.  
Standard Chartered Bank (China) Limited  
Shanghai Pudong Development Bank Co., Ltd.  
Bank of Communications Co., Ltd.  
Hang Seng Bank Limited  
China Guangfa Bank Co., Ltd.  
BNP Paribas (China) Limited  
The Bank of East Asia (China) Limited  
JP Morgan Chase Bank N.A.  
China Minsheng Banking Corp., Ltd.  
Citibank (China) Co., Ltd.

## **Investor and Media Relations**

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Website: [www.kingsoft.com](http://www.kingsoft.com)

# OPERATIONAL HIGHLIGHTS

	FOR THE THREE MONTHS ENDED							
	30	31	31	30	30	31	31	30
	JUNE	MARCH	DECEMBER	SEPTEMBER	JUNE	MARCH	DECEMBER	SEPTEMBER
	2017	2017	2016	2016	2016	2016	2015	2015
<b>ONLINE GAMES</b>								
Daily Average Peak Concurrent Users ("ADPCU")	934,115	937,438	1,018,826	982,914	909,591	543,836	542,384	562,354
Monthly Average Paying Accounts ("APA")	4,321,447	4,200,840	4,523,832	4,482,024	4,822,356	2,960,358	2,919,683	3,301,297

# FINANCIAL HIGHLIGHTS

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

## FINANCIAL HIGHLIGHTS (continued)

	FOR THE THREE MONTHS ENDED		
	30 JUNE 2017 RMB (UNAUDITED)	30 JUNE 2016 RMB (UNAUDITED) (RESTATED)	31 MARCH 2017 RMB (UNAUDITED)
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic			
— For profit/(loss) for the period	<b>0.19</b>	(0.63)	0.18
— For profit/(loss) from continuing operations	<b>0.16</b>	(0.58)	0.14
Diluted			
— For profit/(loss) for the period	<b>0.19</b>	(0.63)	0.18
— For profit/(loss) from continuing operations	<b>0.16</b>	(0.58)	0.14

## FINANCIAL HIGHLIGHTS (continued)

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

## FINANCIAL HIGHLIGHTS (continued)

	<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>	
	<b>2017 RMB (UNAUDITED)</b>	2016 RMB (UNAUDITED) (RESTATED)
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>		
Basic		
— For profit/(loss) for the period	<b>0.38</b>	(0.52)
— For profit/(loss) from continuing operations	<b>0.30</b>	(0.49)
Diluted		
— For profit/(loss) for the period	<b>0.37</b>	(0.52)
— For profit/(loss) from continuing operations	<b>0.30</b>	(0.49)

# BUSINESS REVIEW AND OUTLOOK

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

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

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

With regards to Kingsoft Cloud Group, all business areas have developed hand-in-hand and achieved a range of goals in the second quarter. Kingsoft video cloud maintained its leading position in live streaming and short video markets, at the same time, achieved breakthrough in the broadcast and television communications industry. Major enterprises in this sector including CNTV, Mango TV and Wasu have started to use Kingsoft's video cloud

services. The game cloud business has been growing steadily by providing diverse valued-added services and enhancing the overall quality of game cloud services. As for healthcare cloud service, with the use of big data and AI technology, Kingsoft Cloud Group launched management platform for hierarchical medical system, aims to solve the "imbalance" of medical industry and to tackle the challenges in hierarchical medical system implementation. AI applications to various industries in all sectors mentioned above, was based on AI cloud KAP (Kingsoft AI Propeller) launched in this quarter, including IaaS, PaaS, SaaS and industry solutions, among which KDL was the first AI cloud PaaS platform used for business purpose in China cloud computing enterprises. Kingsoft has entered strategic cooperation agreement with industry leaders such as Intel to conduct cooperation at a higher level, to develop extensive customization and special category cooperation in AI area.

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

Mr. Jun LEI concluded, "In the future, we will continue to focus on product innovation, accelerate our market expansion, and actively seek business collaboration with potential partners in order to enlarge our user base and enhance our market competency. In order to enhance our game business market competency in the long run, we will focus on our mobile game expansion in the new market and the distribution of JX Online III revamped version in the second half of this year, which may temporarily affect our

## BUSINESS REVIEW AND OUTLOOK (continued)

profitability performance in the third quarter. Meanwhile, the Company will further integrate resources advantage within each business segment to bolster synergies across all operations. Capitalizing on the industry uptrend, we shall strive for sustainable growth and are confident of taking our business to new heights in the coming quarters and bringing solid returns to shareholders and our partners.”

# MANAGEMENT DISCUSSION AND ANALYSIS

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

### *Revenue*

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

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

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

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

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

### *Cost of Revenue and Gross Profit*

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

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

### *R&D Costs, net*

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

### *Selling and Distribution Expenses*

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

### *Administrative Expenses*

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

### *Share-based Compensation Costs*

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

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## ***Operating Profit before Share-based Compensation Costs***

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

## ***Other Losses, net***

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

## ***Income Tax Expense***

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

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

On 12 February 2017, the Company entered into a voting proxy agreement with Mr. Sheng Fu, the chief executive officer and director of Cheetah Mobile. Pursuant to this agreement, the Company will delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah Mobile to Mr. Sheng Fu (as the representative of the management of Cheetah Mobile), subject to the approval of the Shareholders and signing of the definitive agreement in relation to the possible investment in robotics business between Cheetah Mobile and Mr. Sheng Fu. On 26 May 2017,

Beijing Kingsoft Internet Security Software Co., Ltd. (a wholly-owned subsidiary of Cheetah Mobile) entered into a capital injection agreement with Mr. Sheng Fu, Beijing OrionStar Technology Co., Ltd. (as the target company), other investors and existing shareholders in relation to the investment in robotics business. Upon completion of the above delegation, the Group will lose control over Cheetah Mobile and Cheetah Mobile will be accounted for as an associate of the Company.

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

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

As a result of the reasons discussed above, profit/(loss) attributable to owners of the parent (including that from continuing operations and a discontinued operation) was RMB250.0 million, RMB(807.6) million and RMB238.5 million for the three months ended 30 June 2017, 30 June 2016 and 31 March 2017, respectively.

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

## **First Half of 2017 Compared to First Half of 2016**

### ***Revenue***

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

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

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

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

### ***Cost of Revenue and Gross Profit***

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

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

### ***R&D Costs, net***

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

### ***Selling and Distribution Expenses***

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

### ***Administrative Expenses***

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

### ***Share-based Compensation Costs***

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

### ***Operating Profit before Share-based Compensation Costs***

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

### ***Other Losses, net***

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

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## ***Income Tax Expense***

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

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

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

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

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

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

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

## ***Liquidity and Financial Resource***

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

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

## ***Foreign Currency Risk Management***

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

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

## ***Net Cash Generated from Operating Activities***

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

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

## ***Capital Expenditures***

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

## OTHER INFORMATION

### Directors' Interests in Securities

As at 30 June 2017, 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	16.05	Long position
	Other	142,714,003	10.90	Long position
	Total	352,830,251 (Note 2)	26.95	Long position
Pak Kwan KAU	Interest of controlled corporation	108,032,566 (Note 3)	8.25	Long position
Tao ZOU	Beneficial owner	7,409,307	0.57	Long position
Yuk Keung NG	Beneficial owner	2,600,000	0.20	Long position

Notes:

- % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 30 June 2017, which was 1,309,195,387.
- Among these 352,830,251 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 was held by a wholly-owned subsidiary of Xiaomi Corporation, a company controlled by Mr. Jun LEI under the SFO; and (iii) 142,714,003 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 agreed to vote with these shares in the same way as Mr. Jun LEI votes.
- These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Kau Management Limited. Kau Management Limited is a company indirectly owned by a discretionary trust, the beneficiaries of which include Mr. Pak Kwan KAU and his family members. As such, Mr. Pak Kwan KAU is deemed to be interested in these shares under the SFO. 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 will vote with these shares in the same way as Mr. Jun LEI votes.

## OTHER INFORMATION (continued)

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

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

<b>NAME OF DIRECTOR</b>	<b>CAPACITY</b>	<b>NUMBER OF SHARES INTERESTED</b>	<b>% OF ISSUED SHARE CAPITAL IN CLASS (NOTE 2)</b>	<b>NATURE OF SHARES INTERESTED</b>
Jun LEI (Note 3)	Interest of controlled corporation	17,660,294	4.23	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:

- Cheetah Mobile is a non-wholly owned subsidiary of the Company listed on the NYSE.
- % of issued share capital in class was calculated on basis of the issued Class A Cheetah Shares of Cheetah Mobile as at 30 June 2017, which was 417,432,298.
- Among the 17,660,294 shares, (i) 3,374,580 shares are held by Go Corporate Limited, a British Virgin Islands company owned as to 100% voting power by Mr. Jun LEI; and (ii) 14,285,714 shares are held by Xiaomi Corporation, a company controlled by Mr. Jun LEI under the SFO.

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

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

Notes:

- Seasun Holdings is a non-wholly owned subsidiary of the Company.
- % of issued share capital in class was calculated on basis of the issued ordinary shares of Seasun Holdings as at 30 June 2017, which was 918,149,438.

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

## OTHER INFORMATION (continued)

### Share Option Schemes

#### 2007 Pre-IPO Share Option Scheme

The Company adopted the 2007 Pre-IPO Share Option Scheme, which was approved by resolutions in writing of all the Shareholders on 22 January 2007, before its IPO. Options granted under the 2007 Pre-IPO Share Option Scheme generally vest over a period of four years, with one fourth of the options to vest on the first anniversary of the grant date, and an additional one eighth to vest at the end of each of the third to eighth six-month periods after the grant date as stipulated in the share option agreement. Share options were granted for periods of up to ten years.

The 2007 Pre-IPO Share Option Scheme was terminated on 3 September 2007. No share options have been granted since then.

The following share options were outstanding under the 2007 Pre-IPO Share Option Scheme during the six months ended 30 June 2017.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS				DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US\$ PER SHARE
	AT 1 JANUARY 2017	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT 30 JUNE 2017		
<b>Other employees</b>						
In aggregate	3,089,700	3,089,700	—	—	1 February 2007	0.2400
	3,089,700	3,089,700	—	—		

## OTHER INFORMATION (continued)

### 2011 Share Option Scheme

The Company operates the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Share Option Scheme include the Directors, including 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 2017.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS					DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK\$ PER SHARE
	AT 1 JANUARY 2017	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT 30 JUNE 2017		
<b>Executive Directors</b>							
Yuk Keung NG	2,400,000	—	—	—	2,400,000	20 July 2012	3.28
Tao ZOU	—	4,000,000	—	—	4,000,000	21 April 2017	20.25
<b>Other grantee(s)</b>							
In aggregate	3,500,000	—	2,120,000	—	1,380,000	20 December 2011	2.89
	5,900,000	4,000,000	2,120,000	—	7,780,000		

### 2006–2007 Kingsoft Japan Share Option Scheme

On 2 November 2006 and 31 July 2007, the shareholders of Kingsoft Japan, approved and adopted the 2006–2007 Kingsoft Japan Share Option Scheme for the purpose of enhancing the operational efficiency of Kingsoft Japan and providing additional incentives for its employees and other related persons. Options are exercisable conditional upon a successful IPO of Kingsoft Japan. The 2006–2007 Kingsoft Japan Share Option Scheme will remain in force for 10 years from the date on which the scheme is deemed to take effect. On 17 July 2014, directors of Kingsoft Japan approved to split all outstanding shares of Kingsoft Japan in the proportion of 1:100. As such, the number of shares subject to the options under the 2006–2007 Kingsoft Japan Share Option Scheme was adjusted in the proportion of 1:100. More details regarding the 2006–2007 Kingsoft Japan Share Option Scheme are set out in note 22 to the financial statements.

### Kingsoft Cloud Share Option Scheme

On 27 February 2013, the shareholders of the Company and Kingsoft Cloud, approved and adopted the Kingsoft Cloud Share Option Scheme for the purpose of providing

incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud and its subsidiaries are entitled to participate. The Kingsoft Cloud Share Option Scheme will remain in force for 10 years from 27 February 2013. The Kingsoft Cloud Share Option Scheme was amended and refreshed on 27 June 2013 and 20 May 2015, and amended on 26 December 2016. More details regarding the Kingsoft Cloud Share Option Scheme are set out in note 22 to the financial statements.

### Seasun Holdings Share Option Scheme

On 27 June 2013, the shareholders of the Company and Seasun Holdings, approved and adopted the Seasun Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Seasun Holdings, its subsidiaries or its invested entities are entitled to participate. The Seasun Holdings Share Option Scheme will remain in force for 10 years from 27 June 2013. The Seasun Holdings Share Option Scheme was amended on 26 December 2016, and amended and refreshed on 24 May 2017. More details regarding the Seasun Holdings Share Option Scheme are set out in note 22 to the financial statements.

## OTHER INFORMATION (continued)

### ***Cheetah Mobile Equity Incentive Scheme***

On 2 January 2014, the shareholders of the Company and Cheetah Mobile approved and adopted the Cheetah Mobile Equity Incentive Scheme for the purpose of aiding Cheetah Mobile and its affiliates in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of Cheetah Mobile and its affiliates by providing incentives through the granting of awards, including but not limited to, the options of Cheetah Mobile. The Cheetah Mobile Equity Incentive Scheme will remain in force for 10 years from 2 January 2014. More details regarding the Cheetah Mobile Equity Incentive Scheme are set out in note 22 to the financial statements.

### ***2014 Kingsoft Japan Share Option Scheme***

On 2 January 2014, the shareholders of the Company approved the 2014 Kingsoft Japan Share Option Scheme for the purpose of providing incentives or rewards to eligible participants thereunder for their contribution to Kingsoft Japan and its subsidiaries and/or to enable Kingsoft Japan to recruit and retain high-calibre employees and attract human resources that are valuable to Kingsoft Japan, its subsidiaries and its invested entities. The 2014 Kingsoft Japan Share Option Scheme was approved and adopted by shareholders of Kingsoft Japan on 28 March 2014, and will remain in force for 10 years commencing on 28 March 2014. On 17 July 2014, directors of Kingsoft Japan approved to split all outstanding shares of Kingsoft Japan in the proportion of 1:100. As such, the number of shares subject to the options under the 2014 Kingsoft Japan Share Option Scheme was adjusted in the proportion of 1:100. More details regarding the 2014 Kingsoft Japan Share Option Scheme are set out in note 22 to the financial statements.

## **Share Award Scheme**

### ***Share Award Scheme***

The Share Award Scheme was adopted by the Board on 31 March 2008. Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of five years commencing on 31 March 2008. On 25 November 2010, the Board approved to extend the term of the Share Award Scheme until 30 March 2017, for which the Company released an announcement on 1 December 2010. On 19 November 2016, the Board approved to further extend the term of the Share Award Scheme until 30 March 2022.

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

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

More details regarding the Share Award Scheme are set out in note 22 to the financial statements.

### ***2011 Cheetah Mobile Share Award Scheme***

On 26 May 2011, the directors of Cheetah Mobile, approved and adopted the 2011 Cheetah Mobile Share Award Scheme.

Unless early terminated by the directors of Cheetah Mobile, the 2011 Cheetah Mobile Share Award Scheme shall be valid and effective for a term of ten years commencing on 26 May 2011.

The purpose of the 2011 Cheetah Mobile Share Award Scheme is to recognize the contributions by certain employees and to give incentives thereto in order to retain them for the continual operation and development of Cheetah Mobile Group and to attract suitable personnel for further development of Cheetah Mobile Group.

## OTHER INFORMATION (continued)

Pursuant to the terms of the 2011 Cheetah Mobile Share Award Scheme, the board of Cheetah Mobile 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 of Cheetah Mobile from time to time) select an employee for participation in the 2011 Cheetah Mobile Share Award Scheme and determine the number of the awarded shares of Cheetah Mobile. The directors of Cheetah Mobile will not grant any award of shares which would result in the total number of shares grant under the 2011 Cheetah Mobile Share Award Scheme (but not counting any of which have lapsed or have been forfeited) being greater than 100,000,000 shares as at the date of such grant.

More details regarding the 2011 Cheetah Mobile Share Award Scheme are set out in note 22 to the financial statements.

### *Kingsoft Cloud Share Award Scheme*

On 22 February 2013, the directors of Kingsoft Cloud approved and adopted the Kingsoft Cloud Share Award Scheme, for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud Group are entitled to participate. Unless early terminated by the directors of Kingsoft Cloud, the Kingsoft Cloud Share Award Scheme shall be valid and effective for a term of ten years commencing on 22 February 2013. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 9 January 2015 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 50,000,000 shares, as at the date of such grant. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 3 March 2016 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 68,364,500 shares, as at the date of such grant. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 8 June 2016 to refresh

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

More details regarding the Kingsoft Cloud Share Award Scheme are set out in note 22 to the financial statements.

### *2014 Cheetah Mobile Share Award Scheme*

On 24 April 2014, the shareholders of Cheetah Mobile approved and adopted the 2014 Cheetah Mobile Share Award Scheme to promote the success and enhance the value of Cheetah Mobile by providing the members of the board, employees, and consultants with an incentive for outstanding performance to generate superior returns to the shareholders and to further provide flexibility to Cheetah Mobile in its ability to motivate, attract, and retain the services of such individuals. Under the 2014 Cheetah Mobile Share Award Scheme, the maximum aggregate number of shares, which may be issued pursuant to all awards granted, shall be equal to 122,545,665 Class A Cheetah Shares. Unless early terminated by the board or the compensation committee of the board of Cheetah Mobile, the 2014 Cheetah Mobile Share Award Scheme shall be valid and effective for a term of ten years commencing on 24 April 2014.

More details regarding the 2014 Cheetah Mobile Share Award Scheme are set out in note 22 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 be and 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.

## OTHER INFORMATION (continued)

More details regarding the Season Holdings Share Award Scheme are set out in note 22 to the financial statements.

### Substantial Shareholders

As at 30 June 2017, 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 provision 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*

<b>NAME OF SUBSTANTIAL SHAREHOLDER</b>	<b>CAPACITY</b>	<b>NUMBER OF SHARES INTERESTED</b>	<b>% OF ISSUED SHARE CAPITAL (NOTE 1)</b>	<b>NATURE OF SHARES HELD</b>
Color Link Management Limited (Note 2)	Beneficial owner	174,818,191	13.35	Long position
Topclick Holdings Limited (Note 3)	Beneficial owner	108,032,566	8.25	Long position
Tencent Holdings Limited (Note 4)	Interest of controlled corporation	106,784,515	8.16	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 2017, which was 1,309,195,387.
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 Kau Management Limited. Kau Management Limited is a company owned by a discretionary trust, the trustee of which is Credit Suisse Trust Limited and the beneficiaries of which include Mr. Pak Kwan KAU and his family members. As such, Mr. Pak Kwan KAU is deemed to be interested in these shares under the SFO. 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 agreed to vote in the same way with these shares as Mr. Jun LEI votes.

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 Division 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 2017, the Group had 6,998 full-time employees (30 June 2016: 6,603), inclusive of all its staff in Mainland China and overseas offices, most of whom are based in Beijing and Zhuhai, the PRC. The number of employees employed by the Group varies from time to time depending on business needs. Employee remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. The remuneration policy and package of the Group's employees are periodically reviewed. Apart from pension funds, in-house training programs, discretionary bonuses, medical insurance and mandatory provident fund, share awards and share options may be granted to employees according to the assessment of individual performance.

The total remuneration cost from continuing operations incurred by the Group for the six months ended 30 June 2017 was RMB804.6 million (for the six months ended 30 June 2016: RMB595.6 million).

### **Directors' Remuneration**

Please refer to note 31 to the financial statements for details of the Directors' remuneration.

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

On 11 April 2017, being the put option date of the convertible bonds due 2019 issued by the Company on 11 April 2014 (the "Convertible Bonds"), the Company redeemed an aggregate principal amount of HK\$2,281,000,000 at the principal amount of the Convertible Bonds together with interest accrued to that date at the option of certain bondholders. As at 30 June 2017, the outstanding Convertible Bonds at an aggregate principal amount of HK\$46,000,000 are convertible into 1,078,040 Shares upon full conversion. More details regarding the Convertible Bonds are set out in note 23 to the financial statements.

Save as disclosed above, 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 2017.

### **Review by Audit Committee**

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

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

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

The Company has adopted the Model Code 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 2017.

## OTHER INFORMATION (continued)

### **Corporate Governance Code**

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

The code provision A.6.7 of the CG Code is regarding non-executive directors' attendance at general meetings. Non-executive Directors Mr. Chi Ping LAU did not attend the annual general meeting held on 24 May 2017 due to pre-arranged engagements. The code provision C.1.2 of the CG Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive Directors overseeing the daily operation of the Group and the effective communication between the executive Directors, the management and the non-executive Directors (including the independent non-executive Directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the Shareholders accordingly.

### **Appreciation**

On behalf of the Board, I would like to express our sincere thanks to our Shareholders and investors for their continuous support and confidence in us. I would like to thank our employees for their hard work and valuable contributions which are the core elements of the Company's success.

By Order of the Board

**Kingsoft Corporation Limited**

**Jun Lei**

*Chairman*

Hong Kong, 22 August 2017

# INDEPENDENT REVIEW REPORT ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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## To the board of directors of Kingsoft Corporation Limited

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

### INTRODUCTION

We have reviewed the interim financial information set out on pages 25 to 91, which comprises the condensed consolidated statement of financial position of Kingsoft Corporation Limited (the "Company") and its subsidiaries as at 30 June 2017 and the related condensed consolidated statements of profit or loss and comprehensive income for the three-month period and six-month period then ended, condensed consolidated statements of changes in equity and cash flows for the six-month then ended and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

### SCOPE OF REVIEW

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

### CONCLUSION

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

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

22 August 2017

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three and six months ended 30 June 2017

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED) (RESTATED)	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED) (RESTATED)
<b>CONTINUING OPERATIONS</b>					
Revenue	4	<b>1,284,412</b>	750,964	<b>2,497,778</b>	1,417,375
Cost of revenue		<b>(488,898)</b>	(252,649)	<b>(998,345)</b>	(444,062)
Gross profit		<b>795,514</b>	498,315	<b>1,499,433</b>	973,313
Research and development costs, net		<b>(368,273)</b>	(242,587)	<b>(689,712)</b>	(482,459)
Selling and distribution expenses		<b>(135,262)</b>	(74,671)	<b>(216,435)</b>	(129,805)
Administrative expenses		<b>(58,645)</b>	(45,774)	<b>(114,708)</b>	(94,424)
Share-based compensation costs	22	<b>(61,063)</b>	(14,325)	<b>(109,800)</b>	(36,939)
Other income	4	<b>92,778</b>	8,074	<b>163,555</b>	9,944
Other expenses		<b>(4,250)</b>	(29)	<b>(6,332)</b>	(613)
Other losses, net	5	<b>(42,332)</b>	(891,714)	<b>(134,586)</b>	(863,722)
Finance income		<b>44,115</b>	33,966	<b>91,892</b>	75,987
Finance costs		<b>(21,155)</b>	(26,042)	<b>(53,832)</b>	(47,044)
Share of profits and losses of:					
Joint ventures	13	<b>32,646</b>	4,359	<b>71,472</b>	1,187
Associates	14	<b>(3,085)</b>	(2,566)	<b>(5,480)</b>	(2,568)
<b>PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	6	<b>270,988</b>	(752,994)	<b>495,467</b>	(597,143)
Income tax expense	7	<b>(48,174)</b>	(32,310)	<b>(94,261)</b>	(78,149)
<b>PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>222,814</b>	(785,304)	<b>401,206</b>	(675,292)
<b>DISCONTINUED OPERATION</b>					
Profit/(loss) for the period from a discontinued operation	8	<b>61,840</b>	(128,107)	<b>163,713</b>	(110,182)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>284,654</b>	(913,411)	<b>564,919</b>	(785,474)
Attributable to:					
Owners of the parent		<b>250,044</b>	(807,554)	<b>488,513</b>	(673,751)
Non-controlling interests		<b>34,610</b>	(105,857)	<b>76,406</b>	(111,723)
		<b>284,654</b>	(913,411)	<b>564,919</b>	(785,474)

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

For the three and six months ended 30 June 2017

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2017 RMB (UNAUDITED)	2016 RMB (UNAUDITED) (RESTATED)	2017 RMB (UNAUDITED)	2016 RMB (UNAUDITED) (RESTATED)
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	9				
Basic					
— For profit/(loss) for the period		<b>0.19</b>	(0.63)	<b>0.38</b>	(0.52)
— For profit/(loss) from continuing operations		<b>0.16</b>	(0.58)	<b>0.30</b>	(0.49)
Diluted					
— For profit/(loss) for the period		<b>0.19</b>	(0.63)	<b>0.37</b>	(0.52)
— For profit/(loss) from continuing operations		<b>0.16</b>	(0.58)	<b>0.30</b>	(0.49)

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2017

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	NOTES	30 JUNE 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	1,042,871	1,097,766
Prepaid land lease payments	11	265,876	268,046
Goodwill		9,559	954,656
Other intangible assets	12	60,956	295,751
Investments in joint ventures	13	178,648	165,512
Investments in associates	14	23,793	406,773
Available-for-sale investments	15	516,762	1,050,654
Other financial assets	16	50,584	71,091
Deferred tax assets		33,760	119,868
Other non-current assets		9,986	43,459
Total non-current assets		2,192,795	4,473,576
<b>CURRENT ASSETS</b>			
Inventories		12,113	11,098
Trade receivables	17	981,251	1,774,156
Prepayments, deposits and other receivables		525,910	1,122,028
Available-for-sale investments	15	88,000	204,849
Restricted cash	18	96,833	98,381
Pledged deposits	18	—	69,370
Cash and bank deposits	18	7,007,760	9,825,494
		8,711,867	13,105,376
Assets of a disposal group classified as held for sale	8	5,683,788	—
Total current assets		14,395,655	13,105,376
<b>CURRENT LIABILITIES</b>			
Trade payables	19	157,267	560,488
Other payables and accruals		1,029,582	2,123,794
Interest-bearing bank loans	20	—	379,544
Deferred revenue		573,081	547,462
Income tax payable		99,417	119,931
		1,859,347	3,731,219
Liabilities of a disposal group classified as held for sale	8	2,323,403	—
Total current liabilities		4,182,750	3,731,219
<b>NET CURRENT ASSETS</b>		<b>10,212,905</b>	<b>9,374,157</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>12,405,700</b>	<b>13,847,733</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2017

	NOTES	30 JUNE 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)
<b>NON-CURRENT LIABILITIES</b>			
Other liabilities		310	19,681
Deferred revenue		29,576	37,609
Deferred tax liabilities		37,646	122,201
Interest-bearing bank loans	20	335,138	438,330
Liability component of convertible bonds	23	901,252	2,911,354
Liability component of redeemable convertible preferred shares	24	325,458	316,834
Total non-current liabilities		<b>1,629,380</b>	3,846,009
<b>Net assets</b>		<b>10,776,320</b>	10,001,724
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	21	5,115	5,097
Share premium account	21	2,273,297	2,369,129
Treasury shares	21	(23,215)	(25,477)
Equity component of convertible bonds	23	7,564	72,295
Other reserves		6,398,805	5,466,163
Non-controlling interests		<b>8,661,566</b>	7,887,207
		<b>2,114,754</b>	2,114,517
<b>Total equity</b>		<b>10,776,320</b>	10,001,724

**Tao Zou**  
Director

**Yuk Keung NG**  
Director

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	EQUITY COMPONENT OF CONVERTIBLE BONDS		SHARE-BASED COMPENSATION RESERVE		OTHER CAPITAL RESERVE	AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED PROFITS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
			TREASURY SHARES	BONDS (NOTE 23)	STATUTORY RESERVE	RESERVE (NOTE 22)							
			RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)							
<b>AT 1 JANUARY 2017</b>	5,097	2,369,129	(25,477)	72,295	225,276 <sup>#</sup>	468,930 <sup>#</sup>	1,339,013 <sup>#</sup>	30,075 <sup>#</sup>	297,789 <sup>#</sup>	3,105,080 <sup>#</sup>	7,887,207	2,114,517	10,001,724
Profit for the period	—	—	—	—	—	—	—	—	—	488,513	488,513	76,406	564,919
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(76,242)	—	(76,242)	(30,946)	(107,188)
Total comprehensive income for the period	—	—	—	—	—	—	—	—	(76,242)	488,513	412,271	45,460	457,731
Approved and paid final dividend in respect of the previous year (note 26)	—	(112,678)	—	—	—	—	—	—	—	—	(112,678)	—	(112,678)
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(161,218)	(161,218)
Share-based compensation costs	—	—	—	—	—	103,182	—	—	—	—	103,182	55,079	158,261
Exercise of share options	18	16,846	—	—	—	(4,540)	—	—	—	—	12,324	—	12,324
Vested awarded shares transferred to employees	—	—	2,262	—	—	(49,649)	60,327	—	—	—	12,940	—	12,940
Shares of reserves of an associate	—	—	—	—	—	—	126	—	—	—	126	130	256
Redemption of convertible bonds	—	—	—	(64,731)	—	—	27,085	—	—	—	(37,646)	—	(37,646)
Changes in the ownership interests in subsidiaries (note 25)	—	—	—	—	—	—	383,840	—	—	—	383,840	60,786	444,626
<b>At 30 June 2017</b>	5,115	2,273,297	(23,215)	7,564	225,276 <sup>#</sup>	517,923 <sup>#</sup>	1,810,391 <sup>#</sup>	30,075 <sup>#</sup>	221,547 <sup>#</sup>	3,593,593 <sup>#</sup>	8,661,566	2,114,754	10,776,320

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

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	EQUITY COMPONENT OF CONVERTIBLE BONDS		SHARE-BASED COMPENSATION RESERVE		OTHER CAPITAL RESERVE	AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED PROFITS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
			TREASURY SHARES	BONDS (NOTE 23)	STATUTORY RESERVE	RESERVE (NOTE 22)							
			RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)							
<b>AT 1 JANUARY 2016</b>	5,092	2,474,663	(34,766)	72,295	197,881	375,240	1,276,487	(7,511)	106,151	3,405,108	7,870,640	2,040,715	9,911,355
Loss for the period	—	—	—	—	—	—	—	—	—	(673,751)	(673,751)	(111,723)	(785,474)
Other comprehensive income for the period:													
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	48,398	—	—	48,398	422	48,820
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	91,795	—	91,795	25,350	117,145
Disposal of an associate	—	—	—	—	—	—	—	—	129	—	129	—	129
Total comprehensive income for the period	—	—	—	—	—	—	—	48,398	91,924	(673,751)	(533,429)	(85,951)	(619,380)
Approved and paid final dividend in respect of the previous year	—	(110,111)	—	—	—	—	—	—	—	—	(110,111)	—	(110,111)
Disposal of a subsidiary (note 28)	—	—	—	—	—	—	—	—	—	—	—	3,393	3,393
Share-based compensation costs	—	—	—	—	—	117,947	—	—	—	—	117,947	98,900	216,847
Exercise of share options	—	505	—	—	—	(236)	—	—	—	—	269	—	269
Vested awarded shares transferred to employees	—	—	3,357	—	—	(63,196)	78,444	—	—	—	18,605	—	18,605
Shares of reserves of an associate	—	—	—	—	—	—	124	—	—	—	124	132	256
Subsidiaries' business combination under common control	—	—	—	—	—	—	—	—	1,242	(1,901)	(659)	659	—
Changes in the ownership interests in subsidiaries (note 25)	—	—	—	—	—	—	(41,199)	—	—	—	(41,199)	(156,651)	(197,850)
<b>At 30 June 2016</b>	5,092	2,365,057	(31,409)	72,295	197,881	429,755	1,313,856	40,887	199,317	2,729,456	7,322,187	1,901,197	9,223,384

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

		<b>For the six months ended 30 June</b>	
	<b>Notes</b>	<b>2017 RMB'000 (Unaudited)</b>	<b>2016 RMB'000 (Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		<b>660,503</b>	(702,362)
Adjustments for:			
Loss on disposal of property, plant and equipment		<b>507</b>	28,179
Loss on disposal of other intangible assets		<b>154</b>	829
Loss on redemption of convertible bonds	5	<b>3,383</b>	—
Depreciation of property, plant and equipment	10	<b>174,030</b>	144,210
Amortisation of prepaid land lease payments	11	<b>2,170</b>	2,170
Amortisation of other intangible assets	12	<b>66,050</b>	67,282
Impairment of other intangible assets	12	<b>172</b>	2,350
Impairment of property, plant and equipment		—	20,750
Finance costs		<b>60,486</b>	48,937
Finance income		<b>(103,541)</b>	(83,983)
Fair value loss on financial instruments at fair value through profit or loss		<b>15,196</b>	13,905
Share-based compensation costs		<b>158,348</b>	216,942
Impairment of trade and other receivables		<b>13,729</b>	26,061
Share of profits of joint ventures		<b>(70,850)</b>	(645)
Share of losses of associates		<b>55,656</b>	32,669
Foreign exchange (gain)/loss		<b>(27,777)</b>	12,303
Impairment losses of available-for-sale investments	15	<b>158,367</b>	914,541
Gain on disposal of available-for-sale investments		<b>(81,680)</b>	—
Gain on deemed disposal of associates		<b>(15,073)</b>	(29,747)
Gain on disposal of an associate		—	(25,169)
Impairment loss of investments in joint ventures		—	9,908
Impairment loss of investment in an associate		—	1,545
Gain on disposal of a subsidiary		—	(13,571)
		<b>1,069,830</b>	687,104
Decrease/(increase) in trade receivables		<b>193,519</b>	(172,529)
Decrease/(increase) in prepayments, deposits and other receivables		<b>51,613</b>	(134,450)
Decrease/(increase) in other non-current assets		<b>1,760</b>	(7,626)
Increase in inventories		<b>(3,458)</b>	(1,673)
(Decrease)/increase in trade payables		<b>(185,395)</b>	111,674
Increase in deferred revenue		<b>66,553</b>	146,735
Increase/(decrease) in other payables and accruals		<b>20,727</b>	(108,109)
Cash generated from/(used in) operation		<b>1,215,149</b>	521,126
Interest received		<b>33,499</b>	22,525
Income tax paid		<b>(130,820)</b>	(99,446)
Net cash flows from operating activities		<b>1,117,828</b>	444,205

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		38,250	29,172
Purchases of property, plant and equipment		(236,092)	(302,047)
Purchases of other intangible assets		(11,978)	(31,184)
Increase in time deposits with original maturity of over three months when acquired		(274,998)	(1,238,644)
Investment in joint ventures		(1,000)	(8,500)
Investments in associates		(7,823)	(170,840)
Settlement of contingent considerations of business combinations		—	(8,759)
Purchase of available-for-sale investments		(16,894)	(115,012)
Purchase of other financial assets		—	(20,143)
Acquisition of businesses, net of cash acquired		(5,900)	(377,607)
Release of restricted cash for acquisition of a business		—	73,725
Restricted cash for acquisition of business		—	(32,895)
Disposal of property, plant and equipment		415	—
Disposal of a subsidiary, net of cash disposed of	28	—	(6,316)
Proceeds from disposal of a joint venture investment classified as held for sale		—	123,543
Proceeds from disposal of associates		28,379	49,019
Dividend income from an associate and a joint venture		89,152	—
Decrease/(increase) in other loans		51,282	(3,880)
Proceeds from disposal of available-for-sale investments		108,399	—
Net cash flows used in investing activities		(238,808)	(2,040,368)

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of redeemable convertible preferred shares		<b>309,727</b>	318,920
Changes in the ownership of interest in subsidiaries		<b>401,454</b>	(196,921)
Proceeds from exercise of share options		<b>12,324</b>	269
Vested awarded shares transferred to employees		<b>12,940</b>	18,605
Proceeds from issuance of restricted shares of subsidiaries		<b>286</b>	797
Dividends paid to owners of the parent		<b>(112,678)</b>	(110,111)
Dividends paid to non-controlling interests		<b>(158,509)</b>	—
Drawdown of bank loans, net of pledged deposits		<b>2,987</b>	225,461
Payment of financial lease		<b>(6,861)</b>	(7,018)
Redemption of convertible bonds		<b>(1,979,726)</b>	—
Repayment of a bank loan		—	(17,180)
Release of a pledged deposit		—	20,812
Interest paid		<b>(39,042)</b>	(24,126)
Net cash flows (used in)/from financing activities		<b>(1,557,098)</b>	229,508
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(678,078)</b>	(1,366,655)
Cash and cash equivalents at beginning of the period		<b>5,776,336</b>	6,629,275
Effect of foreign exchange rate changes, net		<b>(125,544)</b>	102,819
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>4,972,714</b>	5,365,439
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	18	<b>626,796</b>	1,307,599
Deposits with original maturity of less than three month when acquired	18	<b>2,497,280</b>	4,057,840
Cash and cash equivalents at end of period attributable to a discontinued operation		<b>1,848,638</b>	—
<b>CASH AND CASH EQUIVALENTS AS STATED IN THE CONDENSED STATEMENT OF CASH FLOWS</b>		<b>4,972,714</b>	5,365,439

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

Kingsoft Corporation Limited (the “Company”) was incorporated under the Companies Act of the British Virgin Islands on 20 March 1998. On 15 November 2005, the Company was redomiciled to the Cayman Islands under the Company Law (2004 revision) of the Cayman Islands. The registered office of the Company is located at Clifton House, 75 Fort Street, George Town, Grand Cayman, Cayman Islands. The Company’s shares have been listed on the Stock Exchange of Hong Kong Limited since 9 October 2007.

During the six months ended 30 June 2017, there are no material changes in the principal activities of the Group, except that the operation of Cheetah Mobile Inc. and its subsidiaries (collectively, “Cheetah Mobile”) is reclassified as a discontinued operation. The continuing operations of the Company and its subsidiaries (together, 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;
- provision of cloud storage, and cloud computation services; and
- design, research and development and sales and marketing of the office software products and services of WPS Office.

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

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

### 2.1. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

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

### 2.2. Discontinued operation

On 12 February 2017, the Company entered into a voting proxy agreement with Mr. Sheng Fu, the chief executive officer and director of Cheetah Mobile Inc.. Pursuant to this agreement, the Company will delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah Mobile Inc. to Mr. Sheng Fu (as the representative of the management of Cheetah Mobile Inc.), subject to the approval of the shareholders of the Company (the “Shareholders”) and signing of the definitive agreement in relation to the possible investment in robotics business between Cheetah Mobile and

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

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

### 2.2. Discontinued operation (continued)

Mr. Sheng Fu. On 26 May 2017, Beijing Kingsoft Internet Security Software Co., Ltd. (a wholly-owned subsidiary of Cheetah Mobile Inc.) entered into a capital injection agreement with Mr. Sheng Fu, Beijing OrionStar Technology Co., Ltd. (as the target company), other investors and existing shareholders in relation to the investment in robotics business. Upon completion of the above delegation, the Group will lose control over Cheetah Mobile and Cheetah Mobile will be accounted for as an associate of the Company.

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

Details on the discontinued operation are disclosed in Note 8 to the interim condensed consolidated financial statements.

### 2.3 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of below new standards and interpretations effective as of 1 January 2017. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

*Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*

*Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses*

*Annual Improvements Cycle - 2014–2016 Amendments to a number of IFRSs*

The adoption of the new and revised IFRSs has had no significant financial effect on the interim condensed consolidated financial information.

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

## 3. SEGMENT INFORMATION

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

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

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

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

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

## 3. SEGMENT INFORMATION (continued)

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

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

## 3. SEGMENT INFORMATION (continued)

	ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED)	CLOUD SERVICES RMB'000 (UNAUDITED)	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
<i>For the six months ended 30 June 2016 (Restated)</i>				
<b>SEGMENT REVENUE:</b>				
Sales to external customers	933,664	283,124	200,587	1,417,375
Sales to the discontinued operation	399	9,518	19,662	29,579
Intersegments sales	538	6,052	26,725	33,315
	934,601	298,694	246,974	1,480,269
<i>Reconciliation:</i>				
Elimination with the discontinued operation				(29,579)
Elimination of intersegments sales				(33,315)
Revenue from continuing operations				1,417,375
<b>Segment results</b>	476,449	(142,470)	59,729	393,708
<i>Reconciliation:</i>				
Elimination with discontinued results				(29,579)
Elimination of intersegments results				(3,080)
Administrative expenses				(94,424)
Share-based compensation costs				(36,939)
Other income				9,944
Other expenses				(613)
Other losses, net				(863,722)
Finance income				75,987
Finance costs				(47,044)
Share of profits and losses of:				
Joint ventures				1,187
Associates				(2,568)
<b>Loss before tax from continuing operations</b>				(597,143)

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

## 3. SEGMENT INFORMATION (continued)

### Geographical information

(a) Revenue of continuing operations from external customers:

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED) (RESTATED)
Mainland China	2,350,784	1,385,379
Hong Kong	142,902	27,215
Other countries	4,092	4,781
<b>Total</b>	<b>2,497,778</b>	<b>1,417,375</b>

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

(b) Non-current assets:

	30 JUNE 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)
China	1,584,747	2,276,874
France	—	664,317
Other countries	2,256	260,153
<b>Total</b>	<b>1,587,003</b>	<b>3,201,344</b>

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

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

## 4. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; rental income received and receivable; and the royalties derived from licensing agreements during the period.

An analysis of the Group's revenue and other income is as follows:

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED) (RESTATED)	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED) (RESTATED)
<i>Revenue</i>				
Game services	<b>595,947</b>	465,646	<b>1,155,899</b>	907,339
Cloud services	<b>304,027</b>	154,314	<b>572,473</b>	283,124
Royalties	<b>209,053</b>	11,148	<b>466,252</b>	26,325
Online marketing services	<b>102,666</b>	57,985	<b>187,298</b>	99,085
Software	<b>71,112</b>	59,865	<b>112,883</b>	97,917
Others	<b>1,607</b>	2,006	<b>2,973</b>	3,585
	<b>1,284,412</b>	750,964	<b>2,497,778</b>	1,417,375
<i>Other income</i>				
Government grants	<b>91,144</b>	7,091	<b>161,108</b>	8,146
Others	<b>1,634</b>	983	<b>2,447</b>	1,798
	<b>92,778</b>	8,074	<b>163,555</b>	9,944

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

## 5. OTHER LOSSES, NET

	NOTE	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2017	2016	2017	2016
		RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED) (RESTATED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED) (RESTATED)
Gain on disposal of an associate		—	—	—	25,169
Loss on disposal of property, plant and equipment		—	(28,179)	—	(28,179)
Loss on redemption of convertible bond		<b>(3,383)</b>	—	<b>(3,383)</b>	—
Impairment loss of available-for- sale investments	15	<b>(59,117)</b>	(830,787)	<b>(158,367)</b>	(830,787)
Impairment loss of property, plant and equipment		—	(20,750)	—	(20,750)
Foreign exchange gain/(loss)		<b>26,198</b>	(14,251)	<b>33,194</b>	(11,428)
Fair value (loss)/gain on financial instruments at fair value through profit or loss		<b>(6,030)</b>	2,253	<b>(6,030)</b>	2,253
		<b>(42,332)</b>	(891,714)	<b>(134,586)</b>	(863,722)

## 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 THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2017	2016	2017	2016
	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED) (RESTATED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED) (RESTATED)
Employee benefit expenses	<b>413,389</b>	292,673	<b>804,590</b>	595,555
Depreciation of property, plant and equipment	<b>78,191</b>	62,444	<b>150,761</b>	121,524
Amortisation of prepaid land lease payments	<b>1,085</b>	1,085	<b>2,170</b>	2,170
Amortisation of other intangible assets	<b>8,458</b>	3,448	<b>16,594</b>	10,062
Interest on bank loans, convertible bonds, redeemable convertible preferred shares and finance leases	<b>21,155</b>	26,042	<b>53,832</b>	47,044
Impairment of trade and other receivables	<b>2,729</b>	18	<b>3,588</b>	18

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

## 7. INCOME TAX EXPENSE

The major components of income tax expense are as follows:

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED) (RESTATED)	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED) (RESTATED)
Current income tax	<b>49,231</b>	26,340	<b>128,600</b>	62,093
Deferred income tax	<b>(1,057)</b>	5,970	<b>(34,339)</b>	16,056
Income tax expense	<b>48,174</b>	32,310	<b>94,261</b>	78,149

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

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

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

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

## 8. DISCONTINUED OPERATION

As disclosed in Note 2.2, Cheetah Mobile has been classified as a discontinued operation of the Group.

The results of Cheetah Mobile for the period are presented below:

	<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>	
	<b>2017 RMB'000 (UNAUDITED)</b>	<b>2016 RMB'000 (UNAUDITED)</b>
Revenue	<b>2,348,281</b>	2,099,200
Expenses	<b>(2,229,615)</b>	(2,110,957)
Other gains/(losses), net	<b>92,173</b>	(68,922)
Finance income	<b>11,649</b>	7,996
Finance costs	<b>(6,654)</b>	(1,893)
Share of losses of joint ventures	<b>(622)</b>	(542)
Share of losses of associates	<b>(50,176)</b>	(30,101)
Profit/(loss) before tax from the discontinued operation	<b>165,036</b>	(105,219)
Income tax expense	<b>(1,323)</b>	(4,963)
Profit/(loss) for the period from the discontinued operation	<b>163,713</b>	(110,182)

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

## 8. DISCONTINUED OPERATION (continued)

The major classes of assets and liabilities of Cheetah Mobile classified as held for sale as at 30 June 2017 are as follows:

	<b>30 JUNE 2017 RMB'000 (UNAUDITED)</b>
<i>Assets</i>	
Property, plant and equipment	<b>100,044</b>
Goodwill	<b>926,224</b>
Other intangible assets	<b>175,062</b>
Investments in joint ventures	<b>2,110</b>
Investments in associates	<b>325,119</b>
Available-for-sale investments	<b>460,492</b>
Other financial assets	<b>29,352</b>
Deferred tax assets	<b>94,950</b>
Inventories	<b>2,186</b>
Trade receivables	<b>586,564</b>
Prepayments, deposits and other receivables	<b>566,418</b>
Restricted cash	<b>26,402</b>
Pledged deposits	<b>67,744</b>
Cash and bank deposits	<b>2,289,110</b>
Other assets	<b>32,011</b>
Assets classified as held for sale	<b>5,683,788</b>
<i>Liabilities</i>	
Trade payables	<b>217,826</b>
Other payables and accruals	<b>1,191,206</b>
Interest-bearing bank loans	<b>478,030</b>
Deferred revenue	<b>48,968</b>
Income tax payable	<b>37,495</b>
Deferred tax liabilities	<b>41,629</b>
Other liabilities	<b>308,249</b>
Liabilities classified as held for sale	<b>2,323,403</b>
Amounts recognised in other comprehensive income and accumulated in equity relating to the disposal group held for sale	<b>180,616</b>

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

## 8. DISCONTINUED OPERATION (continued)

The net cash flows incurred by Cheetah Mobile are as follows:

	<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>	
	<b>2017 RMB'000 (UNAUDITED)</b>	<b>2016 RMB'000 (UNAUDITED)</b>
Operating activities	<b>159,233</b>	27,401
Investing activities	<b>(21,771)</b>	(1,063,730)
Financing activities	<b>325,099</b>	55,353
Net cash inflow/(outflow)	<b>462,561</b>	(980,976)
Earnings per share:		
Basic, from the discontinued operation	<b>RMB0.07</b>	RMB(0.03)
Diluted, from the discontinued operation	<b>RMB0.07</b>	RMB(0.03)

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

	<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>	
	<b>2017 (UNAUDITED)</b>	<b>2016 (UNAUDITED)</b>
Profit/(loss) attributable to ordinary equity holders of the parent from the discontinued operation	<b>RMB94,009,000</b>	RMB(43,474,000)
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (note 9)	<b>1,296,789,525</b>	1,288,345,473
Weighted average number of ordinary shares used in the diluted earnings per share calculation (note 9)	<b>1,364,117,238</b>	1,288,345,473

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount 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 1,296,789,525 (six months ended 30 June 2016: 1,288,345,473) in issue during the period.

The calculation of diluted earnings per share amount is based on the profit/loss for the period attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the convertible bonds of the Company, the share option schemes and the award share schemes adopted by the Group's subsidiaries. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

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

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED) (RESTATED)	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED) (RESTATED)
<i>Earnings</i>				
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:				
From continuing operations	<b>213,789</b>	(751,581)	<b>394,504</b>	(630,277)
From a discontinued operation	<b>36,255</b>	(55,973)	<b>94,009</b>	(43,474)
	<b>250,044</b>	(807,554)	<b>488,513</b>	(673,751)
Increase in earnings adjusted for the convertible bonds of the Company, the share option schemes and the award share schemes adopted by the Group's subsidiaries	<b>7,157</b>	—	<b>13,907</b>	—
	<b>257,201</b>	(807,554)	<b>502,420</b>	(673,751)
Attributable to:				
Continuing operations	<b>221,708</b>	(751,581)	<b>410,396</b>	(630,277)
Discontinued operation	<b>35,493</b>	(55,973)	<b>92,024</b>	(43,474)
	<b>257,201</b>	(807,554)	<b>502,420</b>	(673,751)
<b>NUMBER OF SHARES</b>				
	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2017 (UNAUDITED)	2016 (UNAUDITED)	2017 (UNAUDITED)	2016 (UNAUDITED)
<i>Shares</i>				
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the period, used in the basic earnings per share calculation	<b>1,298,006,805</b>	1,288,672,593	<b>1,296,789,525</b>	1,288,345,473
Effect of dilution — weighted average number of ordinary shares:				
Share options	<b>3,784,630</b>	—	<b>4,675,494</b>	—
Awarded shares	<b>1,712,946</b>	—	<b>1,898,878</b>	—
Convertible bonds	<b>60,753,341</b>	—	<b>60,753,341</b>	—
	<b>1,364,257,722</b>	1,288,672,593	<b>1,364,117,238</b>	1,288,345,473

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

## 10. PROPERTY, PLANT AND EQUIPMENT

	BUILDINGS RMB'000	ELECTRONIC EQUIPMENT RMB'000	OFFICE EQUIPMENT AND FIXTURES RMB'000	MOTOR VEHICLES RMB'000	LEASEHOLD IMPROVEMENTS RMB'000	CONSTRUCTION IN PROGRESS RMB'000	TOTAL RMB'000
<b>30 June 2017 (Unaudited)</b>							
At 31 December 2016 and 1 January 2017:							
Cost	256,539	1,139,361	156,056	8,135	79,698	264,331	1,904,120
Accumulated depreciation	(33,069)	(616,131)	(129,262)	(4,432)	(23,460)	—	(806,354)
Net carrying amount	223,470	523,230	26,794	3,703	56,238	264,331	1,097,766
At 1 January 2017, net of accumulated depreciation	223,470	523,230	26,794	3,703	56,238	264,331	1,097,766
Additions	—	144,027	718	975	663	74,701	221,084
Assets included in a discontinued operation (note 8)	—	(39,356)	(15,494)	(2,151)	(43,043)	—	(100,044)
Disposal	—	(903)	(152)	(398)	(130)	—	(1,583)
Depreciation provided during the period	(2,341)	(158,794)	(3,966)	(630)	(8,299)	—	(174,030)
Exchange realignment	—	(269)	(10)	(38)	(5)	—	(322)
At 30 June 2017, net of accumulated depreciation	221,129	467,935	7,890	1,461	5,424	339,032	1,042,871
At 30 June 2017:							
Cost	256,539	1,133,122	130,135	4,488	13,793	339,032	1,877,109
Accumulated depreciation	(35,410)	(665,187)	(122,245)	(3,027)	(8,369)	—	(834,238)
Net carrying amount	221,129	467,935	7,890	1,461	5,424	339,032	1,042,871

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

## 11. PREPAID LAND LEASE PAYMENTS

	<b>30 JUNE 2017 RMB'000 (UNAUDITED)</b>	<b>31 DECEMBER 2016 RMB'000 (AUDITED)</b>
Carrying amount at 1 January	<b>272,386</b>	276,726
Amortisation during the period/year	<b>(2,170)</b>	(4,340)
Carrying amount at 30 June/31 December	<b>270,216</b>	272,386
Current portion included in prepayments, deposits and other receivables	<b>(4,340)</b>	(4,340)
Non-current portion	<b>265,876</b>	268,046

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

## 12. OTHER INTANGIBLE ASSETS

	PURCHASED SOFTWARE RMB'000	LICENSE RIGHTS FOR GAMES RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	USER BASE RMB'000	OTHERS RMB'000	TOTAL RMB'000
<b>30 June 2017 (Unaudited)</b>						
At 1 January 2017:						
Cost	400,209	78,206	27,229	173,598	60,055	739,297
Accumulated amortisation and impairment	(239,394)	(63,646)	(27,229)	(105,127)	(8,150)	(443,546)
Net carrying amount	160,815	14,560	—	68,471	51,905	295,751
Cost at 1 January 2017, net of accumulated amortisation and impairment	160,815	14,560	—	68,471	51,905	295,751
Addition	11,401	—	—	—	648	12,049
Assets included in a discontinued operation (note 8)	(79,133)	(12,344)	—	(50,976)	(32,609)	(175,062)
Amortisation provided during the period	(42,878)	(1,531)	—	(16,197)	(5,444)	(66,050)
Disposals	(154)	—	—	—	—	(154)
Impairment during the period	—	(172)	—	—	—	(172)
Exchange realignment	(3,365)	(133)	—	(1,298)	(610)	(5,406)
At 30 June 2017, net of accumulated amortisation and impairment	46,686	380	—	—	13,890	60,956
At 30 June 2017:						
Cost	116,898	1,973	27,229	—	15,583	161,683
Accumulated amortisation and impairment	(70,212)	(1,593)	(27,229)	—	(1,693)	(100,727)
Net carrying amount	46,686	380	—	—	13,890	60,956

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

## 13. INVESTMENTS IN JOINT VENTURES

	30 JUNE 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)
Share of net assets	126,881	147,144
Goodwill on acquisition	59,869	37,803
	<b>186,750</b>	184,947
Provision for impairment	<b>(8,102)</b>	(19,435)
	<b>178,648</b>	165,512

Particulars of the Group's material joint venture are as follows:

NAME	PARTICULARS OF ISSUED SHARES HELD	PLACE OF REGISTRATION AND BUSINESS	PERCENTAGE OF			PRINCIPAL ACTIVITIES
			OWNERSHIP INTEREST	VOTING POWER	PROFIT SHARING	
Zhuhai Jianxin Interactive Entertainment Co., Ltd. ("Zhuhai Jianxin")	Ordinary shares	Mainland China	40%	40%	40%	Research and development of games

Zhuhai Jianxin, which is considered as a material joint venture of the Group, is a research and development center of mobile games in Mainland China and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Zhuhai Jianxin adjusted for any differences in accounting policies and reconciled to the carrying amount in financial statements:

	30 JUNE 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)
Cash and bank balance	116,600	12,940
Other current assets	138,433	312,046
Current assets	<b>255,033</b>	324,986
Non-current assets	<b>5,747</b>	4,817
Current liabilities	<b>46,058</b>	53,496
Net assets	<b>214,722</b>	276,307
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	<b>40%</b>	40%
Group's share of net assets of the joint venture	<b>85,889</b>	110,523
Carrying amount of the investment	<b>105,740</b>	116,520

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

## 13. INVESTMENTS IN JOINT VENTURES (continued)

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	30 JUNE 2017	30 JUNE 2016	30 JUNE 2017	30 JUNE 2016
	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)
Revenue	<b>86,395</b>	17,272	<b>194,646</b>	17,272
Interest income	<b>1,519</b>	1	<b>1,546</b>	2
Depreciation and amortisation	<b>(392)</b>	(3)	<b>(708)</b>	(6)
Profit and total comprehensive income for the period	<b>85,759</b>	15,843	<b>187,055</b>	13,260

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	30 JUNE 2017	30 JUNE 2016	30 JUNE 2017	30 JUNE 2016
	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED) (RESTATED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED) (RESTATED)
Share of the joint ventures' losses for the period	<b>(1,658)</b>	(1,978)	<b>(3,350)</b>	(4,117)
Share of the joint ventures' total comprehensive loss	<b>(1,658)</b>	(1,978)	<b>(3,350)</b>	(4,117)
Aggregate carrying amount of the Group's investments in the joint ventures	<b>72,908</b>	61,520	<b>72,908</b>	61,520

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

## 14. INVESTMENTS IN ASSOCIATES

	<b>30 JUNE 2017 RMB'000 (UNAUDITED)</b>	<b>31 DECEMBER 2016 RMB'000 (AUDITED)</b>
Share of net assets	5,745	254,305
Goodwill on acquisition	18,242	156,059
	<b>23,987</b>	410,364
Provision for impairment	<b>(194)</b>	(3,591)
	<b>23,793</b>	406,773

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	<b>FOR THE THREE MONTHS ENDED</b>		<b>FOR THE SIX MONTHS ENDED</b>	
	<b>30 JUNE 2017 RMB'000 (UNAUDITED)</b>	<b>30 JUNE 2016 RMB'000 (UNAUDITED) (RESTATED)</b>	<b>30 JUNE 2017 RMB'000 (UNAUDITED)</b>	<b>30 JUNE 2016 RMB'000 (UNAUDITED) (RESTATED)</b>
Share of the associates' losses for the period	<b>(3,085)</b>	(2,566)	<b>(5,480)</b>	(2,568)
Share of the associates' total comprehensive loss	<b>(3,085)</b>	(2,566)	<b>(5,480)</b>	(2,568)

- (i) On 26 February 2016, the Company entered into the share purchase agreement with Xiaomi Corporation and other shareholders of Zhigu Holdings Limited ("Zhigu"), an associate of the Company, pursuant to which, the Company agreed to sell and Xiaomi Corporation agreed to purchase all the shares held by the Company in Zhigu at a consideration of US\$7.5 million (equivalent to RMB49,019,000). Upon the closing of the transaction, a gain of RMB25,169,000, which included a reclassification from other comprehensive loss of RMB129,000, has been recognised in the statement of profit or loss during the six months ended 30 June 2016.

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

## 15. AVAILABLE-FOR-SALE INVESTMENTS

	NOTES	30 JUNE 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)
Listed equity investments in United States, at fair value	(i)	489,601	665,530
Unlisted equity investments, at fair value	(i)	—	131,803
Unlisted equity investments, at cost	(ii)	115,161	458,170
		<b>604,762</b>	1,255,503
Current portion		<b>(88,000)</b>	(204,849)
Non-current portion		<b>516,762</b>	1,050,654

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

During the six months ended 30 June 2017, the gross loss in respect of the Group's available-for-sale investments at fair value recognised in other comprehensive income amounted to nil (six months ended 30 June 2016: loss of RMB856,221,000), of which loss of nil (six months ended 30 June 2016: loss of RMB914,541,000) was reclassified from other comprehensive income to profit or loss during the period.

Notes:

- (i) During the six months ended 30 June 2017, certain of the Group's available-for-sale equity shares were individually determined to be impaired on the basis that there was a "significant" or "prolonged" decline in the fair value of the equity investments.
- Impairment losses of RMB158,367,000 (six months ended 30 June 2016: RMB830,787,000), which included a reclassification from other comprehensive income of nil (six months ended 30 June 2016: RMB830,787,000), has been recognised in the condensed consolidated statement of profit or loss during the six months ended 30 June 2017.
- (ii) As at 30 June 2017, the unlisted equity investments with a carrying amount of RMB115,161,000 (31 December 2016: RMB458,170,000) were stated at cost less impairment, because the range of reasonable fair value estimates is so significant that the directors are of the opinion that the fair value cannot be measured reliably. During the six months ended 30 June 2017, no impairment loss was recognized in the condensed consolidated statement of profit or loss (six months ended 30 June 2016: nil).

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

## 16. OTHER FINANCIAL ASSETS

	NOTES	30 JUNE 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)
Ordinary share subscription option	(i)	47,587	38,621
Others		2,997	32,470
		<b>50,584</b>	71,091

Notes:

- (i) The ordinary share subscription option (the "VNG Option") represents rights to subscribe for an aggregate of 1,032,917 ordinary shares of VNG Corporation ("VNG"), an independent third party in Vietnam, which can be exercised from time to time at the Group's full discretion on or before 31 December 2020. The Group has no intention to dispose of or exercise these options in the near future.

## 17. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for online sales, where payment in advance is normally required. The credit period is generally one month, extending up to twelve months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

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

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

## 18. CASH AND BANK DEPOSITS, PLEDGED DEPOSITS AND RESTRICTED CASH

NOTES	30 JUNE 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)
Cash and bank balances	626,796	1,718,341
Non-pledged time deposits with original maturity of less than three months when acquired	1,812,457	3,018,595
Principle protected structure deposits with original maturity of less than three months when acquired	684,823	1,039,400
	<b>3,124,076</b>	5,776,336
Non-pledged time deposits with original maturity of over three months when acquired	391,684	1,229,887
Principle protected structure deposits with original maturity of over three months when acquired	3,492,000	2,819,271
	<b>3,883,684</b>	4,049,158
Cash and bank deposits	<b>7,007,760</b>	9,825,494
Pledged time deposits for bank loans	—	69,370
Restricted cash (iii)	96,833	98,381
	<b>7,104,593</b>	9,993,245

Notes:

- (i) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of one day to and a year depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged 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 authorised to conduct foreign exchange business.
- (iii) As at 30 June 2017, restricted cash of RMB96,833,000 (31 December 2016: RMB98,381,000) was not a part of cash and cash equivalents, which are not available for the Group's use.

The restricted cash as at 30 June 2017 represents the amount and its related interest income held by the Company, which shall be joint-controlled by the Company and a company whose parent has a significant influence on the Company in accordance with the terms of the share purchase agreement in connection with the share transfer transaction of Seasun Holdings Limited ("Seasun Holdings") as disclosed in Note 31 (a) (x).

The restricted cash as at 31 December 2016 represents the escrow amounts and its related interest income held in an escrow accounts by the Group, which shall be available for the payment of the consideration payables to the sellers in accordance with the terms of the share purchase agreements to acquire MobPartner S.A.S ("MobPartner") and News Republic SAS ("News Republic").

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

## 19. TRADE PAYABLES

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

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

Trade payables are non-interest-bearing and are normally settled on terms of two or three months.

## 20. INTEREST-BEARING BANK LOANS

	<b>NOTE</b>	<b>EFFECTIVE INTEREST RATE</b>	<b>MATURITY</b>	<b>PRINCIPAL AMOUNT RMB'000</b>
At 30 June 2017 (Unaudited)				
<b>Non-current</b>				
Bank loan — unsecured		<b>4.28% per annum</b>	<b>2018–2021</b>	<b>335,138</b>
At 31 December 2016 (Audited)				
<b>Current</b>				
Bank loans — secured	(i)	2.07%–2.41% per annum	2017	346,850
Current portion of long term bank loans — unsecured		0.00%–3.02% per annum	2017	32,694
				379,544
<b>Non-current</b>				
Bank loans — unsecured		0.00%–4.28% per annum	2018–2021	438,330
				817,874

Note:

- (i) As at 30 June 2017, the Group's bank loans are secured by the pledged of certain of the Group's time deposits amounting to nil (31 December 2016: RMB69,370,000).
- (ii) As at 30 June 2017, interest-bearing bank loans of the Group amounting to nil, nil and RMB335,138,000 were denominated in US\$, Euro and RMB, respectively (31 December 2016: RMB447,437,000, RMB50,905,000 and RMB319,532,000, respectively).

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

## 21. 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 2017	1,293,171,849	5,097	2,369,129	(25,477)	2,348,749
Exercise of share options	5,209,700	18	16,846	—	16,864
Approved and paid final dividend in respect of the previous year	—	—	(112,678)	—	(112,678)
Vested awarded shares transferred to employees	958,100	—	—	2,262	2,262
At 30 June 2017	1,299,339,649*	5,115	2,273,297	(23,215)	2,255,197

\* Excluding 9,855,738 shares (31 December 2016: 10,813,838 shares) held by the Share Award Scheme Trust as at 30 June 2017.

### Share options

Details of the Company's share option schemes and the share options issued under these schemes are included in note 22 to the financial statement.

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

## 22. SHARE-BASED COMPENSATION COSTS

### Share Option Schemes

#### (a) The Company's 2007 Pre-IPO Share Option Schemes

The Company adopted the 2007 Pre-IPO Share Option Scheme in January 2007. The 2007 Pre-IPO Share Option Schemes was terminated on 3 September 2007. No share options have been granted since then.

The following table illustrates the number of and movements in the Company's share options of 2007 Pre-IPO Share Option Scheme for the six months ended 30 June 2017 and 2016.

	<b>2017 NUMBER OF SHARES OPTIONS (UNAUDITED)</b>	<b>2016 NUMBER OF SHARES OPTIONS (UNAUDITED)</b>
Outstanding at 1 January	<b>3,089,700</b>	4,622,100
Exercised during the period	<b>(3,089,700)</b>	(169,500)
Outstanding at 30 June	—	4,452,600
Exercisable at 30 June	—	4,452,600

#### (b) The Company's 2011 Share Option Scheme

The Company operates the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Share Option Scheme include the Company's directors. The 2011 Share Option Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The following table illustrates the number of and movements in the Company's share options of 2011 Share Option Schemes for the six months ended 30 June 2017 and 2016.

	<b>2017 NUMBER OF SHARES OPTIONS (UNAUDITED)</b>	<b>2016 NUMBER OF SHARES OPTIONS (UNAUDITED)</b>
Outstanding at 1 January	<b>5,900,000</b>	5,900,000
Granted during the period	<b>4,000,000</b>	—
Exercised during the period	<b>(2,120,000)</b>	—
Outstanding at 30 June	<b>7,780,000</b>	5,900,000
Exercisable at 30 June	<b>3,180,000</b>	4,700,000

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

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

### Share Option Schemes (continued)

#### (c) 2006-2007 Kingsoft Japan Share Option Scheme

On 2 November 2006 and 31 July 2007, the shareholders of Kingsoft Japan approved to grant share options to employees in exchange for Kingsoft Japan's ordinary shares. The maximum number of Kingsoft Japan's ordinary shares in respect of which options may be granted is 1,710 in aggregate. Options are exercisable conditional upon a successful initial public offering of Kingsoft Japan. Options granted will expire in ten years. On 17 July 2014, directors of Kingsoft Japan approved to split all outstanding shares of Kingsoft Japan in the proportion of 1:100. As such, the number of shares subject to the options under the 2006-2007 Kingsoft Japan Share Option Scheme was adjusted in the proportion of 1:100.

The outstanding number of share options in 2006-2007 Kingsoft Japan Share Option Scheme at 30 June 2017 was 20,000. There was no movement in 2006-2007 Kingsoft Japan Share Option Scheme during the six months ended 30 June 2017 and 2016.

#### (d) 2014 Kingsoft Japan Share Option Scheme

On 2 January 2014, the shareholders of the Company approved the 2014 Kingsoft Japan Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, which was approved and adopted by the shareholders of Kingsoft Japan on 28 March 2014. The maximum number of ordinary shares under the 2014 Kingsoft Japan Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 2,837 shares (representing 7.85% of the shares in issue at the adoption date). The 2014 Kingsoft Japan Share Option Scheme shall be valid and effective for a term of ten years from 28 March 2014. On 17 July 2014, directors of Kingsoft Japan approved to split all outstanding shares of Kingsoft Japan in the proportion of 1:100. As such, the number of shares subject to the options under the 2014 Kingsoft Japan Share Option Scheme was adjusted in the proportion of 1:100.

The following table illustrates the number of and the movements in the 2014 Kingsoft Japan Share Option Scheme during the six months ended 30 June 2017 and 2016.

	<b>2017 NUMBER OF SHARES OPTIONS (UNAUDITED)</b>	<b>2016 NUMBER OF SHARES OPTIONS (UNAUDITED)</b>
Outstanding at 1 January	90,600	98,000
Forfeited during the period	(4,500)	—
Outstanding at 30 June	86,100	98,000
Exercisable at 30 June	—	—

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

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

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

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

### Share Option Schemes (continued)

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

The following table illustrates the number of and movements in the Kingsoft Cloud Share Option Schemes for the six months ended 30 June 2017 and 2016.

	<b>2017 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>	<b>2016 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>
Outstanding at 1 January	<b>147,330,000</b>	95,850,000
Granted during the period	—	78,400,000
Forfeited during the period	<b>(15,820,000)</b>	(6,910,000)
Outstanding at 30 June	<b>131,510,000</b>	167,340,000
Exercisable at 30 June	<b>38,882,000</b>	14,320,000

#### (f) Season Holdings Share Option Scheme

On 27 June 2013 (the “Season Holdings Share Option Adoption Date”), the shareholders of the Company and Season Holdings, a subsidiary of the Company, approved and adopted the Season Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Season Holdings and its subsidiaries are entitled to participate. The maximum number of ordinary shares under the Season 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 Season Holdings approved to amend the maximum number of ordinary shares, which may be issued upon exercise in the Season Holdings Share Option Scheme, to be 40,000,000 shares. The Season Holdings Share Option Scheme shall be valid and effective for a term of ten years commencing on the Season Share Option Adoption Date. The exercise price and exercise period of share options are determinable by the board of Season Holdings.

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

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

### Share Option Schemes (continued)

#### (f) Season Holdings Share Option Scheme (continued)

The following table illustrates the numbers of and movements in the Season Share Option Scheme during the six months ended 30 June 2017 and 2016.

	<b>2017 NUMBER OF SHARES OPTIONS (UNAUDITED)</b>	<b>2016 NUMBER OF SHARES OPTIONS (UNAUDITED)</b>
Outstanding at 1 January	<b>15,440,000</b>	15,665,000
Granted during the period	<b>9,366,111</b>	2,100,000
Forfeited during the period	<b>(880,000)</b>	(1,260,000)
Outstanding at 30 June	<b>23,926,111</b>	16,505,000
Exercisable at 30 June	—	—

### 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.

No shares of the Company were acquired by the trust of the Share Award Scheme during the six months ended 30 June 2017 and 2016.

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

## 22. 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 2017 and 2016.

	<b>2017 NUMBER OF AWARDED SHARES (UNAUDITED)</b>	<b>2016 NUMBER OF AWARDED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>1,606,301</b>	6,109,601
Awarded during the period	<b>4,785,000</b>	30,000
Forfeited during the period	<b>(46,700)</b>	(611,700)
Vested and transferred during the period	<b>(958,100)</b>	(1,412,400)
Outstanding at 30 June	<b>5,386,501</b>	4,115,501
Exercisable at 30 June	<b>47,500</b>	11,100

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

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

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

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

### Share Award Schemes (continued)

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

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

	<b>2017 NUMBER OF AWARDED SHARES (UNAUDITED)</b>	<b>2016 NUMBER OF AWARDED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>45,642,976</b>	41,582,000
Awarded during the period	—	1,560,976
Forfeited during the period	<b>(50,400)</b>	—
Outstanding at 30 June	<b>45,592,576</b>	43,142,976
Exercisable at 30 June	<b>26,350,000</b>	—

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

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

The following table illustrates the number of and movements in the Seasun Holdings Awarded Shares during the six months ended 30 June 2017.

	<b>2017 NUMBER OF AWARDED SHARES (UNAUDITED)</b>
At the adoption date	—
Awarded during the period	<b>39,785,102</b>
Outstanding at 30 June	<b>39,785,102</b>
Exercisable at 30 June	<b>1,630,445</b>

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

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

### Equity Incentive Schemes Adopted by Cheetah Mobile

#### (a) 2011 Cheetah Mobile Share Award Scheme adopted by Cheetah Mobile

On 26 May 2011, the directors of the Company and Cheetah Mobile approved and adopted a share award scheme, in which selected employees of Cheetah Mobile and its subsidiaries are entitled to participate. Unless early terminated by the directors of Cheetah Mobile, the 2011 Cheetah Mobile Share Award Scheme shall be valid and effective for a term of ten years from 26 May 2011. The directors of Cheetah Mobile 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) being greater than 100,000,000 shares, as at the date of such grant.

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

	<b>2017 NUMBER OF AWARDED SHARES (UNAUDITED)</b>	<b>2016 NUMBER OF AWARDED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>7,007,671</b>	22,202,973
Awarded during the period	<b>274,000</b>	1,374,000
Vested and transferred during the period	<b>(2,871,261)</b>	(9,422,334)
Forfeited during the period	<b>(796,910)</b>	(2,070,783)
Outstanding at 30 June	<b>3,613,500</b>	12,083,856
Exercisable at 30 June	—	—

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

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

### Equity Incentive Schemes Adopted by Cheetah Mobile (continued)

#### (b) 2014 Cheetah Mobile Share Award Scheme adopted by Cheetah Mobile

On 24 April 2014, the shareholders of Cheetah Mobile approved and adopt a share award scheme (the “2014 Cheetah Mobile Share Award Scheme”), in which selected employees of Cheetah Mobile and its subsidiaries are entitled to participate. Unless early terminated by directors of Cheetah Mobile, the 2014 Cheetah Mobile Share Award Scheme shall be valid and effective for a term of ten years commencing from 24 April 2014. The maximum aggregate number of shares, which may be issued pursuant to all awards granted, shall be equal to 122,545,665 Class A ordinary shares.

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

	<b>2017 NUMBER OF AWARDED SHARES (UNAUDITED)</b>	<b>2016 NUMBER OF AWARDED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>50,865,930</b>	19,797,900
Awarded during the period	<b>8,478,130</b>	25,902,490
Forfeited during the period	<b>(11,417,216)</b>	(2,426,280)
Vested and transferred during the period	<b>(3,371,480)</b>	(926,980)
Outstanding at 30 June	<b>44,555,364</b>	42,347,130
Exercisable at 30 June	<b>7,638,430</b>	407,020

#### (c) Cheetah Mobile Equity Incentive Scheme

On 2 January 2014, Cheetah Mobile adopted an equity incentive scheme (the “Cheetah Mobile Equity Incentive Scheme”). The Cheetah Mobile Equity Incentive Scheme provides for the grant of ordinary shares, restricted shares, share options and share appreciation rights to the employees, directors or non-employee consultants of Cheetah Mobile. The maximum number of the Cheetah Mobile’s ordinary shares which may be issued under the Cheetah Mobile Equity Incentive Scheme is 64,497,718. The Cheetah Mobile Equity Incentive Scheme is valid and effective for a term of ten years commencing from its adoption. Except for service conditions, there were no other vesting conditions for all the awards under Cheetah Mobile Equity Incentive Scheme.

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

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

### Equity Incentive Schemes Adopted by Cheetah Mobile (continued)

#### (c) Cheetah Mobile Equity Incentive Scheme (continued)

The following restricted shares with an option feature outstanding under the Cheetah Mobile Equity Incentive Scheme during the six months ended 30 June 2017 and 2016.

	<b>2017 NUMBER OF RESTRICTED SHARES (UNAUDITED)</b>	<b>2016 NUMBER OF RESTRICTED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>48,967,051</b>	61,320,331
Vested and transferred during the period	<b>(3,118,250)</b>	(6,333,980)
Forfeited during the period	<b>(4,537,400)</b>	(1,554,000)
Outstanding at 30 June	<b>41,311,401</b>	53,432,351
Exercisable at 30 June	—	14,841,472

#### Other Restricted Share Schemes

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

#### (a) Restricted shares granted by Cheetah Mobile

The following table illustrates the number of and movements in the restricted shares granted by Cheetah Mobile during the six months ended 30 June 2017 and 2016.

	<b>2017 NUMBER OF RESTRICTED SHARES (UNAUDITED)</b>	<b>2016 NUMBER OF RESTRICTED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>1,992,650</b>	3,690,667
Granted during the period	—	105,000
Vested and transferred during the period	<b>(574,034)</b>	(574,035)
Forfeited during the period	—	(181,125)
Outstanding at 30 June	<b>1,418,616</b>	3,040,507
Exercisable at 30 June	—	—

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

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

### Other Restricted Share Schemes (continued)

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

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

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 2017 and 2016.

	<b>2017 NUMBER OF RESTRICTED SHARES (UNAUDITED)</b>	<b>2016 NUMBER OF RESTRICTED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>24,086,988</b>	17,051,988
Granted during the period	<b>5,911,182</b>	—
Vested and transferred during the period	<b>(5,401,751)</b>	—
Forfeited during the period	<b>(419,597)</b>	—
Outstanding at 30 June	<b>24,176,822</b>	17,051,988
Exercisable at 30 June	—	—

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

The outstanding number of restricted shares granted in Kingsoft Cloud at 30 June 2017 was 11,000,000. There was no movement in the restricted shares granted by Kingsoft Cloud during the six months ended 30 June 2017 and 2016.

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

## 23. CONVERTIBLE BONDS

	Notes	30 JUNE 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)
Liability component			
2013 Convertible Bonds	(i)	862,274	885,984
2014 Convertible Bonds	(ii)	38,978	2,025,370
		<b>901,252</b>	2,911,354
Equity component			
2013 Convertible Bonds	(i)	6,290	6,290
2014 Convertible Bonds	(ii)	1,274	66,005
		<b>7,564</b>	72,295

Notes:

- (i) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK\$1,356 million which bear interest at a rate of 3% per annum payable semi-annually (the "2013 Convertible Bonds"). The 2013 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$16.9363 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2013 Convertible Bonds at principal amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days' prior notice. On the maturity date, any 2013 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

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

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

There was no conversion or redemption of the 2013 Convertible Bonds during the six months ended 30 June 2017 (six months ended 30 June 2016: nil). The aggregate principal amount of the 2013 Convertible Bonds remaining outstanding as at 30 June 2017 is HK\$1,000 million.

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

## 23. CONVERTIBLE BONDS (continued)

(i) (continued)

The movements of the liability component and the equity component of the 2013 Convertible Bonds for the six months ended 30 June 2017 and 2016 are set out below:

	<b>LIABILITY COMPONENT RMB'000 (UNAUDITED)</b>	<b>EQUITY COMPONENT RMB'000 (UNAUDITED)</b>
At 1 January 2017	<b>885,984</b>	<b>6,290</b>
Interest expenses	<b>2,674</b>	—
Exchange realignment	<b>(26,384)</b>	—
At 30 June 2017	<b>862,274</b>	<b>6,290</b>
	<b>LIABILITY COMPONENT RMB'000 (UNAUDITED)</b>	<b>EQUITY COMPONENT RMB'000 (UNAUDITED)</b>
At 1 January 2016	824,881	6,290
Interest expenses	2,477	—
Exchange realignment	16,662	—
At 30 June 2016	844,020	6,290

Assuming full conversion of the 2013 Convertible Bonds at the price of HK\$16.46 per share and no further issue of shares, the 2013 Convertible Bonds will be convertible into approximately 60,753,341 shares of the Company as at 30 June 2017.

(ii) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HK\$2,327 million which bear interest at a rate of 1.25% per annum payable semi-annually (the "2014 Convertible Bonds"). The 2014 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 22 May 2014 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$43.89 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2014 Convertible Bonds at the principal amount together with the interest accrued by giving the bondholders not less than 30 nor more than 60 days' prior notice. On the maturity date, any 2014 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

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

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

On 11 April 2017, the Company redeemed, at the options of certain bondholders of the 2014 Convertible Bonds, representing the principal amount of HK\$2,281 million of the 2014 Convertible Bonds at an aggregate principal amount together with accrued and unpaid interest to such date. The aggregate principal amount of the 2014 Convertible Bonds remaining outstanding as at 30 June 2017 is HK\$46 million.

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

## 23. CONVERTIBLE BONDS (continued)

(ii) (continued)

The movements of the liability component and the equity component of the 2014 Convertible Bonds for the six months ended 30 June 2017 and 2016 are set out below:

	<b>LIABILITY COMPONENT RMB'000 (UNAUDITED)</b>	<b>EQUITY COMPONENT RMB'000 (UNAUDITED)</b>
At 1 January 2017	2,025,370	66,005
Redemption of the convertible bonds	(1,932,659)	(64,731)
Interest expenses	6,599	—
Exchange realignment	(60,332)	—
At 30 June 2017	<b>38,978</b>	<b>1,274</b>
	<b>LIABILITY COMPONENT RMB'000 (UNAUDITED)</b>	<b>EQUITY COMPONENT RMB'000 (UNAUDITED)</b>
At 1 January 2016	1,874,817	66,005
Interest expenses	11,062	—
Exchange realignment	37,932	—
At 30 June 2016	1,923,811	66,005

Assuming full conversion of the 2014 Convertible Bonds at the price of HK\$42.67 per share and no further issue of shares, the 2014 Convertible Bonds will be convertible into approximately 1,078,040 shares of the Company as at 30 June 2017.

## 24. REDEEMABLE CONVERTIBLE PREFERRED SHARES ISSUED BY A SUBSIDIARY

On 5 February and 6 May 2016, Kingsoft Cloud issued 102,292,296 and 83,372,896 series C redeemable convertible preferred shares with par value US\$0.001 each to certain investors and the Company, respectively, at a price of US\$0.58655 per share for an aggregate consideration of US\$108.90 million (equivalent to RMB710,307,000).

According to the articles of association of Kingsoft Cloud amended and restated on 10 March 2016 and 16 May 2016, if Kingsoft Cloud fails to consummate a qualified public offering prior to the fifth anniversary of the closing of the issue of series C redeemable convertible preferred shares, at the option of the holder of the series C redeemable convertible preferred shares, Kingsoft Cloud shall redeem all of the outstanding preferred shares held by the requesting holder, at the price for each series C redeemable convertible preferred share equal to the applicable series C redeemable convertible preferred shares issue price and a return at a pre-determined compound rate. The redemption rights shall be terminated upon the closing of a qualified public offering.

The series C redeemable convertible preferred shares may be converted at any time at the option of the holder thereof into such number of the ordinary shares of Kingsoft Cloud as may be obtained by dividing the applicable issue price by the applicable conversion price. The initial conversion price shall be equal to the issue price, resulting in an initial conversion ratio of 1:1, subject to adjustments from time to time.

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

## 24. REDEEMABLE CONVERTIBLE PREFERRED SHARES ISSUED BY A SUBSIDIARY (continued)

Based on the terms of the articles of association of Kingsoft Cloud, the series C redeemable convertible preferred shares are split and accounted for as follows: (i) financial liability stated at amortised cost for the redemption rights; (ii) financial liability measured at fair value with changes through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity.

During the six month ended 30 June 2017, a loss of RMB16,033,000 resulting from the changes in fair value of conversion rights was recognised through profit or loss. The movements of the series C redeemable convertible preferred shares for the six months ended 30 June 2017 and 2016 are set out below:

	<b>LIABILITY COMPONENTS RMB'000 (UNAUDITED)</b>	<b>EQUITY COMPONENT RMB'000 (UNAUDITED)</b>
At 1 January 2017	358,221	5,438
Interest expenses	16,294	—
Fair value changes	16,033	—
Exchange realignment	(8,831)	—
At 30 June 2017	381,717	5,438
	<b>LIABILITY COMPONENTS RMB'000 (UNAUDITED)</b>	<b>EQUITY COMPONENT RMB'000 (UNAUDITED)</b>
Upon issuance	313,482	5,438
Interest expenses	7,151	—
Fair value changes	195	—
Exchange realignment	5,367	—
At 30 June 2016	326,195	5,438

As at 30 June 2017, the current portions of liability components of series C redeemable convertible preferred shares amounting to RMB56,259,000 (31 December 2016: RMB41,387,000) was recorded in other payables and accruals.

## 25. OTHER CAPITAL RESERVE

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiary, and the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent, which is recorded in the "other capital reserve" in the condensed consolidated statement of financial position.

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

## 26. DIVIDENDS

### Final dividend

A final dividend of HK\$0.10 per ordinary share for 2016 proposed by the Board was approved by the shareholders on 24 May 2017. The actual 2016 final dividend paid was RMB112,678,000.

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

## 27. BUSINESS COMBINATIONS

### Nanjing Qianyi Shixun Information Technology Co., Ltd. ("Qianyi")

In 2015, the Group entered into a share transfer agreement with Qianyi, a company engaged in research, development and provision of the digital video coding in cloud, and its founders, to acquire 80% of equity interest of Qianyi at an aggregate cash consideration of RMB10,000,000.

In 2016, the Group entered into a share transfer agreement with another party to purchase another 20% equity interest of Qianyi at an aggregate cash consideration of RMB15,000,000.

The acquisition was accounted for as a business combination and the acquisition date was 31 March 2016.

The fair values of the identifiable assets and liabilities of Qianyi as at the acquisition date were as follows:

	<b>FAIR VALUE RECOGNISED ON ACQUISITION RMB'000</b>
Intangible assets:	
Software	4,400
Non-compete Agreement	5,300
Property, plant and equipment	186
Cash and cash equivalents	7,957
Other receivables	968
Prepayments and other current assets	1,024
Deferred tax liabilities	(2,208)
Total identified net assets at fair value	17,627
Goodwill arising on acquisition	7,373
	<b>25,000</b>
Satisfied by:	
Cash	21,000
Other payables	4,000
Total consideration	<b>25,000</b>

No material transaction costs were incurred in this acquisition.

The fair value of the other receivables as at the date of acquisition amounted to RMB968,000. The gross contractual amount of other receivables was RMB968,000.

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

## 27. BUSINESS COMBINATIONS (continued)

### Qianyi (continued)

An analysis of cash flows in respect of the acquisition of Qianyi is as follows:

	<b>RMB'000</b>
Cash consideration	(21,000)
Cash and cash equivalents	7,957
<hr/>	
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(13,043)

Since the acquisition, Qianyi contributed nil to the Group's turnover and RMB187,000 loss to the consolidated loss for the period ended 30 June 2016.

Had the combination taken place at the beginning of the period, the revenue of the Group and the loss of the Group for the period ended 30 June 2016 would have been RMB3,516,575,000 and RMB785,601,000, respectively.

### News Republic

On 22 May 2016, the Group entered into a stock purchase agreement with the original shareholders of News Republic to acquire 100% equity interest of News Republic at a total consideration of US\$55,401,000 (equivalent to RMB364,483,000). The total consideration consists of (i) cash of US\$47,591,000 (equivalent to RMB313,098,000), which is subject to adjustment of estimated net cash and working capital on the acquisition date; (ii) cash consideration of US\$4,000,000 (equivalent to RMB26,319,000) to be paid on the twelve month anniversary of the acquisition; and (iii) cash contingent consideration to be paid over a two-year period upon the fulfillment of certain performance-based requirements to News Republic.

The acquisition was accounted for as a business combination and the acquisition date was 8 June 2016.

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

## 27. BUSINESS COMBINATIONS (continued)

### News Republic (continued)

The fair values of the identifiable assets and liabilities of News Republic as at the acquisition date were as follows:

	<b>FAIR VALUE RECOGNISED ON ACQUISITION RMB'000</b>
Intangible assets:	
Software	5,263
Supplier relationship	42,763
Non-compete agreement	6,579
Trademark	23,027
Property, plant and equipment	334
Cash and cash equivalents	22,259
Accounts receivables	5,171
Deferred tax assets	33,300
Other receivables	1,743
Prepayments and other current assets	1,135
Deferred tax liabilities	(25,875)
Accounts payable	(13,491)
Accrued expenses and other liabilities	(15,215)
<hr/>	
Total identified net assets at fair value	86,993
Goodwill arising on acquisition	277,490
<hr/>	
	364,483
Satisfied by:	
Cash	313,098
Other payables	26,319
Contingent consideration	25,066
<hr/>	
Total consideration	364,483

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

## 27. BUSINESS COMBINATIONS (continued)

### News Republic (continued)

The fair value of the account receivables and other receivables as at the date of acquisition amounted to RMB5,171,000 and RMB1,743,000, respectively. The gross contractual amount of account receivables was RMB14,511,000 and RMB1,743,000, respectively.

The Group incurred transaction costs of RMB9,135,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the condensed consolidated statement of profit or loss.

An analysis of cash flows in respect of the acquisition of News Republic is as follows:

	<b>RMB'000</b>
Cash consideration	(313,098)
Cash and cash equivalents	22,259
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(290,839)

Since the acquisition, News Republic contributed RMB1,537,000 to the Group's turnover and RMB4,993,000 loss to the consolidated loss for the period ended 30 June 2016.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the period ended 30 June 2016 would have been RMB3,522,146,000 and RMB811,453,000, respectively.

Pursuant to the share purchase agreement, contingent consideration is payable according to the new publisher rights acquisition rate and existing publisher retention rate of News Republic. There will be two batches of cash payments to the original shareholders of News Republic.

The initial amount of the contingent consideration recognised was US\$3,810,000 (equivalent of RMB25,066,000) which was determined using the discounted cash flow model and is under Level 3 fair value measurement at the acquisition date.

Significant unobservable valuation inputs for the fair value measurement of contingent consideration are as at the acquisition date as follows:

	<b>ASSUMED COMPLETION OF AGREED NEW PUBLISHER DAILY ARTICLE VOLUME</b>	<b>ASSUMED COMPLETION OF AGREED EXISTING PUBLISHER RETENTION RATE</b>	<b>DISCOUNT RATE</b>
First contingent consideration	56%	74%	10.9%
Second contingent consideration	78%	90%	10.9%

During the six months ended 30 June 2017, no contingent consideration was paid and a loss of RMB9,015,000 from the change in fair value of the contingent consideration liability was recognised in the interim condensed consolidated statement of profit or loss. As at 30 June 2017, the carrying amount of the contingent consideration liability was US\$5,700,000 (equivalent to RMB38,614,000).

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

## 27. BUSINESS COMBINATIONS (continued)

### Cloud HIS Business

On 8 June 2016, the Group entered into a purchase agreement with a third party to acquire Cloud HIS Business at an aggregate cash consideration of RMB6,000,000. The Group and the third party also entered into a series of agreements including transfer of software copyrights and domain names related to the cloud HIS Business.

The acquisition was accounted for as a business combination and the acquisition date was 5 July 2016.

The fair values of the identifiable assets and liabilities of Cloud HIS Business as at the acquisition date were as follows:

	<b>FAIR VALUE RECOGNISED ON ACQUISITION RMB'000</b>
Intangible assets:	
Software and technology	4,251
Deferred tax liabilities	(437)
Total identified net assets at fair value	3,814
Goodwill arising on acquisition	2,186
	<b>6,000</b>
Satisfied by:	
Cash	3,900
Other payables	2,100
Total consideration	<b>6,000</b>

No material transaction costs were incurred in this acquisition.

An analysis of cash flows in respect of the acquisition of Cloud HIS Business is as follows:

	<b>RMB'000</b>
Cash consideration	(3,900)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	<b>(3,900)</b>

As the business acquired is not a separate entity or segment and was integrated with the existing business of the Group after the acquisition date, it is impossible to distinguish the operating result of Cloud HIS Business from the Group. Therefore, it is impractical to disclose the revenue and profit or loss of the business contributed to the Group since the acquisition, or the revenue and profit or loss of the Group assuming the combination had taken place at the beginning of the year.

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

## 28. DISPOSAL OF A SUBSIDIARY

On 31 May 2016, the Group entered into a share transfer agreement with Suzhou Jiangduoduo Technology Co., Ltd. ("Jiangduoduo"), a company engaged in the lottery business, and three third parties. Pursuant to the agreement, the Group agreed to dispose of 65% equity interests in Jiangduoduo at an aggregate cash consideration of RMB26,325,000, whose fair value is nil as at the disposal date, and continues to hold 15% equity interests of Jiangduoduo. Upon the completion of disposal, the Group lost control of Jiangduoduo and accounted for the remaining portion of equity interests as an available-for-sale investment.

The details of the net assets disposed of are as follows:

	<b>RMB'000</b>
<hr style="border: 1px solid black;"/>	
Net assets disposed of:	
Property, plant and equipment	1,166
Other non-current assets	1,104
Prepayments	1,509
Cash and bank balance	6,316
Trade payable	(130)
Other payables and accruals	(20,740)
Deferred revenue	(6,189)
Non-controlling interests	3,393
	(13,571)
Gain on disposal of a subsidiary	13,571
Total consideration	—
<hr style="border: 1px solid black;"/>	

An analysis of cash flows in respect of the disposal of Jiangduoduo is as follows:

	<b>RMB'000</b>
<hr style="border: 1px solid black;"/>	
Cash and bank balance disposed of	(6,316)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(6,316)
<hr style="border: 1px solid black;"/>	

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

## 29. OPERATING LEASE ARRANGEMENTS

### As lessee

The Group leases certain of its office premises, dormitories and electronic equipment under operating lease arrangements. These non-cancellable leases have remaining terms ranging one to five years.

At 30 June 2017, the Group had total future minimum lease payments under non-cancelled operating leases falling due as follows:

	<b>30 JUNE 2017 RMB'000 (UNAUDITED)</b>	<b>31 DECEMBER 2016 RMB'000 (AUDITED)</b>
Within one year	<b>170,898</b>	182,289
After one year but not more than five years	<b>39,721</b>	211,051
	<b>210,619</b>	393,340

As at 30 June 2017, the calculation of lease payment of some electronic equipment was based on the actual usage of the relevant servers. The rental expense under these operating leases was RMB481,811,000 for the six months period ended 30 June 2017 (six months ended 30 June 2016: RMB367,808,000). As future lease payments for these arrangements are based on the actual number of users and thus cannot be reasonably estimated, they are not included in the minimum lease payments shown above.

## 30. CAPITAL COMMITMENTS

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

	<b>NOTE</b>	<b>30 JUNE 2017 RMB'000 (UNAUDITED)</b>	<b>31 DECEMBER 2016 RMB'000 (AUDITED)</b>
Contracted, but not provided for:			
Development of land and buildings	(a)	<b>626,407</b>	697,532
Acquisition of intangible assets		—	869
		<b>626,407</b>	698,401

(a) The capital commitment for the development of land and buildings at 30 June 2017 represented the commitment to invest in an aggregate amount of RMB626,407,000 (31 December 2016: RMB697,532,000) in the development of a piece of land in Zhuhai.

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

## 31. 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 THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)
Provision of services to a company whose parent has a significant influence on the Company	(i)	<b>11,607</b>	59,497	<b>27,011</b>	103,757
Provision of services to a company controlled by a director of the Company	(ii)	<b>81,090</b>	46,964	<b>148,614</b>	81,864
Licence fee from a company whose parent has a significant influence on the Company	(iii)	<b>147,738</b>	38,801	<b>333,316</b>	39,461
Licence fee from companies controlled by a director of the Company	(iv)	<b>13,553</b>	5,232	<b>34,624</b>	11,812
Purchases of products from a company controlled by a director of the Company	(v)	<b>1,126</b>	2,955	<b>2,249</b>	6,905
Purchase of services from a company controlled by a director of the Company	(vi)	<b>19,250</b>	23,803	<b>30,075</b>	33,633
Online marketing services from a company whose parent has a significant influence on the Company	(vii)	<b>8,963</b>	6,336	<b>15,278</b>	12,986
Licence fee to a joint venture	(viii)	<b>87,353</b>	17,272	<b>196,752</b>	17,272
Disposal of an associate to a company controlled by a director of the Company	(ix)	—	—	—	49,019
Partially disposal of a subsidiary's shares to a company whose parent has a significant influence on the Company	(x)	<b>430,956</b>	—	<b>430,956</b>	—
Interest income from an associate		—	118	—	118
Interest income from non-controlling shareholders of subsidiaries	(xi)	<b>326</b>	958	<b>650</b>	1,803
Interest income from a joint venture		<b>40</b>	—	<b>72</b>	—
Interest income from a company controlled by a senior manager of the Company	(xii)	<b>595</b>	—	<b>595</b>	—

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

## 31. RELATED PARTY TRANSACTIONS (continued)

- (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: (continued)
- (i) In 2015, the Group entered into framework agreements with a company whose parent has a significant influence on the Company. Pursuant to the framework agreements, the Group provides various forms of promotion services to this related company and its controlled affiliates through the Group's 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 the similar transactions.
  - (ii) In 2014 and 2016, the Group entered into various agreements with a company controlled by a director of the Company. Pursuant to the agreements, the Group provides cloud storage services and online advertising services to this related company and its affiliates at the prevailing fair market price in the same industry for similar transactions.
  - (iii) In 2016, the Group entered into various licensing agreements with a company whose parent has a significant influence on the Company to operate the Group's online games with this related company at the prevailing fair market price.
  - (iv) In 2015 and 2016, the Group entered into various licensing agreements with companies controlled by a director of the Company to operate the Group's online games with these related companies at the prevailing fair market price.
  - (v) For the six months and three months ended 30 June 2017, the Group purchased hardware products, including but not limited to smart phones and phone accessories at market price from 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 the similar transactions.
  - (vii) In 2015, the Group entered into framework agreements with a company whose parent has a significant influence on the Company. Pursuant to the framework agreements, the company whose parent has a significant influence on the 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 the similar transactions.

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

## 31. RELATED PARTY TRANSACTIONS (continued)

- (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: (continued)
- (viii) In 2015 and 2016, the Group entered into the game joint development and operation agreement with a joint venture to joint develop and operate the Group's online games at the prevailing fair market price.
- (ix) As disclosed in note 14, the Company sold all the shares held by the Company in Zhigu to a company controlled by a director of the Company at a consideration of US\$7.5 million (equivalent to RMB49,019,000).
- (x) On 21 April 2017, a wholly-owned subsidiary of the Company entered into a share purchase agreement with a company whose parent has a significant influence on the Company, pursuant to which, 39,819,466 shares of Seasun Holdings were sold at a consideration of US\$62,618,000 (equivalent to RMB430,956,000) to a company whose parent has a significant influence on the Company.
- (xi) In November 2015 and March 2016, the Group entered into loan agreements with certain non-controlling shareholders of Beijing Kingsoft Office, pursuant to which, the Group has provided loans of RMB3,350,000 and RMB26,080,000, with interest rate of 5.225% and 4.75% per annum, respectively, to the non-controlling shareholders for the subscription of shares of Beijing Office Software. The loans were secured by the shares of Beijing Office Software held by the non-controlling shareholders. The term of the above loans is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied.
- (xii) In 2017, the Group entered into loan agreements with a company controlled by a senior manager of the Company, pursuant to which, the Group has provided unsecured loans with aggregate amount of US\$8,000,000 (equivalent to RMB54,195,000), with a maturity of six months and interest rate of 8% per annum.
- (b) Compensation of key management personnel of the Group (including directors' remuneration):

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)
Salaries, allowances, and benefits in kind	2,327	2,459	4,731	5,122
Pension scheme contributions	76	81	155	161
Share-based compensation costs	29,302	10,074	65,818	24,271
Total compensation paid to key management personnel	<b>31,705</b>	12,614	<b>70,704</b>	29,554

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

## 32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows:

**30 JUNE 2017**

FINANCIAL ASSETS	LOANS AND RECEIVABLES RMB'000 (UNAUDITED)	AVAILABLE-FOR-SALE INVESTMENTS RMB'000 (UNAUDITED)	DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION	TOTAL RMB'000 (UNAUDITED)
			RMB'000 (UNAUDITED)	
Other financial assets	—	—	50,584	50,584
Available-for-sale investments	—	604,762	—	604,762
Loan receivables included in other non-current assets	4,686	—	—	4,686
Trade receivables	981,251	—	—	981,251
Financial assets included in prepayments, deposits and other receivables	492,742	—	—	492,742
Restricted cash	96,833	—	—	96,833
Cash and bank deposits	7,007,760	—	—	7,007,760
<b>Total</b>	<b>8,583,272</b>	<b>604,762</b>	<b>50,584</b>	<b>9,238,618</b>

FINANCIAL LIABILITIES	DESIGNATED AS FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000 (UNAUDITED)	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
Trade payables	—	157,267	157,267
Financial liabilities included in other liabilities	—	684,755	684,755
Interest-bearing bank loans	—	335,138	335,138
Liability component of convertible bonds	—	901,252	901,252
Liability component of redeemable convertible preferred shares	56,259	325,458	381,717
<b>Total</b>	<b>56,259</b>	<b>2,403,870</b>	<b>2,460,129</b>

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

## 32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows: (continued)

**31 December 2016**

FINANCIAL ASSETS	LOANS AND RECEIVABLES RMB'000 (AUDITED)	AVAILABLE- FOR-SALE INVESTMENTS RMB'000 (AUDITED)	DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000 (AUDITED)	TOTAL RMB'000 (AUDITED)
Other financial assets	—	—	71,091	71,091
Available-for-sale investments	—	1,255,503	—	1,255,503
Loan receivables	8,957	—	—	8,957
Trade receivables	1,774,156	—	—	1,774,156
Other long term receivables	21,662	—	—	21,662
Financial assets included in prepayments, deposits and other receivables	1,000,429	—	—	1,000,429
Restricted cash	98,381	—	—	98,381
Pledged deposits	69,370	—	—	69,370
Cash and bank deposits	9,825,494	—	—	9,825,494
<b>Total</b>	<b>12,798,449</b>	<b>1,255,503</b>	<b>71,091</b>	<b>14,125,043</b>

FINANCIAL LIABILITIES	DESIGNATED AS FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000 (AUDITED)	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000 (AUDITED)	TOTAL RMB'000 (AUDITED)
Trade payables	—	560,488	560,488
Financial liabilities included in other liabilities	30,358	1,362,352	1,392,710
Interest-bearing bank loans	—	817,874	817,874
Liability component of convertible bonds	—	2,911,354	2,911,354
Liability components of redeemable convertible preferred shares	41,387	316,834	358,221
<b>Total</b>	<b>71,745</b>	<b>5,968,902</b>	<b>6,040,647</b>

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

## 33. 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 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)	30 JUNE 2017 RMB'000 (UNAUDITED)	31 DECEMBER 2016 RMB'000 (AUDITED)
<b>Financial assets</b>				
Loan receivables included in other non-current assets	4,686	8,957	4,686	9,052
Available-for-sale investments	489,601	797,333	489,601	797,333
Other long term receivables	—	21,662	—	21,662
Other financial assets	50,584	71,091	50,584	71,091
	<b>544,871</b>	899,043	<b>544,871</b>	899,138
<b>Financial liabilities</b>				
Liability component of convertible bonds	901,252	2,911,354	901,252	2,911,354
Liability component of redeemable convertible preferred shares	381,717	358,221	381,717	358,221
Other liabilities	—	30,358	—	30,358
Interest-bearing bank loans	335,138	817,874	335,138	818,730
	<b>1,618,107</b>	4,117,807	<b>1,618,107</b>	4,118,663

Management has assessed that the fair values of cash and bank deposits, pledged deposit, restricted cash, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables 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 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)

## 33. 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 borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans as at 30 June 2017 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds and the liability component of the redeemable convertible preferred shares are estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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

The fair values of other liabilities have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in 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)

## 33. 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 2017

	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)	
Available-for-sale investments	489,601	—	—	489,601
Other financial assets	—	—	50,584	50,584
	489,601	—	50,584	540,185

#### As at 31 December 2016

	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)	
Available-for-sale investments	665,530	131,803	—	797,333
Other financial assets	—	—	71,091	71,091
	665,530	131,803	71,091	868,424

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

## 33. 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:

	<b>RMB'000</b>
Other financial assets:	
At 1 January 2016 (Audited)	26,294
Additions	28,829
Fair value gains recognised in profit or loss	12,080
Exchange differences on transaction recognised in other comprehensive income	3,888
At 31 December 2016 (Audited)	71,091
Additions	<b>438</b>
Fair value gains recognised in profit or loss	<b>10,003</b>
Exchange differences on transaction recognised in other comprehensive income	<b>(1,115)</b>
Assets classified as held for sale	<b>(29,833)</b>
At 30 June 2017 (Unaudited)	<b>50,584</b>

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

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

### Fair value hierarchy (continued)

Assets measured at fair value (continued):

Below is a summary of significant unobservable inputs to the valuation of financial assets together with a quantitative sensitivity analysis as at 30 June 2017:

	Valuation techniques	Significant unobservable inputs	Sensitivity of the input to fair value
Other financial assets	Option Pricing Model	Risk-free rate	5% increase (decrease) in risk-free rate would result in (decrease) increase in fair value by RMB7,000
		Volatility	5% increase (decrease) in volatility would result in (decrease) increase in fair value by RMB81,000
Other financial assets	Black Scholes Model	Fair value per share	5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB3,709,000
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB140,000
		Volatility	5% increase (decrease) in volatility would result in increase (decrease) in fair value by RMB980,000

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

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

### Fair value hierarchy (continued)

Liabilities measured at fair value:

#### As at 30 June 2017

	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)	
Other liability	—	—	56,259	56,259

#### As at 31 December 2016

	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)	
Other liability	—	—	71,745	71,745

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

	RMB'000
<b>Other financial liabilities at fair value through profit or loss:</b>	
At 1 January 2016 (Audited)	23,339
Additions	63,345
Paid	(24,686)
Fair value losses recognised in profit or loss	4,109
Exchange differences on transaction recognised in other comprehensive income	5,638
At 31 December 2016 (Audited)	71,745
Fair value losses recognised in profit or loss	<b>25,048</b>
Exchange differences on transaction recognised in other comprehensive income	<b>(1,920)</b>
Liabilities classified as held for sale	<b>(38,614)</b>
At 30 June 2017 (Unaudited)	<b>56,259</b>

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

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

### Fair value hierarchy (continued)

Liabilities measured at fair value (continued):

Below is a summary of significant unobservable inputs to the valuation of financial liabilities together with a quantitative sensitivity analysis as at 30 June 2017.

	Valuation techniques	Significant unobservable inputs	Sensitivity of the input to fair value
Other Liabilities	Equity valuation allocation model	Fair Value of equity value	5% increase(decrease) in fair value per share would result in increase(decrease) in fair value by RMB8,835,000(RMB8,708,000)
		Risk-free rate	5% increase(decrease) in risk-free rate would result in increase(decrease) in fair value by RMB211,000
		Volatility	5% increase(decrease) in volatility would result in increase(decrease) in fair value by RMB1,266,000(RMB1,123,000)
		Probability of IPO	5% increase(decrease) in probability of IPO would result in decrease(increase) in fair value by RMB5,193,000

During the six months ended 30 June 2017, 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 2016: nil).

Assets for which fair values are disclosed:

### As at 30 June 2017

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Loan receivables	—	4,686	—	4,686

### As at 31 December 2016

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Loan receivables	—	9,052	—	9,052

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

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

### Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

#### As at 30 June 2017

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Liability component of convertible bonds	—	—	901,252	901,252
Liability component of redeemable convertible preferred shares	—	—	381,717	381,717
Interest-bearing bank loans	—	335,138	—	335,138
	—	335,138	1,282,969	1,618,107

#### As at 31 December 2016

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Liability component of convertible bonds	—	—	2,911,354	2,911,354
Liability component of redeemable convertible preferred shares	—	—	358,221	358,221
Interest-bearing bank loans	—	818,730	—	818,730
	—	818,730	3,269,575	4,088,305

## 34. CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no significant contingent liabilities (31 December 2016: nil).

## 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 August 2017.

# TERMS AND GLOSSARIES

“2006–2007 Kingsoft Japan Share Option Scheme”	the share option scheme adopted by Kingsoft Japan on 2 November 2006 and 31 July 2007
“2007 Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 22 January 2007 before its IPO
“2011 Cheetah Mobile Share Award Scheme”	the share award scheme approved and adopted by the directors of Cheetah Mobile on 26 May 2011
“2011 Share Option Scheme”	the share option scheme adopted by the Company on 9 December 2011
“2014 Cheetah Mobile Share Award Scheme”	the share award scheme approved and adopted by the shareholders of Cheetah Mobile on 24 April 2014
“2014 Kingsoft Japan Share Option Scheme”	the share option scheme of Kingsoft Japan approved by the shareholders of the Company on 2 January 2014 and adopted by the shareholders of Kingsoft Japan on 28 March 2014
“21Vianet”	21Vianet Group, Inc.
“ADPCU”	daily average peak concurrent users
“ADS”	American Depositary Share
“AI”	artificial intelligence
“APA”	average paying accounts
“ARPU”	average revenue per paying user
“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, a non-wholly owned subsidiary of the company and was listed on NYSE in May 2014
“Cheetah Mobile Equity Incentive Scheme”	the equity incentive scheme of Cheetah Mobile approved by the shareholders of the Company and Cheetah Mobile on 2 January 2014
“Cheetah Mobile Group”	Cheetah Mobile and its subsidiaries
“Cheetah Share(s)”	ordinary share(s) of Cheetah Mobile

## TERMS AND GLOSSARIES (continued)

“Company” or “Kingsoft”	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
“eCPM”	effective cost per mille
“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
“IDC”	internet data center
“IFRSs”	International Financial Reporting Standards
“IPO”	initial public offering
“Kingsoft Cloud”	Kingsoft Cloud Holdings Limited, a subsidiary of the Company
“Kingsoft Cloud Group”	Kingsoft Cloud and its subsidiaries
“Kingsoft Cloud Share Award Scheme”	the share award scheme approved and adopted by the directors of Kingsoft Cloud on 22 February 2013
“Kingsoft Cloud Share Option Scheme”	the share option scheme approved and adopted by the shareholders of the Company and Kingsoft Cloud on 27 February 2013
“Kingsoft Japan”	Kingsoft Japan Inc., a subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MAU”	monthly active users
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“NYSE”	New York Stock Exchange

## TERMS AND GLOSSARIES (continued)

“PRC”, “China” or “Mainland China”	the People’s Republic of China excluding, for the purpose of this interim report only, Hong Kong, the Macau Special Administrative Region and Taiwan
“R&D”	research and development
“RMB” or “Renminbi”	the lawful currency of the PRC
“Season Holdings”	Season Holdings Limited, a subsidiary of the Company
“Season Holdings Share Award Schemes”	the General Share Award Scheme, the Special Share Award Scheme (A) and the Special Share Award Scheme (B) approved and adopted by the shareholders and directors of Season Holdings on 21 March 2017
“Season Holdings Share Option Scheme”	the share option scheme of Season Holdings approved and adopted by the shareholders of the Company and Season Holdings on 27 June 2013
“SFO”	the Securities and Future 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.
“Xunlei”	Xunlei Limited