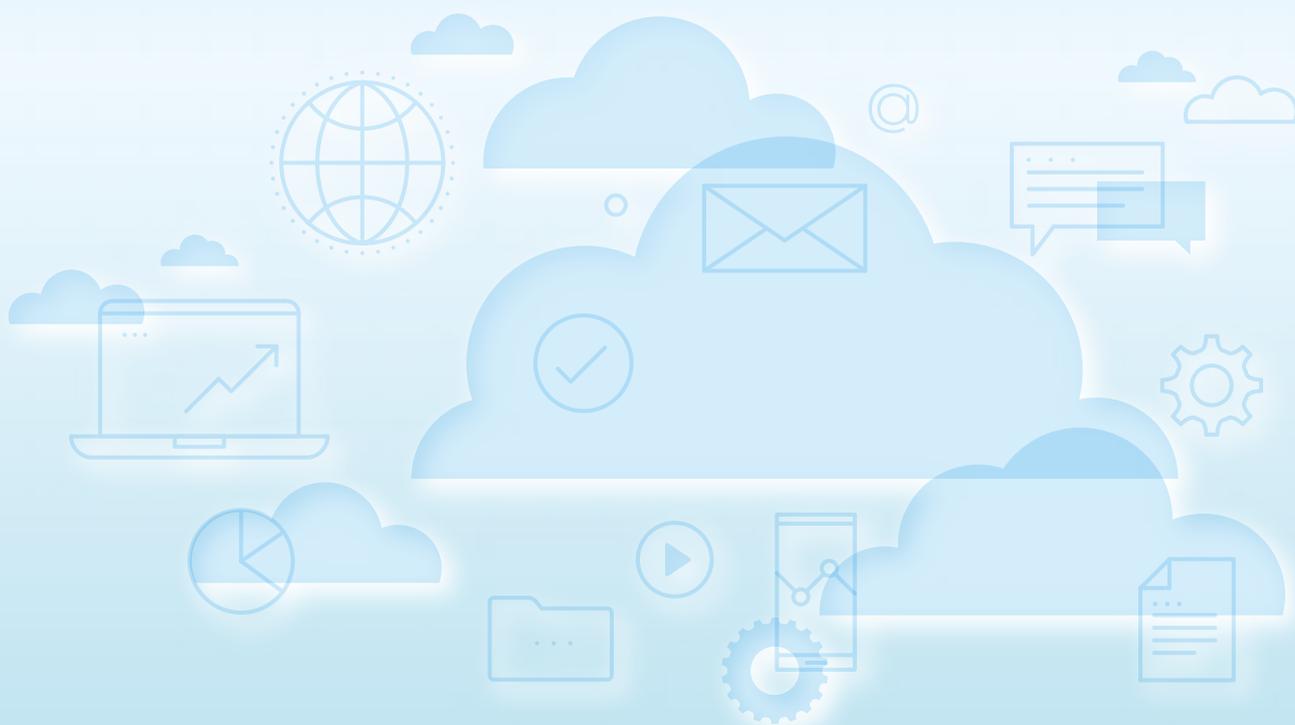




(continued into the Cayman Islands with limited liability)
Stock Code: 03888

KINGSOFT CORPORATION LIMITED

2018 INTERIM REPORT



剑侠情缘网络版叁



剑侠情缘手游



WPS Office



Kingsoft Cloud

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



Kingsoft Corporation Limited

Interim Report 2018 | 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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited

PO Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

CORPORATE INFORMATION (continued)

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17/F. Hopewell Centre

183 Queen's Road East

Hong Kong

AUDITORS

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.

The Bank of East Asia (China) Limited

China Minsheng Banking Corp., Ltd.

INVESTOR AND MEDIA RELATIONS

Tel: (86) 10 82325515

Fax: (86) 10 82335757

Email: ir@kingsoft.com

Website: 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
	2018	2018	2017	2017	2017	2017	2016	2016
ONLINE GAMES								
ADPCU	798,354	698,480	874,693	871,792	934,115	937,438	1,018,826	982,914
APA	3,272,023	3,297,038	3,978,222	4,073,300	4,321,447	4,200,840	4,523,832	4,482,024

FINANCIAL HIGHLIGHTS

	FOR THE THREE MONTHS ENDED		
	30 JUNE 2018	30 JUNE 2017	31 MARCH 2018
	RMB'000	RMB'000	RMB'000
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
CONTINUING OPERATIONS			
REVENUE			
Online games	581,882	805,000	632,378
Cloud services	468,731	304,027	418,920
Office software and services and others	295,176	175,385	212,429
	1,345,789	1,284,412	1,263,727
Cost of revenue	(674,538)	(488,898)	(648,084)
	671,251	795,514	615,643
Research and development costs, net	(430,589)	(368,273)	(380,314)
Selling and distribution expenses	(157,763)	(135,262)	(126,632)
Administrative expenses	(105,883)	(58,645)	(82,885)
Share-based compensation costs	(51,827)	(61,063)	(58,060)
Other income	89,364	92,778	58,852
Other expenses	(1,225)	(4,250)	(646)
	13,328	260,799	25,958
Other (losses)/gains, net	(73,645)	(42,332)	19,175
Finance income	83,877	44,115	65,741
Finance costs	(88,403)	(21,155)	(51,533)
Share of profits and losses of:			
Joint ventures	15,434	32,646	17,363
Associates	65,851	(3,085)	19,762
	16,442	270,988	96,466
Income tax expense	(57,033)	(48,174)	(43,081)
	(40,591)	222,814	53,385
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	—	61,840	—
	(40,591)	284,654	53,385
Attributable to:			
Owners of the parent	100,945	250,044	118,388
Non-controlling interests	(141,536)	34,610	(65,003)
	(40,591)	284,654	53,385

FINANCIAL HIGHLIGHTS (continued)

	FOR THE THREE MONTHS ENDED		
	30 JUNE 2018 RMB (UNAUDITED)	30 JUNE 2017 RMB (UNAUDITED)	31 MARCH 2018 RMB (UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
— For profit for the period	0.07	0.19	0.09
— For profit from continuing operations	0.07	0.16	0.09
Diluted			
— For profit for the period	0.07	0.19	0.09
— For profit from continuing operations	0.07	0.16	0.09

FINANCIAL HIGHLIGHTS (continued)

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)
CONTINUING OPERATIONS		
REVENUE		
Online games	1,214,260	1,622,151
Cloud services	887,651	572,473
Office software and services and others	507,605	303,154
	2,609,516	2,497,778
Cost of revenue	(1,322,622)	(998,345)
	1,286,894	1,499,433
GROSS PROFIT		
Research and development costs, net	(810,903)	(689,712)
Selling and distribution expenses	(284,395)	(216,435)
Administrative expenses	(188,768)	(114,708)
Share-based compensation costs	(109,887)	(109,800)
Other income	148,216	163,555
Other expenses	(1,871)	(6,332)
	39,286	526,001
OPERATING PROFIT		
Other losses, net	(54,470)	(134,586)
Finance income	149,618	91,892
Finance costs	(139,936)	(53,832)
Share of profits and losses of:		
Joint ventures	32,797	71,472
Associates	85,613	(5,480)
	112,908	495,467
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		
Income tax expense	(100,114)	(94,261)
	12,794	401,206
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		
DISCONTINUED OPERATION		
Profit for the period from a discontinued operation	—	163,713
	12,794	564,919
PROFIT FOR THE PERIOD		
Attributable to:		
Owners of the parent	219,333	488,513
Non-controlling interests	(206,539)	76,406
	12,794	564,919

FINANCIAL HIGHLIGHTS (continued)

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2018 RMB (UNAUDITED)	2017 RMB (UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic		
— For profit for the period	0.16	0.38
— For profit from continuing operations	0.16	0.30
Diluted		
— For profit for the period	0.16	0.37
— For profit from continuing operations	0.16	0.30

BUSINESS REVIEW AND OUTLOOK

Mr. Jun LEI, Chairman of the Company, commented, "We maintained a steady operation during this quarter and achieved our established goals. We launched YSY (雲裳羽衣), our new 3D costume-changing mobile game in June, which topped the free game ranking on Apple Store on the day of its release. Kingsoft Cloud Group delivered a steady growth and all of its business segments performed well on track to meet our strategic targets. WPS Office continued its strong momentum with the global MAU of WPS family reaching 300 million in June, and recently it also released several brand new products including WPS Office 2019 and WPS Office for Mac."

Mr. Tao ZOU, Chief Executive Officer of the Company, added, "Our revenue was RMB1,345.8 million in the second quarter, up 5% year-on-year and 6% quarter-on-quarter. The revenue of the first half of 2018 was RMB2,609.5 million, up 4% year-on-year. In the second quarter, revenues from cloud services and office software and services and others businesses maintained healthy growth, up 54% and 68% year-on-year, respectively. After rapid development in the past few years, China's online game market (including the mobile game market) appeared to have experienced a relatively sluggish growth in 2018. Facing the increasingly intensive competition in the mobile game market, we decide to push back the release date of our new mobile game, JX Online III mobile game, so as to align with our strategic deployment plan of our key gaming products. It is currently expected that the commercial launch time of JX Online III mobile game would be in early 2019.

During this quarter, JX Online I mobile game, which launched in May 2016, continued to enhance the game quality and contents, and contributed steady monthly gross billing with outstanding performance and great vitality. Although this quarter's new mobile game YSY did not achieve the expected performance financially, it did receive recognition from a wide range of players and ranked No.1 on the free games chart on Apple Store on the day of its release. It reflected our endeavor to develop in the game segment and our commitment in achieving more breakthroughs to adapt to the rapid changes in the game market. Our first animation Dream Tower (夢塔•雪迷城) premiered online on 1 June, and it has been viewed more than 40 million times up to now, which had great potential to be developed into another core IP. The theme song for our new animation JX Online III: Chivalrous Shen Jianxin (劍網 3•俠肝義膽沈劍心) made its debut on Bilibili.com and was highly rated by the fans of JX Online III. This would help to sustain the flagship game's popularity among users ahead of the upcoming 9th anniversary celebration. The JX World II mobile game was released on iOS on 4 July, which

ranked No.1 on the most frequently searched list and No.2 on the chart of free games on Apple Store on the day of its release. We also plan to launch a series of game products in the coming quarters, including the new expansion pack for JX Online III, JX Online II mobile game, Chinese Paladin: Sword and Fairy (仙劍奇俠傳4), etc.

Kingsoft Cloud Group maintained a stable growth in the second quarter, and each business segment was in line with our strategic planning. Using three new technologies, AI, edge computing, and blockchain, Kingsoft Cloud Group not only helped the video cloud and game cloud clients strengthen their positions in their eco-system, but also worked on smart cities and made breakthroughs in areas of government cloud, healthcare cloud and finance cloud. As one of the first contractors of Beijing government cloud project, one of the largest government cloud projects in China, Kingsoft Cloud Group has served 42 municipal committees, offices and bureaus in Beijing. It also reached a strategic cooperation agreement with Rizhao city to build a smart city together. Kingsoft Cloud Group launched CloudHIS, China's first cloud-based medical and healthcare information system, and applied it in more than a dozen provinces and cities. Driven by new technologies, Kingsoft Cloud Group successfully made breakthrough in technology upgrading for its video and game cloud. Looking ahead, Kingsoft Cloud Group will further improve product quality and expand its serving scope. It will also seek opportunities in overseas market, and continue to lead the industry to grow healthily.

In the second quarter of 2018, WPS Office continued its strong momentum, launching a series of products and services to create better user experience. In July, WPS Office officially released several brand new products, including WPS Office 2019, WPS Office for Mac and WPS Documents. Equipped with cloud and AI technologies, the new products provide users with smarter office services that fit different working scenarios. For the personal value-added services of WPS Office, we continued to improve the membership benefits and enhance the content quality for our users, and also initiated the membership promotion which successfully drove the number of paid memberships and the growth of revenue. Furthermore, WPS Office participated in the World Intellectual Property Day, showing our commitment in innovation-driven business and proprietary R&D. We look forward to contributing to proprietary innovation, intellectual property protection and information security. Users' preference for domestic office software will continue to bring more development opportunities to WPS Office.

BUSINESS REVIEW AND OUTLOOK (continued)

Mr. Jun LEI concluded, “We managed to deliver a steady quarter. Looking ahead, we believe Kingsoft Cloud Group and WPS Office will continue to expand in revenue and maintain a steady performance. Considering the estimated commercial launch time of the new mobile games, continuous competition in CDN market and the investment in the R&D for office software business, our operating results are expected to remain under pressure for the second half of the year. While looking into 2019, we believe the overall performance will improve on account of the debut of our new mobile games, as well as the steady growth of Kingsoft Cloud Group and WPS Office.”

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2018 Compared to Second Quarter of 2017 and First Quarter of 2018

Revenue

Revenue for the second quarter of 2018 increased 5% year-on-year and 6% quarter-on-quarter to RMB1,345.8 million. Revenue from the online games, cloud services and office software and services and others represented 43%, 35% and 22%, respectively, of the Group's total revenue for the second quarter of 2018. Revenue from these business lines is reported net of intra-group transactions.

Revenue from the online games business for the second quarter of 2018 decreased 28% year-on-year and 8% quarter-on-quarter to RMB581.9 million. The year-on-year decrease was largely due to decreased revenue from JX Online III and existing mobile games, partially offset by the revenue contribution from newly launched mobile games. The mild quarter-on-quarter decrease was mainly due to the natural declining life cycles of the existing mobile games, and slight decrease in revenue from JX Online III.

ADPCU for the Group's online games for the second quarter of 2018 decreased 15% year-on-year and increased 14% quarter-on-quarter to 0.8 million. APA for the Group's online games for the second quarter of 2018 decreased 24% year-on-year and slightly decreased 1% quarter-on-quarter to 3.3 million. The year-on-year decreases in ADPCU and APA reflected the natural declining life cycles of existing games, which was partially offset by the release of new mobile games. The quarter-on-quarter increase in ADPCU was mainly due to the newly launched mobile game, resumed growth of JX Online III after the expansion pack launched in the second quarter, partially offset by the natural declining life cycles of existing mobile games.

Revenue from the cloud services for the second quarter of 2018 increased 54% year-on-year and 12% quarter-on-quarter to RMB468.7 million. The strong year-on-year increase was mainly driven by robust increase of customer usage from mobile video and internet sectors, demonstrating that Kingsoft Cloud Group further gained competitive advantages in particular industries, through improving the quality of products and services by technology innovation. The steady quarter-on-quarter increase was largely due to increased revenue from internet and government sectors, reflecting our efforts on exploring new opportunities by providing high-quality cloud services.

Revenue from the office software and services and others for the second quarter of 2018 increased 68% year-on-year and 39% quarter-on-quarter to RMB295.2 million. The increases were largely due to: i) rapid growth from value-added services of WPS Office personal edition, driven by fast increase of premium members, reflecting enhanced popularity of our membership privileges infused with rich and practical functions; and ii) increased sales of WPS Office to enterprises, as a result of increased user engagement driven by consistent products upgrades.

Cost of Revenue and Gross Profit

Cost of revenue for the second quarter of 2018 increased 38% year-on-year and 4% quarter-on-quarter to RMB674.5 million. The year-on-year increase was primarily due to higher bandwidth and IDC cost resulting from increased customer usage of cloud services.

Gross profit for the second quarter of 2018 decreased 16% year-on-year and increased 9% quarter-on-quarter to RMB671.3 million. The Group's gross profit margin decreased by twelve percentage points year-on-year and increase by one percentage point quarter-on-quarter to 50%. The decrease of the Group's year-on-year gross profit margin is a result of our change in sales mix, reflecting a significant increase in revenue contribution from cloud services, which has a relative lower gross profit margin with greater growth potential.

R&D Costs, net

Net R&D costs for the second quarter of 2018 increased 17% year-on-year and 13% quarter-on-quarter to RMB430.6 million. The year-on-year and quarter-on-quarter increases were primarily attributable to the increased investments on new products and advanced technologies.

Selling and Distribution Expenses

Selling and distribution expenses for the second quarter of 2018 increased 17% year-on-year and 25% quarter-on-quarter to RMB157.8 million. The increases were primarily due to the expansion of channels as well as an increase in marketing and promotional spending for online games.

Administrative Expenses

Administrative expenses for the second quarter of 2018 increased 81% year-on-year and 28% quarter-on-quarter to RMB105.9 million. The year-on-year and quarter-on-quarter increases were mainly due to an increase in staff-related costs.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Share-based Compensation Costs

Share-based compensation costs for the second quarter of 2018 decreased 15% year-on-year and 11% quarter-on-quarter to RMB51.8 million.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the second quarter of 2018 decreased 80% year-on-year and 22% quarter-on-quarter to RMB65.2 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the second quarter of 2018 decreased by twenty percentage points year-on-year and two percentage points quarter-on-quarter to 5%.

Other (Losses)/Gains, net

Net other losses for the second quarter of 2018 were RMB73.6 million, compared to losses of RMB42.3 million in the corresponding period last year, and gains of RMB19.2 million in the first quarter of 2018. The losses in the second quarter of 2018 were mainly due to the recognition of foreign exchange losses in this quarter. The losses in the second quarter of 2017 were mainly due to the additional provision for impairment on the investments in XunLei and 21 Vianet.

Share of Profits and Losses of Associates

We recorded share of profits of associates of RMB65.9 million for the second quarter of 2018, compared to share of losses of RMB3.1 million for the second quarter of 2017 and share of profits of RMB19.8 million for the first quarter of 2018. The change was mainly due to that Cheetah Mobile had been accounted as the Group's associate since 1 October 2017 and Cheetah Mobile's improvements in its profit and margin continuously.

Income Tax Expense

Income tax expense for the second quarter of 2018 increased 18% year-on-year and 32% quarter-over-quarter to RMB57.0 million.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent (including that from continuing operations and a discontinued operation) was RMB100.9 million, RMB250.0 million and

RMB118.4 million for the three months ended 30 June 2018, 30 June 2017 and 31 March 2018, respectively.

Profit Attributable to Owners of the Parent before Share-based Compensation Costs

Profit attributable to owners of the parent before share-based compensation costs is profit 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 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 attributable to owners of the parent before share-based compensation costs may not be comparable to similarly titled measures utilized by other companies.

Profit attributable to owners of the parent before share-based compensation costs (including that from continuing operations and a discontinued operation) was RMB138.9 million, RMB305.9 million and RMB157.6 million for the three months ended 30 June 2018, 30 June 2017 and 31 March 2018, respectively. The net profit margin excluding the effect of share-based compensation costs was 10%, 12% and 12% for the three months ended 30 June 2018, 30 June 2017 and 31 March 2018, respectively.

First Half of 2018 Compared to First Half of 2017

Revenue

Revenue for the first half of 2018 increased 4% year-on-year to RMB2,609.5 million. Revenue from the online games, cloud services and office software and services and others represented 47%, 34% and 19%, respectively, of the Group's total revenue for the first half of 2018.

Revenue from the online games business for the first half of 2018 decreased 25% year-on-year to RMB1,214.3 million. The year-on-year decrease was mainly due to lower revenue from JX Online III as the result of the fierce competition, natural decline in revenue of JX Online I mobile game, partially offset by revenue contribution from new mobile games.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Revenue from the cloud services for the first half of 2018 increased 55% year-on-year to RMB887.7 million. The increase was mainly driven by robust customer usage from mobile video and internet sectors, reflecting Kingsoft Cloud Group further strengthening its leading position in specific industries.

Revenue from office software and services and others for the first half of 2018 increased 67% year-over-year to RMB507.6 million. The year-on-year increase was largely due to the rapid growth from value-added services and online marketing services of WPS Office personal edition, demonstrating improved commercialization capabilities of our products, driven by strengthened functions and more premium content.

Cost of Revenue and Gross Profit

Cost of revenue for the first half of 2018 increased 32% year-on-year to RMB1,322.6 million. The year-on-year increase was primarily due to higher bandwidth and IDC cost associated with increased customer usage of cloud services.

Gross profit for the first half of 2018 decreased 14% year-on-year to RMB1,286.9 million. The Group's gross profit margin decreased by eleven percentage points year-on-year to 49%.

R&D Costs, net

Net R&D costs for the first half of 2018 increased 18% year-on-year to RMB810.9 million. The year-on-year increase was mainly due to increased investments on developing products and state-of-the-art technologies.

Selling and Distribution Expenses

Selling and distribution expenses for the first half of 2018 increased 31% year-on-year to RMB284.4 million. The increase was primarily due to higher promotional spending and the expansion of sales channels.

Administrative Expenses

Administrative expenses for the first half of 2018 increased 65% year-on-year to RMB188.8 million. The year-on-year increase was mainly due to increased staff-related costs and professional fees. We have had several self-owned properties put to use since early 2018.

Share-based Compensation Costs

Share-based compensation costs for the first half of 2018 was RMB109.9 million, flat with last year.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first half of 2018 decreased 77% year-on-year to RMB149.2 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the first half of 2018 decreased by nineteen percentage points year-on-year to 6%.

Other Losses, net

Net other losses for the first half of 2018 was RMB54.5 million, compared with losses of RMB134.6 million in the same period last year. The losses in 2018 were mainly due to the recognition of foreign exchange losses, and the losses in 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.

Share of Profits and Losses of Associates

We recorded share of profits of associates of RMB85.6 million for the first half of 2018, compared to share of losses of RMB5.5 million for the first half of 2017. The change was mainly attributable to the fact that Cheetah Mobile had been accounted as our associate since 1 October 2017.

Income Tax Expense

Income tax expense for the first half of 2018 increased 6% year-on-year to RMB100.1 million.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent (including that from continuing operations and a discontinued operation) was RMB219.3 million and RMB488.5 million for the six months ended 30 June 2018 and 30 June 2017, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Profit 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 2018 (including that from continuing operations and a discontinued operation) was RMB296.5 million, compared to RMB591.8 million in the prior year period. The net profit margin excluding the effect of share-based compensation costs was 11% and 12% for the six months ended 30 June 2018 and 30 June 2017, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 30 June 2018, the Group had major financial resources in the forms of restricted cash, cash and bank deposits amounting to RMB94.6 million, RMB10,242.0 million, respectively, which totally represented 52% of the Group's total assets.

As at 30 June 2018, the Group's gearing ratio, which represents total liabilities divided by total assets, was 33%, compared to 29% as at 31 December 2017. As at 30 June 2018, the Group had HK\$45.6 million (equivalent of RMB38.4 million) debt of convertible bonds and bank loan of RMB295.1 million, US\$150.0 million (equivalent to RMB992.5 million).

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 2018, RMB5,168.0 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 RMB362.5 million and RMB1,117.8 million for the six months ended 30 June 2018 and 30 June 2017, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, land use right, fix assets and intangible assets. Cash used for capital expenditures (including that from continuing operations and a discontinued operation) was RMB499.4 million and RMB254.0 million for the six months ended 30 June 2018 and 30 June 2017, respectively.

OTHER INFORMATION

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

Below are the changes of directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules (as amended from time to time) since the date of the Company's 2017 annual report:

NAME OF DIRECTOR	DETAILS OF CHANGES
Mr. Jun LEI	The remuneration of Mr. LEI was raised to US\$55,000 per annum.
Mr. Pak Kwan KAU	The remuneration of Mr. KAU was raised to US\$55,000 per annum.
Mr. Shun Tak WONG	The remuneration of Mr. WONG was raised to US\$55,000 per annum; he was appointed in June 2018 as an independent non-executive director and chairman of audit committee of Xiaomi Corporation (a company listed on the Stock Exchange in July 2018, Stock Code: 1810).
Mr. David Yuen Kwan TANG	The remuneration of Mr. TANG was raised to US\$55,000 per annum.
Ms. Wenjie WU	The remuneration of Ms. WU was raised to US\$55,000 per annum.

Directors' Interests in Securities

As at 30 June 2018, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of the SFO which (a) were required to be notified to the Company and the Stock

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

Interest in the shares and underlying shares of the Company:

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL (NOTE 1)	NATURE OF SHARES INTERESTED
Jun LEI	Interest of controlled corporation	210,116,248	15.30	Long position
	Other	142,710,003	10.39	Long position
	Total	352,826,251 (Note 2)	25.68 (Note 4)	Long position
Pak Kwan KAU	Interest of controlled corporation	108,028,566 (Note 3)	7.86	Long position
Tao ZOU	Beneficial owner	7,409,307	0.54	Long position
Yuk Keung NG	Beneficial owner	3,800,000	0.29	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 2018, which was 1,373,728,717.
- Among these 352,826,251 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a British Virgin Islands

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

OTHER INFORMATION (continued)

3. 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 would vote in the same way as Mr. Jun LEI with these shares.
4. Any discrepancies in the table between total and sum of amounts listed therein are due to rounding.

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

Seasun Holdings (Note 1)

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

Notes:

1. Seasun Holdings is a non-wholly owned subsidiary of the Company.
2. % of issued share capital in class was calculated on basis of the issued ordinary shares of Seasun Holdings as at 30 June 2018, which was 918,149,438.

Cheetah Mobile Inc. (Note 1)

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL IN CLASS (NOTE 2)	NATURE OF SHARES INTERESTED
Jun LEI (Note 3)	Interest of controlled corporation	17,660,294	3.99	Long Position
David Yuen Kwan TANG	Beneficial owner	140,000	0.03	Long Position
Yuk Keung NG	Beneficial owner	1,200	0.00	Long Position

Notes:

1. The Company holds over 20% of the issued shares of Cheetah Mobile Inc. as of 30 June 2018, which is listed on the NYSE.
2. % of the total number of issued shares in class was calculated on basis of the issued Class A Cheetah Shares as at 30 June 2018, which was 442,419,557.
3. Among the 17,660,294 shares, (i) 3,374,580 shares are held by Go Corporate Limited, a British Virgin Islands company owned as to 100% voting power by Mr. Jun LEI; and (ii) 14,285,714 shares are held by Xiaomi, a company owned as to 30% voting power by Mr. Jun LEI under the SFO.
- Save as disclosed above, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 June 2018.

OTHER INFORMATION (continued)

Share Option Schemes

2011 Share Option Scheme

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

The following share options were outstanding under the 2011 Share Option Scheme during the six months ended 30 June 2018.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS				AT 30 JUNE 2018	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK\$ PER SHARE
	AT 1 JANUARY 2018	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD			
Executive directors							
Tao ZOU	4,000,000	—	—	—	4,000,000	21 April 2017	20.25
Yuk Keung NG	600,000	—	—	—	600,000	23 November 2017	22.75
	4,600,000	—	—	—	4,600,000		

OTHER INFORMATION (continued)

Kingsoft Cloud Share Option Scheme

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

Share Award Scheme

Share Award Scheme

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

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

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

More details regarding the Share Award Scheme are set out in note 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 Holdings Limited 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

OTHER INFORMATION (continued)

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.

Seasun Holdings Share Award Schemes

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

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

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

Substantial Shareholders

As at 30 June 2018, 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

NAME OF SUBSTANTIAL SHAREHOLDER	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL (NOTE 1)	NATURE OF SHARES HELD
Color Link Management Limited (Note 2)	Beneficial owner	174,818,191	12.73	Long position
Topclick Holdings Limited (Note 3)	Beneficial owner	108,028,566	7.86	Long position
Tencent Holdings Limited (Note 4)	Interest of controlled corporation	106,784,515	7.77	Long position
FMR LLC	Interest of controlled corporation	70,166,690	5.11	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 2018, which was 1,373,728,717.
2. Mr. Jun LEI is deemed to be interested in Color Link Management Limited's interest in the Company pursuant to Part XV of the SFO because Color Link Management Limited is wholly owned by Mr. Jun LEI.
3. These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by 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 would vote in the same way as Mr. Jun LEI with these shares.

OTHER INFORMATION (continued)

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.

Employee and Remuneration Policies

As at 30 June 2018, the Group had 5,496 full-time employees (30 June 2017: 6,998), inclusive of all its staff in Mainland China and overseas offices, most of whom are based in Beijing and Zhuhai, the PRC. Since Cheetah Mobile ceased to be a subsidiary of the Company with effect on 1 October 2017, the number of full-time employees of the Group as at 30 June 2018 did not include the number of Cheetah Mobile. 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 2018 was RMB999.4 million (for the six months ended 30 June 2017: RMB804.6 million).

Directors' Remuneration

Please refer to note 29 to the financial statements for details of the Directors' remuneration.

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

None of the Company and its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the six months ended 30 June 2018.

Convertible Bonds

The Company completed the issue of the 2013 Convertible Bonds in the principal amount of HK\$1,356,000,000 on 23 July 2013. As at 15 January 2018, all outstanding 2013 Convertible Bonds had been fully converted and no 2013 Convertible Bonds remained outstanding. As a result of the conversion, the total number of the Shares issued under the 2013 Convertible Bonds amounted to 60,753,330. Accordingly, the 2013 Convertible Bonds were delisted from the official list of the Singapore Exchange Securities Trading Limited with effect from 18 January 2018. The net proceeds from the subscription of the 2013 Convertible Bonds, after deduction of commissions and other related expenses, were approximately HK\$1,327 million. The Company intended to use the net proceeds primarily to repay existing short-term bank loans, for general corporate purposes and to supplement working capital. The net proceeds raised from the issue of 2013 Convertible Bonds have been used up as of 31 December 2014. For details, please refer to the 2014 annual report of the Company. References are made to the announcements of the Company dated 3 July 2013 and 23 July 2013 for principal terms of the 2013 Convertible Bonds and the announcements of the Company dated 18 December 2017 and 15 January 2018 for early redemption and full conversion of the 2013 Convertible Bonds.

OTHER INFORMATION (continued)

The Company also completed the issue of the 2014 Convertible Bonds in the principal amount of HK\$2,327,000,000 on 11 April 2014. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each 2014 Convertible Bonds at its principal amount together with accrued and unpaid interest thereon on 11 April 2019. The proceeds from the subscription of the 2014 Convertible Bonds, after deduction of commissions and other related expenses, were approximately HK\$2,277 million. Assuming full conversion of the 2014 Convertible Bonds at the initial conversion price of HK\$43.89 per share and no further issue of shares, the 2014 Convertible Bonds will be convertible into approximately 53,018,910 shares of the Company. The net price for each conversion share is approximately HK\$42.95, and the initial conversion price was HK\$43.89, which represented a premium of approximately 40.00% over the closing price of HK\$31.35 per share as quoted on the Stock Exchange on 3 April 2014 being the last trading day prior to the announcement of the issue of the 2014 Convertible Bonds. The 2014 Convertible Bonds were offered and sold to no less than six independent places (who were independent individual, corporate and/ or institutional investors). The 2014 Convertible Bonds have been listed on the Singapore Exchange Securities Trading Limited since 14 April 2014. The interest is 1.25% per annum of the principal amount of the 2014 Convertible Bonds, payable semi-annually in arrear in equal instalments of HK\$6,250 per calculation amount (i.e. interest in respect of any 2014 Convertible Bond shall be calculated per HK\$1,000,000 in principal amount of the 2014 Convertible Bonds) on 11 April and 11 October in each year, subject to adjustment for non-business days. The Company intended to use the net proceeds from the subscription primarily for general corporate purposes, for strategic investments and acquisitions, if appropriate, and to supplement working capital. On 11 April 2017, being the put option date of the 2014 Convertible Bonds, the Company redeemed an aggregate principal amount of HK\$2,281,000,000 at the principal amount of the 2014 Convertible Bonds together with interest accrued to that date at the option of certain bondholders. As at 31 December 2017, the outstanding 2014 Convertible Bonds at an aggregate principal amount of HK\$46,000,000 are convertible into 1,078,040 Shares upon full conversion. The net proceeds raised from the issue of 2014 Convertible Bonds have been used up as of 31 December 2015. For details, please refer to the 2015 annual report of the Company. References are made to the announcements of the Company dated 4 April 2014 and 11 April 2014 for principal terms of the 2014 Convertible Bonds.

Details of dilutive effect on the basic earnings per share as at 30 June 2018 are set out in note 9 to the financial statements.

Material Investment

Details of the material investments incurred during the six months ended 30 June 2018 are set out in notes 13, 14 and 15 to the financial statements.

Review by Audit Committee

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

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with our external auditors has reviewed the Group's unaudited interim financial information for the six months ended 30 June 2018.

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 2018.

OTHER INFORMATION (continued)

Corporate Governance Code

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

The code provision A.6.7 of the CG Code is regarding non-executive directors' attendance at general meetings. Non-executive directors Mr. Chi Ping LAU did not attend the annual general meeting held on 23 May 2018 due to pre-arranged engagements. The code provision C.1.2 of the CG Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive directors overseeing the daily operation of the Group and the effective communication among the executive directors, the management and the non-executive directors (including the independent non-executive directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

Appreciation

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

By Order of the Board

Kingsoft Corporation Limited

Jun Lei

Chairman

Hong Kong, 21 August 2018

INDEPENDENT REVIEW REPORT ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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 24 to 80, which comprises the condensed consolidated statement of financial position of Kingsoft Corporation Limited (the "Company") and its subsidiaries as at 30 June 2018 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

21 August 2018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three and six months ended 30 June 2018

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)
CONTINUING OPERATIONS					
Revenue	4	1,345,789	1,284,412	2,609,516	2,497,778
Cost of revenue		(674,538)	(488,898)	(1,322,622)	(998,345)
Gross profit		671,251	795,514	1,286,894	1,499,433
Research and development costs, net		(430,589)	(368,273)	(810,903)	(689,712)
Selling and distribution expenses		(157,763)	(135,262)	(284,395)	(216,435)
Administrative expenses		(105,883)	(58,645)	(188,768)	(114,708)
Share-based compensation costs		(51,827)	(61,063)	(109,887)	(109,800)
Other income	4	89,364	92,778	148,216	163,555
Other expenses		(1,225)	(4,250)	(1,871)	(6,332)
Other losses, net	5	(73,645)	(42,332)	(54,470)	(134,586)
Finance income		83,877	44,115	149,618	91,892
Finance costs		(88,403)	(21,155)	(139,936)	(53,832)
Share of profits and losses of:					
Joint ventures	13	15,434	32,646	32,797	71,472
Associates	14	65,851	(3,085)	85,613	(5,480)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	16,442	270,988	112,908	495,467
Income tax expense	7	(57,033)	(48,174)	(100,114)	(94,261)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		(40,591)	222,814	12,794	401,206
DISCONTINUED OPERATION					
Profit for the period from a discontinued operation	8	—	61,840	—	163,713
PROFIT/(LOSS) FOR THE PERIOD		(40,591)	284,654	12,794	564,919
Attributable to:					
Owners of the parent		100,945	250,044	219,333	488,513
Non-controlling interests		(141,536)	34,610	(206,539)	76,406
		(40,591)	284,654	12,794	564,919

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

For the three and six months ended 30 June 2018

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2018 RMB (UNAUDITED)	2017 RMB (UNAUDITED)	2018 RMB (UNAUDITED)	2017 RMB (UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic	9				
— For profit for the period		0.07	0.19	0.16	0.38
— For profit from continuing operations		0.07	0.16	0.16	0.30
Diluted					
— For profit for the period		0.07	0.19	0.16	0.37
— For profit from continuing operations		0.07	0.16	0.16	0.30

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2018

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)
PROFIT/(LOSS) FOR THE PERIOD	(40,591)	284,654	12,794	564,919
OTHER COMPREHENSIVE INCOME/(LOSS)				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Available-for-sale investments:				
Changes in fair value	—	(10,250)	—	—
Exchange differences:				
Exchange differences on translation of foreign operations	174,131	(96,520)	30,275	(107,188)
Share of other comprehensive income of associates	104,066	—	61,757	—
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	278,197	(106,770)	92,032	(107,188)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:				
Net fair value gain/(loss) on financial assets at fair value through other comprehensive income ("FVOCI")	206,462	—	(101,825)	—
Share of other comprehensive income of associates	6,614	—	6,614	—
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	213,076	—	(95,211)	—
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	491,273	(106,770)	(3,179)	(107,188)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	450,682	177,884	9,615	457,731
Attributable to:				
Owners of the parent	574,374	169,483	209,583	412,271
Non-controlling interests	(123,692)	8,401	(199,968)	45,460
	450,682	177,884	9,615	457,731

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	NOTES	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,659,410	1,329,203
Investment properties		64,662	—
Prepaid land lease payments	11	290,929	289,561
Goodwill		9,559	9,559
Other intangible assets	12	53,059	56,375
Investments in joint ventures	13	127,905	177,110
Investments in associates	14	4,006,598	3,878,421
Available-for-sale investments	15	—	1,269,216
Financial assets at fair value through other comprehensive income	15	1,154,639	—
Other financial assets	16	75,104	63,430
Deferred tax assets		93,197	101,807
Other non-current assets		26,324	42,640
Total non-current assets		7,561,386	7,217,322
CURRENT ASSETS			
Inventories		19,847	10,327
Trade receivables	17	1,186,551	1,167,745
Prepayments, deposits and other receivables		858,337	679,612
Available-for-sale investment	15	—	88,000
Financial asset at fair value through other comprehensive income	15	10,000	—
Restricted cash	18	94,577	93,400
Cash and bank deposits	18	10,241,957	8,505,984
Total current assets		12,411,269	10,545,068
CURRENT LIABILITIES			
Trade payables	19	231,267	179,301
Other payables and accruals		1,602,348	1,612,667
Interest-bearing bank loans	20	1,056,403	374,165
Deferred revenue		652,260	608,557
Income tax payable		125,892	125,465
Liability component of convertible bonds	23	38,419	832,876
Derivative financial instruments	24	157,545	121,076
Total current liabilities		3,864,134	3,854,107
NET CURRENT ASSETS		8,547,135	6,690,961
TOTAL ASSETS LESS CURRENT LIABILITIES		16,108,521	13,908,283

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2018

	NOTES	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
NON-CURRENT LIABILITIES			
Deferred revenue		24,026	20,788
Deferred tax liabilities		29,853	58,707
Interest-bearing bank loans	20	231,224	287,682
Liability component of convertible bonds	23	—	37,864
Liability component of redeemable convertible preferred shares	24	2,483,958	950,271
Total non-current liabilities		2,769,061	1,355,312
Net assets		13,339,460	12,552,971
EQUITY			
Equity attributable to owners of the parent			
Issued capital	21	5,319	5,127
Share premium account	21	2,984,875	2,287,958
Treasury shares	21	(20,042)	(22,517)
Equity component of convertible bonds	23	1,274	7,564
Other reserves		10,138,260	9,810,458
		13,109,686	12,088,590
Non-controlling interests		229,774	464,381
Total equity		13,339,460	12,552,971

Tao Zou
Director

Yuk Keung NG
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	ATTRIBUTABLE TO OWNERS OF THE PARENT													
	ISSUED CAPITAL RMB'000 (UNAUDITED)	SHARE PREMIUM ACCOUNT RMB'000 (UNAUDITED)	EQUITY COMPONENT OF CONVERTIBLE BONDS (NOTE 23)			SHARE-BASED COMPENSATION RESERVE (UNAUDITED)			FOREIGN CURRENCY TRANSLATION RESERVE RMB'000 (UNAUDITED)	AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE RMB'000 (UNAUDITED)	FAIR VALUE RESERVE OF FINANCIAL ASSETS AT		NON-CONTROLLING INTERESTS RMB'000 (UNAUDITED)	TOTAL EQUITY RMB'000 (UNAUDITED)
			TREASURY SHARES RMB'000 (UNAUDITED)	STATUTORY RESERVE RMB'000 (UNAUDITED)	BONDS RMB'000 (UNAUDITED)	OTHER CAPITAL RESERVE RMB'000 (UNAUDITED)	REVALUATION RESERVE RMB'000 (UNAUDITED)	RETAINED PROFITS RMB'000 (UNAUDITED)			TOTAL RMB'000 (UNAUDITED)			
												FVOCI RMB'000 (UNAUDITED)		
AT 31 DECEMBER 2017	5,127	2,287,958	(22,517)	7,564	228,087 [#]	329,588 [#]	1,846,459 [#]	31,921 [#]	812,539 [#]	–	6,561,864 [#]	12,088,590	464,381	12,552,971
Adjustment on adoption of IFRS 15, net of tax	–	–	–	–	–	–	–	–	–	–	5,722	5,722	–	5,722
Adjustment on adoption of IFRS 9	–	–	–	–	–	–	–	–	(812,539)	812,539	–	–	–	–
At 1 January 2018	5,127	2,287,958	(22,517)	7,564	228,087	329,588	1,846,459	31,921	–	812,539	6,567,586	12,094,312	464,381	12,558,693
Profit/(Loss) for the period	–	–	–	–	–	–	–	–	–	–	219,333	219,333	(206,539)	12,794
Other comprehensive income/(loss) for the period:														
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	23,714	–	–	–	23,714	6,561	30,275
Net fair value gain/(loss) on financial assets at FVOCI	–	–	–	–	–	–	–	–	–	(101,835)	–	(101,835)	10	(101,825)
Share of other comprehensive income of associates	–	–	–	–	–	–	–	61,757	–	6,614	–	68,371	–	68,371
Total comprehensive income/(loss) for the period	–	–	–	–	–	–	–	85,471	–	(95,221)	219,333	209,583	(199,968)	9,615
Approved and paid final dividend in respect of the previous year (note 26)	–	(126,608)	–	–	–	–	–	–	–	–	–	(126,608)	–	(126,608)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(137,019)	(137,019)
Share-based compensation costs	–	–	–	–	–	77,258	–	–	–	–	–	77,258	32,725	109,983
Vested awarded shares transferred to employees	–	–	2,475	–	–	(2,475)	–	–	–	–	–	–	–	–
Shares of reserves of an associate	–	–	–	–	–	–	1,624	–	–	–	–	1,624	–	1,624
Conversion of convertible bonds	192	823,525	–	(6,290)	–	–	–	–	–	–	–	817,427	–	817,427
Reclassification adjustments for disposal of a financial asset	–	–	–	–	–	–	–	–	–	(28,500)	28,500	–	–	–
Changes in the ownership interests in subsidiaries (note 25)	–	–	–	–	–	–	36,090	–	–	–	–	36,090	69,655	105,745
At 30 June 2018	5,319	2,984,875	(20,042)	1,274	228,087 [#]	404,371 [#]	1,884,173 [#]	117,392 [#]	–	688,818 [#]	6,815,419 [#]	13,109,686	229,774	13,339,460

These reserve accounts comprise the consolidated other reserves of RMB10,138,260,000 (31 December 2017: RMB9,810,458,000) in the condensed consolidated statement of financial position.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		112,908	660,503
Adjustments for:			
(Gain)/loss on disposal of property, plant and equipment		(254)	507
Loss on disposal of other intangible assets		—	154
Loss on redemption of convertible bonds		—	3,383
Depreciation of property, plant and equipment	10	200,703	174,030
Depreciation of investment properties		360	—
Amortisation of prepaid land lease payments	11	2,524	2,170
Amortisation of other intangible assets	12	13,184	66,050
Impairment of other intangible assets		—	172
Finance costs		139,936	60,486
Finance income		(149,618)	(103,541)
Fair value (gain)/loss on financial instruments at fair value through profit or loss		(11,615)	15,196
Share-based compensation costs		109,887	158,348
Impairment of trade and other receivables		20	13,729
Share of profits of joint ventures		(32,797)	(70,850)
Share of (profits)/losses of associates		(85,613)	55,656
Foreign exchange differences, net		53,993	(27,777)
Impairment loss of available-for-sale investments		—	158,367
Gain on disposal of available-for-sale investments		—	(81,680)
Loss/(gain) on deemed disposal of associates		12,092	(15,073)
		365,710	1,069,830
(Increase)/decrease in trade receivables		(18,398)	193,519
(Increase)/decrease in prepayments, deposits and other receivables		(26,860)	51,613
(Increase)/decrease in other non-current assets		(7,342)	1,760
Increase in inventories		(9,520)	(3,458)
Increase/(decrease) in trade payables		51,632	(185,395)
Increase in deferred revenue		46,941	66,553
Increase in other payables and accruals		54,501	20,727
Cash generated from operation		456,664	1,215,149
Interest received		25,792	33,499
Income tax paid		(119,930)	(130,820)
Net cash flows from operating activities		362,526	1,117,828

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		70,689	38,250
Purchases of property, plant and equipment		(488,804)	(236,092)
Purchases of other intangible assets		(9,823)	(11,978)
Purchases of land use right		(812)	—
Increase in time deposits with original maturity of over three months when acquired		(1,380,009)	(274,998)
Investment in joint ventures		(7,000)	(1,000)
Investments in associates		(17,966)	(7,823)
Purchase of financial assets at FVOCI		(4,122)	—
Purchase of available-for-sale investments		—	(16,894)
Purchase of other financial assets		(6,946)	—
Acquisition of businesses, net of cash acquired		—	(5,900)
Disposal of property, plant and equipment		459	415
Proceeds from disposal of associates		—	28,379
Dividend income from an associate and a joint venture		82,002	89,152
Decrease in other loans		195	51,282
Proceeds from disposal of financial assets at FVOCI		10,000	—
Proceeds from disposal of available-for-sale investments		—	108,399
Proceeds from disposal of an other financial asset		5,627	—
Net cash flows used in investing activities		(1,746,510)	(238,808)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of redeemable convertible preferred shares		1,323,442	309,727
Changes in the ownership of interest in subsidiaries		—	401,454
Proceeds from exercise of share options		—	12,324
Cash settlement of share options issued by a subsidiary		(1,961)	—
Vested awarded shares transferred to employees		—	12,940
Proceeds from issuance of restricted shares of subsidiaries		240	286
Dividends paid to owners of the parent		(126,608)	(112,678)
Dividends paid to non-controlling interests		(140,446)	(158,509)
Drawdown of bank loans		588,160	2,987
Payment of financial lease		(5,775)	(6,861)
Redemption of convertible bonds		—	(1,979,726)
Interest paid		(12,955)	(39,042)
Net cash flows from/(used in) financing activities		1,624,097	(1,557,098)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		240,113	(678,078)
Cash and cash equivalents at beginning of the period		3,036,488	5,776,336
Effect of foreign exchange rate changes, net		(25,063)	(125,544)
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
		3,251,538	4,972,714
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	628,066	626,796
Deposits with original maturity of less than three months when acquired	18	2,623,472	2,497,280
Cash and cash equivalents at end of period attributable to a discontinued operation		—	1,848,638
CASH AND CASH EQUIVALENTS AS STATED IN THE CONDENSED STATEMENT OF CASH FLOWS			
		3,251,538	4,972,714

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 2018, the Company and its subsidiaries (together, the “Group”) were principally involved in the following principal activities:

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

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

2.1. Basis of preparation

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2017.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), except for the adoption of new standards and interpretations effective as at 1 January 2018.

The Group adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on 1 January 2018, using a modified retrospective method. The Group didn’t restate comparative information and recognised the transition adjustments against the opening balance of retained earnings at 1 January 2018. The effect of adopting IFRS 9 and IFRS 15 is as follows:

The adoption of IFRS 9 has a significant impact on the classification and measurement of the Group’s financial assets. Under IAS 39 *Financial Instruments: Recognition and Measurement*, the Group’s available-for-sale investments were measured at fair value or stated at cost less any impairment losses when the fair value cannot be reliably measured, upon the adoption of the IFRS 9, these available-for-sale investments of RMB1,357,216,000 as at 1 January 2018 were reclassified to financial assets at FVOCI of RMB1,355,490,000 and financial assets at fair value through profit or loss of RMB1,726,000, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

The adoption of IFRS 15 has no material impact on the financial statements of the Company and its subsidiaries, and the cumulative catch-up adjustments related to an associate of the Group at the date of initial application of IFRS 15 increased the Group's opening balance of retained earnings as at 1 January 2018 by RMB5,722,000.

The following other amendments and interpretation to IFRSs do not have any significant impact on the accounting policies, financial position or performance of the Group:

IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Considerations</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transaction</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
Annual Improvements to 2014–2016 Cycle	<i>Amendments to a number of IFRSs</i>

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

3. SEGMENT INFORMATION

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SEGMENT INFORMATION (continued)

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

	ENTERTAINMENT SOFTWARE RMB'000 (Unaudited)	CLOUD SERVICES RMB'000 (Unaudited)	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000 (Unaudited)	TOTAL RMB'000 (Unaudited)
<i>For the six months ended 30 June 2018</i>				
SEGMENT REVENUE:				
Sales to external customers	1,214,260	887,651	507,605	2,609,516
Intersegment sales	476	33,412	28,441	62,329
	1,214,736	921,063	536,046	2,671,845
<i>Reconciliation:</i>				
Elimination of intersegment sales				(62,329)
Revenue from continuing operations				2,609,516
Segment results	335,357	(333,719)	196,496	198,134
<i>Reconciliation:</i>				
Elimination of intersegment results				(6,538)
Administrative expenses				(188,768)
Share-based compensation costs				(109,887)
Other income				148,216
Other expenses				(1,871)
Other losses, net				(54,470)
Finance income				149,618
Finance costs				(139,936)
Share of profits of:				
Joint ventures				32,797
Associates				85,613
Profit before tax from continuing operations				112,908

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>				
SEGMENT REVENUE:				
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
Intersegment sales	650	18,371	23,454	42,475
	1,623,073	604,390	339,256	2,566,719
<i>Reconciliation:</i>				
Elimination of the discontinued operation				(26,466)
Elimination of intersegment sales				(42,475)
Revenue from continuing operations				2,497,778
Segment results	793,027	(282,167)	107,612	618,472
<i>Reconciliation:</i>				
Elimination of discontinued results				(26,466)
Elimination of intersegment 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)
Profit before tax from continuing operations				495,467

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	
	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)
Mainland China	2,506,458	2,350,784
Hong Kong	96,847	142,902
Other countries	6,211	4,092
Total	2,609,516	2,497,778

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

(b) Non-current assets:

	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
	China	2,098,855
Other countries	1,319	1,723
Total	2,100,174	1,723,032

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. REVENUE AND OTHER INCOME

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	
	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)
<i>Revenue from contracts with customers</i>				
Game services	447,499	595,947	945,763	1,155,899
Cloud services	468,731	304,027	887,651	572,473
Royalties	134,383	209,053	268,497	466,252
Online marketing services	85,288	68,208	184,616	131,282
Sales and subscription of software and related services	195,062	105,570	305,251	168,899
Others	7,340	1,607	9,056	2,973
	1,338,303	1,284,412	2,600,834	2,497,778
<i>Rental income</i>	7,486	*	8,682	*
	1,345,789	1,284,412	2,609,516	2,497,778
<i>Timing of revenue from contracts with customers recognition</i>				
Goods transferred at a point in time	1,232,403	*	2,419,692	*
Services transferred over time	105,900	*	181,142	*
	1,338,303	*	2,600,834	*
<i>Other income</i>				
Government grants	86,602	91,144	144,972	161,108
Others	2,762	1,634	3,244	2,447
	89,364	92,778	148,216	163,555

* As the Group uses a modified retrospective approach for the adoption of IFRS 15, the comparative amounts for the three and six months ended 30 June 2017 were not presented. Rental income of RMB1,196,000 and RMB2,393,000, respectively, for the three and six months ended 30 June 2017, respectively, were included in "others".

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. OTHER LOSSES, NET

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2018	2017	2018	2017
	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)
NOTE				
Loss on deemed disposal of an associate	(4,992)	—	(12,092)	—
Loss on redemption of convertible bonds	—	(3,383)	—	(3,383)
Impairment loss of available-for-sale investments	—	(59,117)	—	(158,367)
Foreign exchange differences, net	(82,219)	26,198	(53,993)	33,194
Fair value gain/(loss) on financial instruments at fair value through profit or loss	13,566	(6,030)	11,615	(6,030)
	(73,645)	(42,332)	(54,470)	(134,586)

6. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2018	2017	2018	2017
	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)
Employee benefit expenses	514,690	413,389	999,418	804,590
Depreciation of property, plant and equipment	107,463	78,191	200,703	150,761
Depreciation of investment properties	360	—	360	—
Amortisation of prepaid land lease payments	1,245	1,085	2,524	2,170
Amortisation of other intangible assets	6,343	8,458	13,184	16,594
Interest on bank loans, convertible bonds and redeemable convertible preferred shares	88,403	21,155	139,936	53,832
Impairment of trade and other receivables	19	2,729	20	3,588

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	
	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)
Current income tax	50,662	49,231	110,858	128,600
Deferred income tax	6,371	(1,057)	(10,744)	(34,339)
Income tax expense	57,033	48,174	100,114	94,261

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

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2018.

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

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 and signing of the definitive agreement in relation to the possible investment in robotics business between Cheetah Mobile Inc. and its subsidiaries (collectively, "Cheetah Mobile") and Mr. Sheng Fu.

On 26 May 2017, Beijing Kingsoft Internet Security Software Co., Ltd., a wholly-owned subsidiary of Cheetah Mobile Inc., entered into a capital injection agreement with Mr. Sheng Fu, Beijing OrionStar Technology Co., Ltd. (as the target company), other investors and existing shareholders in relation to the investment in robotics business. On 29 September 2017, the aforementioned voting proxy agreement was approved by the shareholders of the Company and became effective from 1 October 2017. As a result, the Group lost control over Cheetah Mobile.

Cheetah Mobile carries out the "information security and internet services segment" of the Group. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the operating results of Cheetah Mobile before the deemed disposal have been presented as a discontinued operation.

The results of the discontinued operation are presented below:

	FOR THE SIX MONTHS ENDED 30 JUNE 2017 RMB'000 (UNAUDITED)
Revenue	2,348,281
Expenses	(2,229,615)
Other gains, net	92,173
Finance income	11,649
Finance costs	(6,654)
Share of losses of joint ventures	(622)
Share of losses of associates	(50,176)
Profit before tax from the discontinued operation	165,036
Income tax expense	(1,323)
Profit for the period from the discontinued operation	163,713

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,360,416,996 (six months ended 30 June 2017: 1,296,789,525) in issue during the period.

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

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	
	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)	2018 RMB'000 (UNAUDITED)	2017 RMB'000 (UNAUDITED)
<i>Earnings</i>				
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:				
From continuing operations	100,945	213,789	219,333	394,504
From a discontinued operation	—	36,255	—	94,009
	100,945	250,044	219,333	488,513
Increase in earnings adjusted for the convertible bonds of the Company	—	7,919	75	15,892
Decrease in earnings adjusted for the share option schemes and the share award schemes adopted by the Group and its associate	(2,238)	(762)	(3,086)	(1,985)
	98,707	257,201	216,322	502,420
Attributable to:				
Continuing operations	98,707	221,708	216,322	410,396
Discontinued operation	—	35,493	—	92,024
	98,707	257,201	216,322	502,420

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	NUMBER OF SHARES			
	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2018 (UNAUDITED)	2017 (UNAUDITED)	2018 (UNAUDITED)	2017 (UNAUDITED)
<i>Shares</i>				
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the period, used in the basic earnings per share calculation	1,365,169,165	1,298,006,805	1,360,416,996	1,296,789,525
Effect of dilution — weighted average number of ordinary shares:				
Share options	—	3,784,630	47,498	4,675,494
Awarded shares	3,552,600	1,712,946	3,583,122	1,898,878
Convertible bonds	—	60,753,341	5,034,807	60,753,341
	1,368,721,765	1,364,257,722	1,369,082,423	1,364,117,238

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
30 June 2018 (Unaudited)							
At 31 December 2017 and 1 January 2018:							
Cost	334,916	1,354,679	132,299	5,890	14,565	490,958	2,333,307
Accumulated depreciation	(38,591)	(828,100)	(124,387)	(2,998)	(10,028)	—	(1,004,104)
Net carrying amount	296,325	526,579	7,912	2,892	4,537	490,958	1,329,203
At 1 January 2018, net of accumulated depreciation	296,325	526,579	7,912	2,892	4,537	490,958	1,329,203
Additions	2,613	493,681	71,945	883	260	20,311	589,693
Transferred to investment properties	(59,419)	—	—	—	—	—	(59,419)
Disposal	—	(154)	(27)	—	—	—	(181)
Depreciation provided during the period	(5,717)	(181,965)	(11,038)	(384)	(1,599)	—	(200,703)
Transfers	382,992	—	77,568	—	—	(460,560)	—
Exchange realignment	—	809	3	5	—	—	817
At 30 June 2018, net of accumulated depreciation	616,794	838,950	146,363	3,396	3,198	50,709	1,659,410
At 30 June 2018:							
Cost	650,058	1,838,336	281,679	6,779	14,370	50,709	2,841,931
Accumulated depreciation	(33,264)	(999,386)	(135,316)	(3,383)	(11,172)	—	(1,182,521)
Net carrying amount	616,794	838,950	146,363	3,396	3,198	50,709	1,659,410

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. PREPAID LAND LEASE PAYMENTS

	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
Carrying amount at 1 January	294,548	272,386
Addition	9,360	26,610
Amortisation during the period/year	(2,524)	(4,448)
Transferred to investment properties	(5,603)	—
Carrying amount at 30 June/31 December	295,781	294,548
Current portion included in prepayments, deposits and other receivables	(4,852)	(4,987)
Non-current portion	290,929	289,561

12. OTHER INTANGIBLE ASSETS

	PURCHASED SOFTWARE RMB'000	LICENSE RIGHTS FOR GAMES RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	OTHERS RMB'000	TOTAL RMB'000
30 June 2018 (Unaudited)					
At 1 January 2018:					
Cost	138,321	1,973	27,229	5,300	172,823
Accumulated amortisation and impairment	(82,306)	(1,613)	(27,229)	(5,300)	(116,448)
Net carrying amount	56,015	360	—	—	56,375
Cost at 1 January 2018, net of accumulated amortisation and impairment	56,015	360	—	—	56,375
Addition	9,823	—	—	—	9,823
Amortisation provided during the period	(12,824)	(360)	—	—	(13,184)
Exchange realignment	45	—	—	—	45
At 30 June 2018, net of accumulated amortisation and impairment	53,059	—	—	—	53,059
At 30 June 2018:					
Cost	148,280	1,973	27,229	5,300	182,782
Accumulated amortisation and impairment	(95,221)	(1,973)	(27,229)	(5,300)	(129,723)
Net carrying amount	53,059	—	—	—	53,059

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. INVESTMENTS IN JOINT VENTURES

	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
Share of net assets	104,444	153,649
Goodwill on acquisition	52,785	52,785
	157,229	206,434
Provision for impairment	(29,324)	(29,324)
	127,905	177,110

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	40.00%	40.00%	40.00%	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 accounted for using the equity method.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. INVESTMENTS IN ASSOCIATES

	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
Share of net assets	2,417,008	2,299,795
Goodwill on acquisition	1,589,784	1,578,820
	4,006,792	3,878,615
Provision for impairment	(194)	(194)
	4,006,598	3,878,421

The Group's shareholdings in the associates all comprise equity share held by the Company's subsidiaries except for Cheetah Mobile Inc., the shareholding in which is held through the Company.

Particulars of the Group's material associate are as follows:

NAME	PARTICULARS OF ISSUED SHARES HELD	PLACE OF REGISTRATION AND BUSINESS	PERCENTAGE OF			PRINCIPAL ACTIVITIES
			OWNERSHIP INTEREST	VOTING POWER	PROFIT SHARING	
Cheetah Mobile Inc.	Ordinary shares	Cayman Islands	47.91%	25.72%	47.91%	Investment holding

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

As disclosed in note 2.2, upon initial application of IFRS 9, the Group classified its financial assets into appropriate categories under IFRS 9, details of which are set out below:

AT 1 JANUARY 2018	AVAILABLE- FOR-SALE INVESTMENTS RMB'000	FINANCIAL ASSETS AT FVOCI RMB'000	OTHER FINANCIAL ASSETS RMB'000	TOTAL RMB'000
Opening balance — IAS 39	1,357,216	—	—	1,357,216
Reclassification to financial assets at FVOCI	(1,355,490)	1,355,490	—	—
Reclassification to financial assets at fair value through profit or loss	(1,726)	—	1,726	—
Opening balance — IFRS 9	—	1,355,490	1,726	1,357,216

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS (continued)

As at 30 June 2018, the Group's financial assets at FVOCI are listed as below:

	30 JUNE 2018 RMB'000 (UNAUDITED)
Equity instruments at FVOCI	
Listed equity investments in United States	1,144,311
Unlisted equity investments	20,328
	1,164,639
Current portion	(10,000)
Non-current portion	1,154,639

16. OTHER FINANCIAL ASSETS

	NOTE	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
Ordinary share subscription option	(i)	63,571	59,123
Others		11,533	4,307
		75,104	63,430

Note:

- (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"), 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 to four months, extending up to twenty-four 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. TRADE RECEIVABLES (continued)

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

	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
0-30 days	405,611	473,039
31-60 days	42,470	152,404
61-90 days	81,471	143,342
91-365 days	541,341	344,455
Over one year	115,658	54,505
	1,186,551	1,167,745

18. CASH AND BANK DEPOSITS AND RESTRICTED CASH

	NOTE	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
Cash and bank balances		628,066	970,465
Non-pledged time deposits with original maturity of less than three months when acquired		628,824	1,377,573
Principle protected structure deposits with original maturity of less than three months when acquired		1,994,648	688,450
		3,251,538	3,036,488
Non-pledged time deposits with original maturity of over three months when acquired		4,303,949	1,912,156
Principle protected structure deposits with original maturity of over three months when acquired		2,686,470	3,557,340
		6,990,419	5,469,496
Cash and bank deposits		10,241,957	8,505,984
Restricted cash	(iii)	94,577	93,400
		10,336,534	8,599,384

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. CASH AND BANK DEPOSITS AND RESTRICTED CASH (continued)

Notes:

- (i) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of one day to and a year depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.
- (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 2018, restricted cash of RMB94,577,000 (31 December 2017: RMB93,400,000) was not a part of cash and cash equivalents, which are not available for the Group's use.

The restricted cash represents the amount and its related interest income held by the Company, which shall be joint-controlled by the Company and a company whose parent has a significant influence on the Company in accordance with the terms of the share purchase agreement in connection with the share transfer transaction of Seasun Holdings Limited ("Seasun Holdings") as disclosed in Note 29 (a) (ix).

19. TRADE PAYABLES

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

	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
0-30 days	74,763	87,583
31-60 days	12,607	32,690
61-90 days	66,320	2,309
91-365 days	74,096	54,446
Over one year	3,481	2,273
	231,267	179,301

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. INTEREST-BEARING BANK LOANS

	EFFECTIVE INTEREST RATE	MATURITY	PRINCIPAL AMOUNT RMB'000
At 30 June 2018 (Unaudited)			
Current			
Bank loans — unsecured	2.30%–3.10% per annum	2018–2019	992,490
Current portion of long term bank loans — unsecured	4.28% per annum	2018–2019	63,913
			1,056,403
Non-current			
Bank loans — unsecured	4.28% per annum	2020–2021	231,224
			1,287,627
At 31 December 2017 (Audited)			
Current			
Bank loan — unsecured	2.37% per annum	2018	326,710
Current portion of long term bank loans — unsecured	4.28% per annum	2018	47,455
			374,165
Non-current			
Bank loans — unsecured	4.28% per annum	2019–2021	287,682
			661,847

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 2018	1,303,415,650	5,127	2,287,958	(22,517)	2,270,568
Approved and paid final dividend in respect of the previous year	—	—	(126,608)	—	(126,608)
Vested awarded shares transferred to employees	1,059,800	—	—	2,475	2,475
Conversion of convertible bonds	60,753,330	192	823,525	—	823,717
At 30 June 2018	1,365,228,780*	5,319	2,984,875	(20,042)	2,970,152

* Excluding 8,499,937 (31 December 2017: 9,559,737) shares held by the Share Award Scheme Trust as at 30 June 2018.

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 Scheme

The Company adopted 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 the 2007 Pre-IPO Share Option Scheme for the six months ended 30 June 2018 and 2017.

	2018 NUMBER OF SHARES OPTIONS (UNAUDITED)	2017 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at 1 January	—	3,089,700
Exercised during the period	—	(3,089,700)
Outstanding at 30 June	—	—
Exercisable at 30 June	—	—

(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 (exclusive of any non-executive director) and other employees of the Group. The 2011 Share Option Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The following table illustrates the number of and movements in the Company's share options of the 2011 Share Option Schemes for the six months ended 30 June 2018 and 2017.

	2018 NUMBER OF SHARES OPTIONS (UNAUDITED)	2017 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at 1 January	4,600,000	5,900,000
Granted during the period	—	4,000,000
Exercised during the period	—	(2,120,000)
Outstanding at 30 June	4,600,000	7,780,000
Exercisable at 30 June	800,000	3,180,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(c) Kingsoft Cloud Holdings Limited (“Kingsoft Cloud”) Share Option Scheme

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

The following table illustrates the number of and movements in the Kingsoft Cloud Share Option Schemes for the six months ended 30 June 2018 and 2017.

	2018 NUMBER OF SHARE OPTIONS (UNAUDITED)	2017 NUMBER OF SHARE OPTIONS (UNAUDITED)
Outstanding at 1 January	187,090,000	147,330,000
Granted during the period	16,760,000	—
Forfeited during the period	(24,700,000)	(15,820,000)
Outstanding at 30 June	179,150,000	131,510,000
Exercisable at 30 June	77,172,000	38,882,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(d) Seasun Holdings Share Option Scheme

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

The following table illustrates the numbers of and movements in the Seasun Holdings Share Option Scheme during the six months ended 30 June 2018 and 2017.

	2018 NUMBER OF SHARE OPTIONS (UNAUDITED)	2017 NUMBER OF SHARE OPTIONS (UNAUDITED)
Outstanding at 1 January	24,956,711	15,440,000
Granted during the period	3,685,000	9,366,111
Forfeited during the period	(694,200)	(880,000)
Cancelled during the period	(4,782,500)	—
Outstanding at 30 June	23,165,011	23,926,111
Exercisable at 30 June	4,956,500	—

Share Award Schemes

(a) Share Award Scheme adopted by the Company

On 31 March 2008, the directors of the Company approved and adopted the Share Award Scheme in which selected employees of the Group are entitled to participate. Unless early terminated by the directors of the Company, the Share Award Scheme is valid and effective for a term of five years commencing from 31 March 2008. On 25 November 2010, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2013 to 30 March 2017. On 19 November 2016, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2017 to 30 March 2022. The directors will not grant any awarded shares which would result in the total number of shares (but not counting those which have lapsed or have been forfeited), in aggregate, over 10% of the issued capital of the Company as at the date of such grant.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

No shares of the Company were acquired by the trust of the Share Award Scheme during the six months ended 30 June 2018 and 2017.

The following table illustrates the number of and movements in the Share Award Scheme during the six months ended 30 June 2018 and 2017.

	2018 NUMBER OF AWARDED SHARES (UNAUDITED)	2017 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	5,830,300	1,606,301
Granted during the period	455,000	4,785,000
Forfeited during the period	(12,200)	(46,700)
Vested and transferred during the period	(1,059,800)	(958,100)
Outstanding at 30 June	5,213,300	5,386,501
Exercisable at 30 June	500	47,500

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 2018 and 2017.

	2018 NUMBER OF AWARDED SHARES (UNAUDITED)	2017 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	53,992,576	45,642,976
Forfeited during the period	(6,016,320)	(50,400)
Outstanding at 30 June	47,976,256	45,592,576
Exercisable at 30 June	39,001,200	26,350,000

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

(c) Season Holdings Share Award Scheme adopted by Season Holdings (continued)

The following table illustrates the number of and movements in the Season Holdings Awarded Shares during the six months ended 30 June 2018 and 2017.

	2018 NUMBER OF AWARDED SHARES (UNAUDITED)	2017 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	39,785,102	—
Granted during the period	4,754,836	39,785,102
Outstanding at 30 June	44,539,938	39,785,102
Exercisable at 30 June	1,630,445	1,630,445

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.

(a) Restricted shares granted by Beijing Kingsoft Office Software Co., Ltd. ("Beijing Kingsoft Office")

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. SHARE-BASED COMPENSATION COSTS (continued)

Other Restricted Share Schemes (continued)

(a) Restricted shares granted by Beijing Kingsoft Office (continued)

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 2018 and 2017.

	2018 NUMBER OF RESTRICTED SHARES (UNAUDITED)	2017 NUMBER OF RESTRICTED SHARES (UNAUDITED)
Outstanding at 1 January	24,176,822	24,086,988
Granted during the period	210,603	5,911,182
Vested and transferred during the period	—	(5,401,751)
Forfeited during the period	(210,603)	(419,597)
Outstanding at 30 June	24,176,822	24,176,822
Exercisable at 30 June	—	—

(b) Restricted shares granted by Kingsoft Cloud

The outstanding number of restricted shares granted by Kingsoft Cloud at 30 June 2018 was 6,000,000 (30 June 2017: 11,000,000). There was no movement of outstanding restricted shares granted by Kingsoft Cloud during the six months ended 30 June 2018 and 2017.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. CONVERTIBLE BONDS

	Notes	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
Liability component			
2013 Convertible Bonds	(i)	—	832,876
2014 Convertible Bonds	(ii)	38,419	37,864
		38,419	870,740
Less: Current portion		(38,419)	(832,876)
Non-current portion		—	37,864
Equity component			
2013 Convertible Bonds	(i)	—	6,290
2014 Convertible Bonds	(ii)	1,274	1,274
		1,274	7,564

Notes:

- (i) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK\$1,356,000,000, which bear interest at a rate of 3% per annum payable semi-annually (the "2013 Convertible Bonds"). The 2013 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$16.9363 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2013 Convertible Bonds at principal amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days' prior notice. On the maturity date, any 2013 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

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

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

On 15 January 2018, all outstanding 2013 Convertible Bonds were fully converted into the Company's ordinary shares. As a result of the conversion, 60,753,330 ordinary shares were issued in accordance with the terms and conditions of the 2013 Convertible Bonds.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 2018 are set out below:

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

(ii) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HK\$2,327,000,000 which bear interest at a rate of 1.25% per annum payable semi-annually (the "2014 Convertible Bonds"). The 2014 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 22 May 2014 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$43.89 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2014 Convertible Bonds at the principal amount together with the interest accrued by giving the bondholders not less than 30 nor more than 60 days' prior notice. On the maturity date, any 2014 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

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

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

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

There was no conversion or redemption of the 2014 Convertible Bonds during the six months ended 30 June 2018. The aggregate principal amount of the 2014 Convertible Bonds remaining outstanding as at 30 June 2018 is HK\$46,000,000.

The movements of the liability component and the equity component of the 2014 Convertible Bonds for the six months ended 30 June 2018 are set out below:

	LIABILITY COMPONENT RMB'000 (UNAUDITED)	EQUITY COMPONENT RMB'000 (UNAUDITED)
At 1 January 2018	37,864	1,274
Interest expenses	228	—
Exchange realignment	327	—
At 30 June 2018	38,419	1,274

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. REDEEMABLE CONVERTIBLE PREFERRED SHARES ISSUED BY A SUBSIDIARY

	NOTES	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
Liability components			
Series C redeemable convertible preferred shares	(a)	392,028	363,786
Series D redeemable convertible preferred shares	(b)	2,249,475	658,004
Warrant	(b)/(c)	—	49,557
		2,641,503	1,071,347
Less: Current portion		(157,545)	(121,076)
Non-current portion		2,483,958	950,271
Equity component			
Series C redeemable convertible preferred shares	(a)	5,438	5,438
Series D redeemable convertible preferred shares	(b)	247,040	141,347
		252,478	146,785

- (a) On 10 March 2016 and 16 May 2016, Kingsoft Cloud issued 102,292,297 and 83,372,895 series C redeemable convertible preferred shares with a par value of 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\$108,903,000 (equivalent to RMB710,307,000).

According to the amended and restated memorandum of association and shareholders agreement of Kingsoft Cloud, if Kingsoft Cloud fails to consummate a qualified public offering prior to the fifth anniversary of 16 May 2016, 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)

(a) (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) derivative financial liability measured at fair value with changes in fair value through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity. During the six months ended 30 June 2018, a loss of RMB5,146,000 (six months ended 30 June 2017: 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 2018 are set out below:

	LIABILITY COMPONENTS		
	THE REDEMPTION RIGHTS RMB'000	THE CONVERSION RIGHTS RMB'000	EQUITY COMPONENT RMB'000
At 31 December 2017 (Audited)	332,195	31,591	5,438
Fair value changes	—	5,146	—
Exchange realignment	4,615	562	—
Interest expenses	17,919	—	—
At 30 June 2018 (Unaudited)	354,729	37,299	5,438

(b) On 21 September 2017, Kingsoft Cloud issued 58,922,728 and 58,922,728 series D redeemable convertible preferred shares with a par value of US\$0.001 to Liyue Jinshi Investment L.P. and the Company, respectively, at a price of US\$0.84857 per share for an aggregate consideration of US\$100,000,000 (equivalent to RMB658,670,000).

On 6 December 2017, Kingsoft Cloud issued 81,313,365 and 117,845,456 series D redeemable convertible preferred shares with a par value of US\$0.001 to New Cloud Ltd. ("Minsheng Investor"), an offshore investor designated by China Minsheng Trust Co., Ltd. ("Minsheng Trust"), and the Company, at a price of US\$0.84857 per share for an aggregate consideration of US\$69,000,000 and US\$100,000,000, respectively (equivalent to RMB456,525,000 and RMB661,630,000, respectively). Pursuant to the agreement reached by Kingsoft Cloud and Minsheng Trust on 11 October 2017, the original agreed amount of subscription by Mingsheng Investor was US\$100,000,000 for 117,845,456 series D redeemable convertible preferred shares. As a result of the actual US\$ contribution injected by Minsheng Investor was less than US\$100,000,000, only 81,313,365 series D redeemable convertible preferred shares were issued to Mingsheng Investor. On 4 December 2017, Minsheng Trust designated an onshore investor to provide an interest-free loan denominated in RMB of RMB204,895,000 (the "Loan", equivalent to US\$31,000,000) to Beijing Kingsoft Cloud Network Technology Co., Ltd. ("Beijing Cloud Network"), a PRC subsidiary of Kingsoft Cloud, for the shortage of US\$31,000,000, and Kingsoft Cloud issued a warrant (the "Warrant") to Minsheng Investor to subscribe for the remaining 36,532,091 series D redeemable convertible preferred shares not issued at US\$0.84857 per share for an aggregate consideration of US\$31,000,000.

On 28 February 2018, Kingsoft Cloud issued 129,630,002 and 129,630,002 series D redeemable convertible preferred shares with a par value of US\$0.001 each to certain investors and the Company, respectively, at a price of US\$0.84857 per share for an aggregate consideration of US\$220,000,000 (equivalent to RMB1,392,468,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(b) (continued)

On 29 March 2018, Kingsoft Cloud issued 114,971,205 and 114,971,205 series D redeemable convertible preferred shares with a par value of US\$0.001 each to certain investors and the Company, respectively, at a price of US\$0.86978 per share for an aggregate consideration of US\$200,000,000 (equivalent to RMB1,260,920,000).

On 22 May 2018, Minsheng Investor exercised the Warrant and Beijing Kingsoft Cloud repaid the Loan to the onshore investor designated by Minsheng Investor, and 36,532,091 series D redeemable convertible preferred shares were issued to Minsheng Investor by Kingsoft Cloud.

According to the amended and restated memorandum of association and shareholders agreement of Kingsoft Cloud, if Kingsoft Cloud fails to consummate a qualified public offering prior to the fifth anniversary of 16 May 2016, at the option of the holder of the series D 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 D redeemable convertible preferred share equal to the applicable series D 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 D 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.

Based on the terms of the articles of association of Kingsoft Cloud, the series D redeemable convertible preferred shares are split and accounted for as follows: (i) financial liability stated at amortised cost for the redemption rights; (ii) derivative financial liability measured at fair value with changes in fair value through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity. During the six months ended 30 June 2018, a fair value loss of RMB4,360,000 related to the conversion rights was recognised through profit or loss. The movements of the series D redeemable convertible preferred shares for the six months ended 30 June 2018 are set out below:

	LIABILITY COMPONENTS		
	THE REDEMPTION RIGHTS RMB'000	THE CONVERSION RIGHTS RMB'000	EQUITY COMPONENT RMB'000
At 31 December 2017 (Audited)	618,076	39,928	141,347
Issuance	1,344,988	72,001	105,693
Fair value changes	—	4,360	—
Exchange realignment	74,157	3,957	—
Interest expenses	92,008	—	—
At 30 June 2018 (Unaudited)	2,129,229	120,246	247,040

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

- (c) The Warrant was classified as a derivative financial liability measured at fair value on initial recognition and subsequently measured at fair value with changes in fair value through profit or loss and the Loan was classified as a financial liability measured at fair value on initial recognition and at amortised cost subsequently. The movements of the Loan and Warrant for the six months ended 30 June 2018 are set out below:

	LOAN RMB'000	WARRANT RMB'000
At 31 December 2017 (Audited)	153,506	49,557
Fair value changes	—	(12,704)
Exchange realignment	—	(1,069)
Interest expenses	9,950	—
Repayment	(163,456)	(35,784)
At 30 June 2018 (Unaudited)	—	—

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.

26. DIVIDENDS

Final dividend

A final dividend of HK\$0.11 per ordinary share for 2017 proposed by the board of directors of the Company (the "Board") was approved by the shareholders of the Company on 23 May 2018. The actual 2017 final dividend paid was RMB126,608,000.

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. 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 from one to five years.

At 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
Within one year	140,068	305,098
After one year but not more than five years	30,476	53,697
	170,544	358,795

As at 30 June 2018, the calculation of the lease payment of some electronic equipment was based on the actual usage of the relevant servers. The operating lease expense under these operating leases was RMB827,488,000 for the six months period ended 30 June 2018 (six months ended 30 June 2017: RMB481,811,000). 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.

28. CAPITAL COMMITMENTS

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

	NOTE	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
Contracted, but not provided for:			
Development of land and buildings	(a)	506,758	533,426
Investment in a joint venture		10,000	—
		516,758	533,426

(a) The capital commitment for the development of land and buildings at 30 June 2018 represented the commitment to invest in an aggregate amount of RMB506,758,000 (31 December 2017: RMB533,426,000) in the development of a piece of land in Zhuhai.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. 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:

		FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
	NOTES	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Provision of services to a company whose parent has a significant influence on the Company	(i)	—	11,607	—	27,011
Provision of services to a company controlled by a director of the Company	(ii)	130,174	81,090	246,243	148,614
Licence fee from a company whose parent has a significant influence on the Company	(iii)	96,808	147,738	191,111	333,316
Licence fee from companies controlled by a director of the Company	(iv)	5,458	13,553	11,067	34,624
Purchases of products from a company controlled by a director of the Company	(v)	1,658	1,126	2,430	2,249
Purchases of services from a company controlled by a director of the Company	(vi)	15,959	19,250	20,250	30,075
Online marketing services from a company whose parent has a significant influence on the Company	(vii)	—	8,963	—	15,278
Licence fee to a joint venture	(viii)	51,232	87,353	106,376	196,752
Partial disposal of a subsidiary's shares to a company whose parent has a significant influence on the Company	(ix)	—	430,956	—	430,956
Interest income from non-controlling shareholders of subsidiaries		325	326	647	650
Provision of services to an associate		2,950	—	4,629	—
Licence fee from an associate		2,110	—	3,419	—
Interest income from a joint venture		—	40	—	72

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

- (i) In 2015, Cheetah Mobile entered into framework agreements with a company whose parent has a significant influence on the Company. Pursuant to the framework agreements, Cheetah Mobile provides various forms of promotion services to this related company and its controlled affiliates through Cheetah Mobile'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 promotion 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) 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 similar transactions.
- (vii) In 2015 and 2016, Cheetah Mobile 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 Cheetah Mobile 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.
- (viii) In 2015 and 2016, the Group entered into the game joint development and operation agreement with a joint venture to jointly develop and operate the Group's online games at the prevailing fair market price.
- (ix) On 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 this related company.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. RELATED PARTY TRANSACTIONS (continued)

(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	
	2018	2017	2018	2017
	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)
Salaries, allowances, and benefits in kind	2,317	2,327	4,069	4,731
Pension scheme contributions	67	76	134	155
Share-based compensation costs	28,103	29,302	56,387	65,818
Total compensation paid to key management personnel	30,487	31,705	60,590	70,704

30. 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 2018

FINANCIAL ASSETS	FINANCIAL ASSETS AT AMORTISED COST	FINANCIAL ASSETS AT FVOCI	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL
	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)	RMB'000 (UNAUDITED)
Other financial assets	—	—	75,104	75,104
Financial asset at FVOCI	—	1,164,639	—	1,164,639
Loan receivables included in other non-current assets	3,769	—	—	3,769
Trade receivables	1,186,551	—	—	1,186,551
Financial assets included in prepayments, deposits and other receivables	747,805	—	—	747,805
Restricted cash	94,577	—	—	94,577
Cash and bank deposits	10,241,957	—	—	10,241,957
Total	12,274,659	1,164,639	75,104	13,514,402

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. 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)

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	—	231,267	231,267
Financial liabilities included in other payables and accruals	—	1,209,729	1,209,729
Interest-bearing bank loans	—	1,287,627	1,287,627
Derivative financial instruments	157,545	—	157,545
Liability component of convertible bonds	—	38,419	38,419
Liability component of redeemable convertible preferred shares	—	2,483,958	2,483,958
Total	157,545	5,251,000	5,408,545

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. 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 2017

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	—	—	63,430	63,430
Available-for-sale investments	—	1,357,216	—	1,357,216
Financial assets included in other non-current assets	4,306	—	—	4,306
Trade receivables	1,167,745	—	—	1,167,745
Financial assets included in prepayments, deposits and other receivables	616,666	—	—	616,666
Restricted cash	93,400	—	—	93,400
Cash and bank deposits	8,505,984	—	—	8,505,984
Total	10,388,101	1,357,216	63,430	11,808,747

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. 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)

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	—	179,301	179,301
Financial liabilities included in other payables and accruals	—	1,090,153	1,090,153
Derivative financial instruments	121,076	—	121,076
Interest-bearing bank loans	—	661,847	661,847
Liability component of convertible bonds	—	870,740	870,740
Liability component of redeemable convertible preferred shares	—	950,271	950,271
Total	121,076	3,752,312	3,873,388

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. 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 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)	30 JUNE 2018 RMB'000 (UNAUDITED)	31 DECEMBER 2017 RMB'000 (AUDITED)
Financial assets				
Loan receivables	3,769	4,306	3,769	4,306
Financial assets at FVOCI/available-for-sale investments	1,164,639	1,252,500	1,164,639	1,252,500
Other financial assets	75,104	63,430	75,104	63,430
	1,243,512	1,320,236	1,243,512	1,320,236
Financial liabilities				
Derivative financial instruments	157,545	121,076	157,545	121,076
Liability component of convertible bonds	38,419	870,740	38,419	870,740
Liability components of redeemable convertible preferred shares	2,483,958	950,271	2,483,958	950,271
Interest-bearing bank loans	1,287,627	661,847	1,287,627	661,847
	3,967,549	2,603,934	3,967,549	2,603,934

Management has assessed that the fair values of cash and bank deposits, 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 chief financial officer ("CFO") and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the CFO and the valuation process and results are discussed with the audit committee.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. 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 2018 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds and the liability component of the redeemable convertible preferred shares are estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. 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 2018

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Financial assets at FVOCI	1,154,311	—	10,328	1,164,639
Other financial assets	—	—	75,104	75,104
	1,154,311	—	85,432	1,239,743

As at 31 December 2017

	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	1,252,500	—	—	1,252,500
Other financial assets	—	—	63,430	63,430
	1,252,500	—	63,430	1,315,930

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value hierarchy (continued)

Assets measured at fair value (continued):

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

	RMB'000
Financial assets at FVOCI and other financial assets:	
At 31 December 2017 (Audited)	63,430
Reclassification from available-for-sale investments upon the adoption of IFRS 9	4,990
Additions	11,068
Total gain recognised in profit or loss	3,814
Total gain recognised in other comprehensive income	2,130
At 30 June 2018 (Unaudited)	85,432

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. 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 2018:

	Valuation techniques	Significant unobservable inputs	Sensitivity of fair value to the input
Financial assets at FVOCI and other financial assets	Equity valuation allocation model	Risk-free rate	5% increase (decrease) in risk-free rate would result in decrease (increase) in fair value by RMB29,000 (RMB32,000)
		Volatility	5% increase (decrease) in volatility would result in decrease (increase) in fair value by RMB325,000 (RMB323,000)
		Discount for lack of marketability	5% increase (decrease) in discount for lack of marketability would result in decrease (increase) in fair value by RMB349,000 (RMB399,000)
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 RMB5,194,000 (RMB273,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB137,000 (RMB68,000)
		Volatility	5% increase (decrease) in volatility would result in increase (decrease) in fair value by RMB478,000 (RMB68,000)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 30 June 2018

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Derivative financial instruments	—	—	157,545	157,545

As at 31 December 2017

	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)	
Derivative financial instruments	—	—	121,076	121,076

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

	RMB'000
Other financial liabilities at fair value through profit or loss:	
At 31 December 2017 (Audited)	121,076
Additions	72,001
Settled	(35,784)
Total gain recognised in profit or loss	(3,198)
Total loss recognised in other comprehensive income	3,450
At 30 June 2018 (Unaudited)	157,545

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. 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 2018.

	Valuation techniques	Significant unobservable inputs	Sensitivity of fair value to the input
Derivative financial instruments	Equity valuation allocation model	Fair Value of equity value	5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB57,790,000 (RMB46,134,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB3,457,000 (RMB1,103,000)
		Volatility	5% increase (decrease) in volatility would result in increase (decrease) in fair value by RMB6,426,000 (RMB3,876,000)
		Probability of IPO	5% increase (decrease) in probability of IPO would result in decrease (increase) in fair value by RMB19,803,000 (RMB19,803,000)

During the six months ended 30 June 2018, 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 2017: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value hierarchy (continued)

Assets for which fair values are disclosed:

As at 30 June 2018

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Loan receivables	—	3,769	—	3,769

As at 31 December 2017

	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	—	4,306	—	4,306

Liabilities for which fair values are disclosed:

As at 30 June 2018

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Liability component of convertible bonds	—	—	38,419	38,419
Liability component of redeemable convertible preferred shares	—	—	2,483,958	2,483,958
Interest-bearing bank loans	—	1,287,627	—	1,287,627
	—	1,287,627	2,522,377	3,810,004

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value hierarchy (continued)

As at 31 December 2017

	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	—	—	870,740	870,740
Liability component of redeemable convertible preferred shares	—	—	950,271	950,271
Interest-bearing bank loans	—	661,847	—	661,847
	—	661,847	1,821,011	2,482,858

32. CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no significant contingent liabilities (31 December 2017: nil).

33. COMPARATIVE AMOUNTS

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

34. APPROVAL OF THE FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 21 August 2018.

TERMS AND GLOSSARIES

"2011 Share Option Scheme"	the share option scheme adopted by the Company on 9 December 2011
"21Vianet"	21Vianet Group, Inc.
"ADPCU"	daily average peak concurrent users
"AI"	artificial intelligence
"APA"	average paying accounts
"Audit Committee"	the audit committee of the Company
"Board"	the board of directors of the Company
"CDN"	content delivery network
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Cheetah Mobile"	Cheetah Mobile Inc. (an associated corporation of the Company and was listed on NYSE in May 2014) and its subsidiaries
"Cheetah Share(s)"	ordinary share(s) of Cheetah Mobile Inc.
"Company"	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its shares listed on the Stock Exchange (stock code: 03888)
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IDC"	internet data center
"IFRSs"	International Financial Reporting Standards
"IPO"	initial public offering
"Kingsoft Cloud"	Kingsoft Cloud Holdings Limited, a subsidiary of the Company
"Kingsoft Cloud Group"	Kingsoft Cloud and its subsidiaries

TERMS AND GLOSSARIES (continued)

“Kingsoft Cloud Share Award Scheme”	the share award scheme approved and adopted by the directors of Kingsoft Cloud Holdings Limited on 22 February 2013
“Kingsoft Cloud Share Option Scheme”	the share option scheme approved and adopted by the shareholders of the Company and Kingsoft Cloud Holdings Limited on 27 February 2013
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MAU”	monthly active users
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“NYSE”	New York Stock Exchange
“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
“Seasun Holdings”	Seasun Holdings Limited, a subsidiary of the Company
“Seasun Holdings Share Award Schemes”	the General Share Award Scheme, the Special Share Award Scheme (A) and the Special Share Award Scheme (B) approved and adopted by the shareholders and directors of Seasun Holdings on 21 March 2017
“Seasun Holdings Share Option Scheme”	the share option scheme of Seasun Holdings approved and adopted by the shareholders of the Company and Seasun Holdings on 27 June 2013
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share Award Scheme”	the share award scheme of the Company adopted by the Board on 31 March 2008
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“U.S.”	United States of America
“US\$”	United States dollars, the lawful currency of the U.S.
“XunLei”	Xunlei Limited