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Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

ANNOUNCEMENT OF THE RESULTS FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2016

The board (“**Board**”) of directors (the “**Directors**”) of Kingsoft Corporation Limited (the “**Company**”) announces the unaudited results of the Company and its subsidiaries (the “**Group**” or “**Kingsoft**”) for the three and six months ended 30 June 2016. These interim results have been reviewed by the auditors of the Company, and the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three and six months ended 30 June 2016

	<i>Notes</i>	For the three months ended 30 June		For the six months ended 30 June	
		2016 <i>RMB'000</i> (Unaudited)	2015 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Unaudited)	2015 <i>RMB'000</i> (Unaudited)
Revenue					
Online game		476,794	298,065	933,664	622,957
Cheetah Mobile		1,014,072	861,285	2,099,200	1,553,009
Cloud services, office software and others		274,170	122,890	483,711	215,634
		1,765,036	1,282,240	3,516,575	2,391,600
Cost of revenue		(559,959)	(306,892)	(1,030,192)	(530,616)
Gross profit		1,205,077	975,348	2,486,383	1,860,984
Research and development costs, net of government grants		(419,649)	(325,211)	(825,511)	(619,533)
Selling and distribution expenses		(480,538)	(396,267)	(973,326)	(686,239)
Administrative expenses		(147,549)	(116,526)	(284,378)	(217,687)
Share-based compensation costs	5	(102,919)	(60,096)	(216,942)	(117,979)
Other income		54,062	25,465	72,369	28,630
Other expenses		(22,731)	(11,998)	(31,335)	(21,128)
Operating profit		85,753	90,715	227,260	227,048
Other (losses)/gains, net		(959,639)	21,597	(932,644)	5,838
Finance income		37,810	45,715	83,983	98,091
Finance costs		(27,170)	(18,396)	(48,937)	(38,658)
Share of profits and losses of:					
Joint ventures		3,941	(6,530)	645	(12,502)
Associates		(19,791)	(6,048)	(32,669)	(8,714)
(Loss)/profit before tax	4	(879,096)	127,053	(702,362)	271,103
Income tax expense	6	(34,315)	(33,668)	(83,112)	(61,287)
(Loss)/profit for the period		(913,411)	93,385	(785,474)	209,816
Attributable to:					
Owners of the parent		(807,554)	93,972	(673,751)	208,508
Non-controlling interests		(105,857)	(587)	(111,723)	1,308
		(913,411)	93,385	(785,474)	209,816
		<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)
Earnings per share attributable to ordinary equity holders of the parent	8				
Basic		(0.63)	0.07	(0.52)	0.17
Diluted		(0.63)	0.06	(0.52)	0.16

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2016

	For the three months ended 30 June		For the six months ended 30 June	
	2016	2015	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
(LOSS)/PROFIT FOR THE PERIOD	(913,411)	93,385	(785,474)	209,816
OTHER COMPREHENSIVE INCOME				
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:				
Available-for-sale investments:				
Change in fair value	(758,171)	448,965	(856,221)	353,451
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss				
— impairment losses	914,541	—	914,541	25,891
Income tax effect	—	—	(9,500)	—
Exchange differences on translation of foreign operations	143,272	(12,203)	117,145	(2,144)
Share of other comprehensive income of associates	—	3,404	—	3,404
Disposal of an associate	—	—	129	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	299,642	440,166	166,094	380,602
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(613,769)	533,551	(619,380)	590,418
Attributable to:				
Owners of the parent	(537,928)	528,386	(533,429)	583,289
Non-controlling interests	(75,841)	5,165	(85,951)	7,129
	(613,769)	533,551	(619,380)	590,418

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		As at 30 June 2016 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2015 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		1,107,419	966,079
Prepaid land lease payments		270,216	272,386
Goodwill		962,120	619,037
Other intangible assets		298,245	246,839
Investments in joint ventures		73,778	74,291
Investments in associates		408,211	250,009
Available-for-sale investments		1,488,312	2,226,302
Other financial assets		33,868	26,294
Deferred tax assets		56,543	55,304
Loan receivables		9,596	12,971
Other non-current assets		30,283	93,318
Total non-current assets		4,738,591	4,842,830
Current assets			
Inventories		7,583	5,371
Trade receivables	9	1,119,181	966,000
Prepayments, deposits and other receivables		973,272	837,398
Available-for-sale investment		88,000	50,000
Other financial asset		849	—
Restricted cash		90,510	130,187
Pledged deposit		66,312	46,657
Cash and bank deposits		8,581,242	8,606,434
Total current assets		10,926,949	10,642,047
Current liabilities			
Trade payables	10	315,088	185,417
Interest-bearing bank loans	11	342,988	147,029
Other payables and accruals		1,818,234	1,808,689
Deferred revenue		563,031	425,964
Income tax payable		122,140	137,416
Total current liabilities		3,161,481	2,704,515
Net current assets		7,765,468	7,937,532
Total assets less current liabilities		12,504,059	12,780,362

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2016

		As at 30 June 2016 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2015 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
Non-current liabilities			
Other liabilities		37,384	72,105
Deferred revenue		27,620	24,141
Deferred tax liabilities		100,696	62,540
Interest-bearing bank loans	11	65,969	10,523
Liability component of convertible bonds	12	2,767,831	2,699,698
Liability component of redeemable convertible preferred shares		281,175	—
Total non-current liabilities		3,280,675	2,869,007
Net assets		9,223,384	9,911,355
Equity			
Equity attributable to owners of the parent			
Issued capital		5,092	5,092
Share premium account		2,365,057	2,474,663
Treasury shares		(31,409)	(34,766)
Equity component of convertible bonds	12	72,295	72,295
Other reserves		4,911,152	5,353,356
		7,322,187	7,870,640
Non-controlling interests		1,901,197	2,040,715
Total equity		9,223,384	9,911,355

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

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

[#] These reserve accounts comprise the consolidated other reserves of RMB4,911,152,000 (31 December 2015: RMB5,353,356,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2015

	Attributable to owners of the parent																						
	Available										Non-controlling interests	Total equity											
	Issued capital	Share premium account	Treasury shares	Statutory reserves	Share-based compensation reserve	Other capital reserve	Investment revaluation reserve	Equity component of convertible bonds	Foreign currency translation reserve	Retained profits													
											Total												
												RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
												(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2015	4,730	219,207	(83,964)	185,513	231,360	1,192,967	(211,898)	74,505	(94,797)	3,043,752	4,561,375	1,555,169	6,116,544										
Profit for the period	—	—	—	—	—	—	—	—	—	208,508	208,508	1,308	209,816										
Other comprehensive income/(loss) for the period:																							
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	373,052	—	—	—	373,052	6,290	379,342										
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(1,675)	—	(1,675)	(469)	(2,144)										
Share of other comprehensive income of associates	—	—	—	—	—	3,404	—	—	—	—	3,404	—	3,404										
Total comprehensive income for the period	—	—	—	—	—	3,404	373,052	—	(1,675)	208,508	583,289	7,129	590,418										
Approved and paid final dividend in respect of the previous year	—	(121,521)	—	—	—	—	—	—	—	—	(121,521)	—	(121,521)										
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(18,860)	(18,860)										
Issue of new shares	308	2,145,716	—	—	—	—	—	—	—	—	2,146,024	—	2,146,024										
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	62,223	62,223										
Share-based compensation costs	—	—	—	—	82,512	—	—	—	—	—	82,512	35,649	118,161										
Exercise of share options	2	1,525	—	—	(10,079)	12,760	—	—	—	—	4,208	—	4,208										
Vested awarded shares transferred to employees	—	—	3,565	—	(38,296)	34,731	—	—	—	—	—	—	—										
Conversion of convertible bonds	62	267,809	—	—	—	—	—	(2,117)	—	—	265,754	—	265,754										
Share repurchased for cancellation	(13)	(45,150)	45,163	—	—	—	—	—	—	—	—	—	—										
Changes in the ownership of interest in subsidiaries	—	—	—	—	—	82,830	—	—	—	—	82,830	239,477	322,307										
At 30 June 2015	5,089	2,467,586	(35,236)	185,513	265,497	1,326,692	161,154	72,388	(96,472)	3,252,260	7,604,471	1,880,787	9,485,258										

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	444,205	362,260
Net cash flows used in investing activities	(2,040,368)	(1,444,551)
Net cash flows from financing activities	229,508	2,300,412
Net (decrease)/increase in cash and cash equivalents	(1,366,655)	1,218,121
Cash and cash equivalents at beginning of the period	6,629,275	3,193,934
Effect of foreign exchange rate changes, net	102,819	7,715
Cash and cash equivalents at end of the period	5,365,439	4,419,770
Time deposits with original maturity of over three months when acquired	1,335,734	1,098,170
Principle protected structure deposits with original maturity of over three months when acquired	1,946,381	2,258,951
Less: pledged deposits	(66,312)	(70,158)
Cash and bank deposits as stated in the consolidated statement of financial position	8,581,242	7,706,733

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

The Group is principally involved in the following principal activities:

- research and development of games, and provision of online games, mobile games and casual game services;
- research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices; and
- provision of cloud storage, cloud computation services, research, development and distribution of office application software, provision of dictionary services across devices, and provision of online marketing services.

The interim condensed consolidated financial statements for the six months ended 30 June 2016 were approved and authorized for issue in accordance with a resolution of the Board on 19 August 2016.

2. Basis of preparation and significant accounting policies

Basis of preparation

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

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

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, 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 2016. The following amendments to IFRSs did not have any significant impact on the accounting policies, financial position or performance of the Group:

IFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to IFRS 11	<i>Joint Arrangements: Accounting for Acquisition of Interests</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Annual Improvements 2012–2014 Cycle	

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

3. Operating segments

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

- (a) the entertainment software segment engages in the research and development of games, and the provision of online games, mobile games and casual game services;
- (b) the information security and internet services segment engages in the research, development and operation of information security software, internet browser, mission critical mobile applications, and the provision of online marketing services and internet value-added services across devices; and
- (c) the cloud services, office software and others segment engages in the provision of cloud storage, cloud computation services, the research, development and distribution of office application software, dictionary services across devices, and the provision of online marketing services.

3. Operating segments (continued)

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

On 19 January 2016, Cheetah Mobile purchased 4.63% equity interest of Kingsoft Japan Inc. ("**Kingsoft Japan**"), another non-wholly-owned subsidiary of the Company, from third-parties, and holds in aggregate 46.1% equity interest of Kingsoft Japan. On 29 January 2016, Cheetah Mobile entered into an agreement with the Company, pursuant to which, the Company delegated 5% voting rights in Kingsoft Japan to Cheetah Mobile. As a result, Cheetah Mobile controls Kingsoft Japan by virtue of its power to have major voting rights in the shareholders meeting of Kingsoft Japan. Accordingly, the directors of the Company decided to reclassify the results of Kingsoft Japan from cloud services, office software and others segment to information security and internet services segment. Segment information of the comparative period has been restated to conform to the current period's presentation to facilitate comparison in accordance with *IFRS 8 Operating Segments*.

3. Operating segments (continued)

	Entertainment software RMB'000 (Unaudited)	Information security and internet services RMB'000 (Unaudited)	Cloud services, office software and others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<i>For the six months ended 30 June 2016</i>				
Segment revenue:				
Sales to external customers	933,664	2,099,200	483,711	3,516,575
Sales to intersegments	937	—	61,957	62,894
	<u>934,601</u>	<u>2,099,200</u>	<u>545,668</u>	<u>3,579,469</u>
<i>Reconciliation:</i>				
Elimination of intersegments sales				<u>(62,894)</u>
Revenue				<u><u>3,516,575</u></u>
Segment results	476,449	296,971	(83,957)	689,463
<i>Reconciliation:</i>				
Elimination of intersegments results				(1,917)
Administrative expenses				(284,378)
Share-based compensation costs				(216,942)
Other income				72,369
Other expenses				(31,335)
Other losses, net				(932,644)
Finance income				83,983
Finance costs				(48,937)
Share of profits and losses of:				
Joint ventures				645
Associates				<u>(32,669)</u>
Loss before tax				<u><u>(702,362)</u></u>

3. Operating segments (continued)

	Entertainment software <i>RMB'000</i> <i>(Unaudited)</i>	Information security and internet services <i>RMB'000</i> <i>(Unaudited)</i>	Cloud services, office software and others <i>RMB'000</i> <i>(Unaudited)</i>	Total <i>RMB'000</i> <i>(Unaudited)</i>
<i>For the six months ended 30 June 2015 (Restated)</i>				
Segment revenue:				
Sales to external customers	622,957	1,553,009	215,634	2,391,600
Sales to intersegments	4,727	—	57,132	61,859
	627,684	1,553,009	272,766	2,453,459
<i>Reconciliation:</i>				
Elimination of intersegments sales:				(61,859)
				<u>2,391,600</u>
Segment results	245,851	360,368	(50,747)	555,472
<i>Reconciliation:</i>				
Elimination of intersegments results				(260)
Administrative expenses				(217,687)
Share-based compensation costs				(117,979)
Other income				28,630
Other expenses				(21,128)
Other gains, net				5,838
Finance income				98,091
Finance costs				(38,658)
Share of losses of:				
Joint ventures				(12,502)
Associates				(8,714)
Profit before tax				<u>271,103</u>

3. Operating segments (continued)

Geographical information

(a) Revenue from external customers:

	For the three months ended 30 June		For the six months ended 30 June	
	2016	2015	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Mainland China	1,234,520	821,056	2,290,275	1,620,521
Hong Kong	263,826	386,684	623,455	647,868
Singapore	225,151	—	442,685	—
Other countries	41,539	74,500	160,160	123,211
Total	<u>1,765,036</u>	<u>1,282,240</u>	<u>3,516,575</u>	<u>2,391,600</u>

(b) Non-current assets:

	30 June 2016 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2015 <i>RMB'000</i> <i>(Audited)</i>
China	2,488,979	1,858,088
Singapore	201,588	—
Other countries	440,177	575,372
Total	<u>3,130,744</u>	<u>2,433,460</u>

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

4. (Loss)/profit before tax

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

	For the three months ended 30 June		For the six months ended 30 June	
	2016	2015	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Employee benefit expenses	690,919	441,574	1,266,535	854,004
Depreciation of property, plant and equipment	74,242	44,562	144,210	80,476
Amortization of prepaid land lease payments	1,085	1,085	2,170	2,170
Amortization of other intangible assets	34,486	39,819	67,282	67,355
Interest on bank loans, convertible bonds and redeemable convertible preferred shares	27,170	18,396	48,937	38,658
Impairment of trade and other receivables*	21,151	3,251	26,061	2,091
Impairment of available- for-sale investments	914,541	—	914,541	27,534
Impairment of investment in an associate	1,545	—	1,545	—
Impairment of investment in joint ventures	9,908	—	9,908	—
Impairment of goodwill	—	12,867	—	12,867

* They are included in "other expenses" on the face of the condensed consolidated statement of profit or loss.

5. Share-based compensation costs

(a) Share option schemes

2004 and 2007 Pre-IPO Share Option Schemes

The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme (collectively, the “**Pre-IPO Share Option Schemes**”) in June 2004 and January 2007, respectively. The Pre-IPO Share Option Schemes were terminated on 3 September 2007. The following table illustrates the number of and movements in the Company’s share options of Pre-IPO Share Option Schemes for the six months ended 30 June 2016 and 2015.

	2016 Number of Share options <i>(Unaudited)</i>	2015 Number of Share options <i>(Unaudited)</i>
Outstanding at 1 January	4,622,100	5,365,740
Exercised during the period	(169,500)	(548,850)
Outstanding at 30 June	<u>4,452,600</u>	<u>4,816,890</u>
Exercisable at 30 June	<u>4,452,600</u>	<u>4,816,890</u>

2011 Share Option Scheme

The Company operates the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Share Option Scheme include the Company’s directors. The 2011 Share Option Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The following table illustrates the number of and movements in the Company’s share options of 2011 Share Option Schemes for the six months ended 30 June 2016 and 2015.

	2016 Number of Share options <i>(Unaudited)</i>	2015 Number of Share options <i>(Unaudited)</i>
Outstanding at 1 January	5,900,000	8,900,000
Forfeited during the period	—	(3,000,000)
Outstanding at 30 June	<u>5,900,000</u>	<u>5,900,000</u>
Exercisable at 30 June	<u>4,700,000</u>	<u>4,100,000</u>

5. Share-based compensation costs (continued)

(b) Awarded Shares

Share Award Scheme

On 31 March 2008, the directors of the Company approved and adopted a share award scheme in which selected employees of the Group have been awarded the awarded shares through their continued employment with the Group. Unless early terminated by the directors 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 2015 to 30 March 2017. The directors will not grant any awarded shares which would result in the total number of shares, which are the subject of awards granted by the directors of the Company under the Share Award Scheme (but not counting any which have lapsed or have been forfeited), representing in aggregate over 10% of the issued capital of the Company as at the date of such grant.

No shares of the Company were acquired by the Share Award Scheme Trust during the six months ended 30 June 2016 and 2015.

The following table illustrates the number of and movements in the Company's Awarded Shares during the six months ended 30 June 2016 and 2015.

	2016 Number of Awarded shares <i>(Unaudited)</i>	2015 Number of Awarded shares <i>(Unaudited)</i>
Outstanding at 1 January	6,109,601	11,597,068
Awarded during the period	30,000	285,000
Forfeited during the period	(1,412,400)	(3,521,000)
Vested and transferred during the period	(611,700)	(1,515,467)
Outstanding at 30 June	<u>4,115,501</u>	<u>6,845,601</u>
Exercisable at 30 June	<u>11,100</u>	<u>31,000</u>

6. Income tax expense

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

	For the three months ended 30 June		For the six months ended 30 June	
	2016	2015	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current income tax	34,332	39,023	84,170	70,122
Deferred income tax	(17)	(5,355)	(1,058)	(8,835)
Income tax expense	<u>34,315</u>	<u>33,668</u>	<u>83,112</u>	<u>61,287</u>

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 holiday and preferential tax rates.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2015: 16.5%) on estimated assessable profits arising in Hong Kong for the six months ended 30 June 2016.

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

7. Dividends

Final dividend

A final dividend of HK\$0.1 per ordinary share for 2015 proposed by the Board was approved by the shareholders on 20 May 2016. The actual 2015 final dividend paid was RMB110.1 million.

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

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

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

The calculation of diluted earnings per share amounts is based on the profit/loss for the period attributable to ordinary equity holders of the parent. 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 relating to the Group's share option schemes and share award scheme into ordinary shares.

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

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
(Loss)/profit attributable to ordinary equity holders of the parent	(673,751)	208,508
Decrease in earnings adjusted for the share option schemes and the award share schemes adopted by the Group's subsidiaries	<u>—</u>	<u>(1,608)</u>
Adjusted (loss)/profit attributable to ordinary equity holders of the parent	<u>(673,751)</u>	<u>206,900</u>
	Number of shares For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme	1,288,345,473	1,255,294,457
Effect of dilution — weighted average number of ordinary shares:		
Share options	<u>—</u>	<u>9,965,602</u>
Awarded shares	<u>—</u>	<u>6,475,756</u>
	<u>1,288,345,473</u>	<u>1,271,735,815</u>

9. Trade receivables

Trade receivables, which are non-interest-bearing and generally on credit terms of 30 to 90 days, are recognized and carried at original invoiced amounts less any impairment loss.

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
0–30 days	745,455	618,235
31–60 days	128,238	114,974
61–90 days	70,627	71,687
91–365 days	142,763	116,429
Over one year	32,098	44,675
	<u>1,119,181</u>	<u>966,000</u>

10. Trade payables

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
0–30 days	105,433	138,561
31–60 days	121,320	10,806
61–90 days	19,084	4,968
91–365 days	51,232	22,779
Over one year	18,019	8,303
	<u>315,088</u>	<u>185,417</u>

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

11. Interest-bearing bank loans

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Current	<u>342,988</u>	<u>147,029</u>
Non-current	<u>65,969</u>	<u>10,523</u>

12. Convertible bonds

- (a) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK\$1,356.0 million, which bear interest at a rate of 3% per annum payable semi-annually (the “**2013 Convertible Bonds**”). The 2013 Convertible Bonds are convertible at the option of the bondholders into 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 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.

In accordance with the respective terms and conditions of the 2013 Convertible Bonds, the payment of the 2015 final dividend, together with the issue of 100,000,000 additional shares on 11 June 2015, resulted in an adjustment (the “**Adjustment**”) to the respective conversion prices of each of the convertible bonds. Considering that the 2015 final dividend has been approved by the shareholders at the annual general meetings (the “**AGM**”), the Adjustment became effective on 2 June 2016 and the respective conversion price of the 2013 Convertible Bonds was adjusted to HK\$16.46 per share.

There was no conversion or redemption of the 2013 Convertible Bonds during the six months ended 30 June 2016.

12. Convertible bonds (continued)

- (b) 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 principal amount together with interest accrued by giving the bondholders not less than 30 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.

Similar with the 2013 Convertible Bonds, the convertible price of the 2014 Convertible Bonds adjusted to HK\$42.67 per share since 2 June 2016.

There was no conversion or redemption of the 2014 Convertible Bonds during the six months ended 30 June 2016.

OPERATIONAL HIGHLIGHTS

				For the three months ended				
	30 June 2016	31 March 2016	31 December 2015	30 September 2015	30 June 2015	31 March 2015	31 December 2014	30 September 2014
Online Games*								
Daily Average Peak Concurrent Users (“ADPCU”)	909,591	543,836	542,384	562,354	607,571	672,779	661,002	617,717
Monthly Average Paying Accounts (“APA”)	4,822,356	2,960,358	2,919,683	3,301,297	3,438,493	3,069,052	2,717,443	2,374,699

	In June 2016	In March 2016	In December 2015	In September 2015	In June 2015
Cheetah Mobile					
Mobile Monthly Active Users (“MAU”) (Million)	623	651	635	567	494
% of Mobile MAU from Overseas Markets	79%	79%	79%	74%	71%
Mobile Users Installations (Million)	3,099	2,762	2,341	1,942	1,596

* Starting from this quarter onwards, we will stop disclosing the monthly average revenue per paying user (“ARPU”). Considering our major mobile games are exclusively operated by third parties, but most of our PC games and a few of our mobile games are operated by ourselves, the different accounting treatments of these games make the ARPU calculation not directly comparable and do not truly reflect the revenue generated by each paying user.

FINANCIAL HIGHLIGHTS

	For the three months ended		
	30 June 2016	31 March 2016	30 June 2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue			
Online game	476,794	456,870	298,065
Cheetah Mobile	1,014,072	1,085,128	861,285
Cloud services, office software and others	274,170	209,541	122,890
	<u>1,765,036</u>	<u>1,751,539</u>	<u>1,282,240</u>
Cost of revenue	<u>(559,959)</u>	<u>(470,233)</u>	<u>(306,892)</u>
Gross profit	1,205,077	1,281,306	975,348
Research and development costs, net of government grants	(419,649)	(405,862)	(325,211)
Selling and distribution expenses	(480,538)	(492,788)	(396,267)
Administrative expenses	(147,549)	(136,829)	(116,526)
Share-based compensation costs	(102,919)	(114,023)	(60,096)
Other income	54,062	18,307	25,465
Other expenses	(22,731)	(8,604)	(11,998)
Operating profit	85,753	141,507	90,715
Other (losses)/gains, net	(959,639)	26,995	21,597
Finance income	37,810	46,173	45,715
Finance costs	(27,170)	(21,767)	(18,396)
Share of profits and losses of:			
Joint ventures	3,941	(3,296)	(6,530)
Associates	(19,791)	(12,878)	(6,048)
(Loss)/Profit before tax	(879,096)	176,734	127,053
Income tax expense	(34,315)	(48,797)	(33,668)
(Loss)/Profit for the period	<u>(913,411)</u>	<u>127,937</u>	<u>93,385</u>
Attributable to:			
Owners of the parent	(807,554)	133,803	93,972
Non-controlling interests	(105,857)	(5,866)	(587)
	<u>(913,411)</u>	<u>127,937</u>	<u>93,385</u>
Earnings per share attributable to ordinary equity holders of the parent	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Basic	(0.63)	0.10	0.07
Diluted	(0.63)	0.10	0.06

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue		
Online game	933,664	622,957
Cheetah Mobile	2,099,200	1,553,009
Cloud services, office software and others	483,711	215,634
	<u>3,516,575</u>	<u>2,391,600</u>
Cost of revenue	<u>(1,030,192)</u>	<u>(530,616)</u>
Gross profit	2,486,383	1,860,984
Research and development costs, net of government grants	(825,511)	(619,533)
Selling and distribution expenses	(973,326)	(686,239)
Administrative expenses	(284,378)	(217,687)
Share-based compensation costs	(216,942)	(117,979)
Other income	72,369	28,630
Other expenses	(31,335)	(21,128)
	<u>227,260</u>	<u>227,048</u>
Operating profit	227,260	227,048
Other (losses)/gains, net	(932,644)	5,838
Finance income	83,983	98,091
Finance costs	(48,937)	(38,658)
Share of profits and losses of:		
Joint ventures	645	(12,502)
Associates	(32,669)	(8,714)
	<u>(702,362)</u>	<u>271,103</u>
(Loss)/profit before tax	(702,362)	271,103
Income tax expense	(83,112)	(61,287)
	<u>(785,474)</u>	<u>209,816</u>
(Loss)/profit for the period	(785,474)	209,816
Attributable to:		
Owners of the parent	(673,751)	208,508
Non-controlling interests	(111,723)	1,308
	<u>(785,474)</u>	<u>209,816</u>
	<i>RMB</i>	<i>RMB</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Earnings per share attributable to ordinary equity holders of the parent		
Basic	(0.52)	0.17
Diluted	(0.52)	0.16

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2016 Compared to First Quarter of 2016 and Second Quarter of 2015

Revenue

Revenue for the second quarter of 2016 increased 1% quarter-over-quarter and 38% year-over-year to RMB1,765.0 million. Revenue from the online game, Cheetah Mobile and cloud services, office software and others businesses represented 27%, 57% and 16%, respectively, of the Group's total revenue for the second quarter of 2016. Revenues from the three business lines reflect revenue earned by each of the business lines after elimination of intra-group transactions.

Revenue from the online game business mainly consists of revenues from operations of proprietary PC-based online games, mobile games, and game licensing services, which are generated from the Group (other than Cheetah Mobile and its subsidiaries), through research, development and provision of online games across devices. Revenue from the online game business for the second quarter of 2016 increased 4% quarter-over-quarter and 60% year-over-year to RMB476.8 million. The quarter-over-quarter increase was mainly due to the successful launch of the new mobile game JX Online Mobile I. The strong year-over-year increase reflected the sustainable revenue growth of JX Online III, driven by our continued efforts on upgrading the quality of the game and delivering the best user experience.

ADPCU for the Group's online games for the second quarter of 2016 increased 67% quarter-over-quarter and 50% year-over-year to 0.9 million. The quarter-over-quarter and year-over-year increases of ADPCU were mainly due to the successful release of the first JX Online mobile game, which enjoyed a great popularity. APA for the Group's online games for the second quarter of 2016 jumped to 4.8 million, increased 63% quarter-over-quarter and 40% year-over-year. The exceptional quarter-over-quarter and year-over-year increases were due to rapid growing community of players stimulated by the launch of the first JX Online mobile game.

Revenue from Cheetah Mobile business mainly consists of revenues from online marketing services, internet value-added services, and internet security services and others, which are generated from Cheetah Mobile and its subsidiaries through research, development and operation of information security software, internet browser, mission critical mobile applications, and operation of games and provision of global content distribution channel for its business partners. Revenue from Cheetah Mobile for the second quarter of 2016 decreased 7% quarter-over-quarter and increased 18% year-over-year to RMB1,014.1 million. The sequential decrease was mainly due to: i) a decline in eCPMs from some of Cheetah Mobile's third-party advertising platform partners in the international markets; and ii) a decline in revenue contribution from the monetization of a light causal game. The year-over-year increase was primarily due to the increase in mobile advertising revenue, which was driven by Cheetah Mobile's growing global mobile user base and strong demand from advertisers for the mobile advertising services, both in China and abroad.

Mobile MAU from Cheetah Mobile decrease 4% quarter-over-quarter and increase 26% year-over-year to 623 million in June 2016. In June 2016, approximately 79% of mobile MAU were from oversea markets. Our mobile user installations as of 30 June 2016 have reached to 3.1 billion as compared with 1.6 billion of the same date in 2015. The quarter-over-quarter decrease of mobile MAU was mainly due to the natural decline life cycle of a free-to-play light casual game, which was launched in late 2015. The year-over-year increase mainly reflected our effort on introducing and delivering new content products to users worldwide.

Revenue from the cloud services, office software and others business consists of revenues from all the other businesses, including cloud storage and computation, office application software, dictionary services, etc. Revenue from the cloud services, office software and others business for the second quarter of 2016 increased 31% quarter-over-quarter and 123% year-over-year to RMB274.2 million. The sequential increase was mainly attributable to enhanced monetization capabilities on free user traffic of WPS Office and increasing revenue from Kingsoft Cloud, primarily driven by an increase in the number of paying customers. The year-over-year increase was mainly attributable to: i) the strong revenue growth from mobile video cloud and game cloud services, supported by the technology advantages in Kingsoft Cloud's comprehensive cloud solutions; and ii) improved monetization ability of free user traffic of WPS PC and mobile version.

Cost of Revenue and Gross Profit

Cost of revenue for the second quarter of 2016 increased 19% quarter-over-quarter and 82% year-over-year to RMB560.0 million. The quarter-over-quarter increase was mainly due to: i) an increase in bandwidth and equipment depreciation expenses of Kingsoft Cloud as a result of the rapid usage growth and continued investments in data center; and ii) an increase in traffic acquisition costs associated with Cheetah Mobile's mobile application business, and higher bandwidth and internet data center ("IDC") costs. The year-over-year increase was mainly due to: i) an increase in traffic acquisition costs associated with Cheetah Mobile's third-party advertising publishing business, as well as increased bandwidth and IDC costs with growing user traffic and data analytics; and ii) an increase in bandwidth and depreciation expenses of Kingsoft Cloud along with rapid growth of customer usage and increasing investments in data center.

Gross profit for the second quarter of 2016 decreased 6% quarter-over-quarter and increased 24% year-over-year to RMB1,205.1 million. The Group's gross profit margin decreased five percentage points quarter-over-quarter and eight percentage points year-over-year to 68%. The decline trend of gross profit margin reflects that Cheetah Mobile and cloud businesses gain increasing importance in the total revenue.

Research and Development ("R&D") Costs, net of Government Grants

R&D costs, net of government grants, for the second quarter of 2016 increased 3% quarter-over-quarter and 29% year-over-year to RMB419.6 million. The quarter-over-quarter increase was mainly due to increased staff costs. The year-over-year increase was mainly due to the expansion of the Group's mobile application and cloud development team, as well as an increase in salaries.

Selling and Distribution Expenses

Selling and distribution expenses for the second quarter of 2016 decreased 2% quarter-over-quarter and increased 21% year-over-year to RMB480.5 million. The year-over-year increase was primarily due to the spending on promotional activities for Cheetah Mobile's mobile business, particularly for content-driven products, and an increase in the number of sales and marketing personnel mainly to expand Cheetah Mobile's direct sales operations.

Administrative Expenses

Administrative expenses for the second quarter of 2016 increased 8% quarter-over-quarter and 27% year-over-year to RMB147.5 million. The quarter-over-quarter increase was mainly due to an increase in professional service fees. The year-over-year increase was primarily due to an increase in headcounts and staff-related costs.

Share-based Compensation Costs

Share-based compensation costs for the second quarter of 2016 decreased 10% quarter-over-quarter and increased 71% year-over-year to RMB102.9 million. The year-over-year increase mainly reflected the grants of Cheetah Mobile's awarded shares to selected employees.

Other Income

Other income for the second quarter of 2016 increased 195% quarter-over-quarter and 112% year-over-year to RMB54.1 million. The increases were mainly due to the recognition of certain government grants, subsidies and financial incentives in the second quarter of 2016.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the second quarter of 2016 decreased 26% quarter-over-quarter and increased 25% year-over-year to RMB188.7 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the second quarter of 2016 decreased four percentage points quarter-over-quarter and one percentage point year-over-year to 11%.

Other (Losses)/Gains, Net

Other (losses)/gains, net for the second quarter of 2016 recorded losses of RMB959.6 million, which compared to gains of RMB27.0 million in the first quarter, and gains of RMB21.6 million in the prior period. The losses in the second quarter of 2016 were mainly due to the provisions for impairment on the carrying value of investments in XunLei Limited ("**XunLei**") and 21Vianet Group, Inc. ("**21Vianet**"), respectively, as there is a significant or prolonged decline in the market value of the investments in XunLei and 21Vianet below the costs.

Income Tax Expense

Income tax expense for the second quarter of 2016 decreased 30% quarter-over-quarter and increased 2% year-over-year to RMB34.3 million. Excluding share-based compensation costs and the non tax-deductible impairment loss of investments, our effective tax rate would have been 23% in the second quarter of 2016. As we anticipate the subsidiaries of Kingsoft Cloud would enjoy preferential tax rate, the heavy investments in cloud business have not been recognized in deferred tax assets.

(Loss)/Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, especial the one-off impairment factor, loss attributable to owners of the parent for the second quarter of 2016 was RMB807.6 million.

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

Loss attributable to owners of the parent before share-based compensation costs, is defined as loss attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent.

We believe the loss or profit attributable to owners of the parent before share-based compensation costs will enhance investors' overall understanding of the Group's 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 loss or profit attributable to owners of the parent before share-based compensation costs may not be comparable to similarly titled measures utilized by other companies.

Loss attributable to owners of the parent before share-based compensation costs for the second quarter of 2016 was RMB754.5 million. The net (loss)/profit margin excluding the effect of share-based compensation costs was minus 43%, 11% and 11% for the three months ended 30 June 2016, 31 March 2016 and 30 June 2015, respectively.

First Half of 2016 Compared to First Half of 2015

Revenue

Revenue for the first half of 2016 increased 47% year-over-year to RMB3,516.6 million. Revenue from the online game, Cheetah Mobile and cloud services, office software and others businesses represented 27%, 59% and 14%, respectively, of the Group's total revenue for the first half of 2016.

Revenue from the online game business for the first half of 2016 increased 50% year-over-year to RMB933.7 million. The solid year-over-year increase was mainly due to the improvement on user engagement and monetization ability of our flagship game, JX Online III, supported by a series of innovative expansion packs and promotional activities.

Revenue from Cheetah Mobile business for the first half of 2016 increased 35% year-over-year to RMB2,099.2 million. The year-over-year increase was primarily attributable to the increase in Cheetah Mobile's mobile advertising revenue, which was driven by Cheetah Mobile's growing global mobile user base, and increased demand from advertisers, as well as the monetization of light casual games through in-game advertising.

Revenue from the cloud services, office software and others business for the first half of 2016 increased 124% year-over-year to RMB483.7 million. The year-over-year increase was mainly due to the combination of: i) robust growth momentum of cloud storage and cloud computation services of Kingsoft Cloud, driven by rapidly increased usage of services, especially from mobile video and mobile game industries; ii) the increase in online marketing revenue from WPS Office, driven by increased monetization of user activities of free user traffic of WPS PC version; and iii) the steady growth in revenue from traditional WPS sales.

Cost of Revenue and Gross Profit

Cost of revenue for the first half of 2016 increased 94% year-over-year to RMB1,030.2 million. This increase was mainly due to: i) an increase in traffic acquisition costs associated with Cheetah Mobile's third-party advertising publishing business on Cheetah Mobile's advertising platform, an increase in bandwidth and IDC costs associated with increased user traffic worldwide and data analytics; and ii) an increase in bandwidth and IDC costs, and equipment depreciation expenses of Kingsoft Cloud as increased customer usage and continued investments in the strategic expansion of our data center.

Gross profit for the first half of 2016 increased 34% to RMB2,486.4 million. The Group's gross profit margin decreased by seven percentage points year-over-year to 71%.

R&D Costs, net of Government Grants

R&D costs, net of government grants, for the first half of 2016 increased 33% year-over-year to RMB825.5 million. The year-over-year increase was primarily attributable to the expansion of research and development personnel of Cheetah Mobile and Kingsoft Cloud.

Selling and Distribution Expenses

Selling and distribution expenses for the first half of 2016 increased 42% year-over-year to RMB973.3 million. The year-over-year increase was primarily due to Cheetah Mobile's increased spending on promotional activities for its mobile business, particularly for content-driven products, and higher personnel-related expenses as a result of expansion on direct sales operations.

Administrative Expenses

Administrative expenses for the first half of 2016 increased 31% year-over-year to RMB284.4 million. The year-over-year growth was primarily due to an increase in expenses associated with increased headcount and staff benefits.

Share-based Compensation Costs

Share-based compensation costs for the first half of 2016 increased 84% year-over-year to RMB216.9 million. This mainly reflected the grants of Cheetah Mobile's awarded shares to selected employees.

Other Income

Other income for the first half of 2016 increased 153% year-over-year to RMB72.4 million. The year-over-year increase was mainly due to the recognition of certain government grants, subsidies and financial incentives in the second quarter of 2016.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first half of 2016 increased 29% year-over-year to RMB444.2 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the first half of 2016 decreased one percentage point year-over-year to 13%.

Other (Losses)/Gains, net

Other (losses)/gains, net for the first half of 2016 recorded losses of RMB932.6 million, compared with gains of RMB5.8 million in the prior year period. The losses in 2016 were mainly due to the provisions for impairment on the carrying value of investments in XunLei and 21Vianet, respectively, as there is a significant or prolonged decline in the market value of the investments in XunLei and 21Vianet below the costs.

Income Tax Expense

Income tax expense for the first half of 2016 increased 36% year-over-year to RMB83.1 million. Excluding shared-based compensation costs and the non tax-deductible impairment loss of investments, our effective tax rate would have been 19% in the first half of 2016. As we anticipate the subsidiaries of Kingsoft Cloud would enjoy preferential tax rate, the heavy investments in cloud business have not been recognized in deferred tax assets.

(Loss)/Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, especial the one-off impairment losses recognized, loss attributable to owners of the parent for the first half of 2016 was RMB673.8 million compared to profit attributable to owners of the parent of RMB208.5 million in the prior year period.

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

Loss attributable to owners of the parent before share-based compensation costs for the first half of 2016 was RMB555.7 million, compared to profit attributable to owners of the parent before share-based compensation costs of RMB290.8 million in the prior year period. The net (loss)/profit margin excluding the effect of share-based compensation costs was minus 16% and 12% for the six months ended 30 June 2016 and 30 June 2015, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 30 June 2016, the Group had major financial resources in the forms of cash and cash equivalents, non-pledged deposits with original maturity of over three months amounting to RMB5,365.4 million, RMB3,215.8 million, respectively, which totally represented 55% of the Group's total assets.

As at 30 June 2016, the Group's gearing ratio, which represents total liabilities divided by total assets, was 41%, compared to 36% as at 31 December 2015. As at 30 June 2016, the Group had HK\$3,238.3 million (equivalent of RMB2,767.8 million) debt of convertible bonds and US\$60.0 million (equivalent to RMB397.9 million) and EUR1.5 million (equivalent to RMB11.1 million) bank loans.

Foreign Currency Risk Management

Certain expenses of the Group were denominated in currencies other than RMB. The Group generated foreign currency revenue either from license sales made in other Asia countries or from its overseas subsidiaries. RMB against US\$, HK\$, JPY and EUR have been comparatively stable in the past. The Group adopted "natural immunity" method to match the income and payment in foreign currencies by arranging some expenses and expenditures denominated in foreign currencies.

As at 30 June 2016, RMB4,253.7 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.

Deferred Revenue

Deferred revenue (including current and non-current portion) as at 30 June 2016 was RMB590.7 million compared to RMB450.1 million as at 31 December 2015.

Net Cash Generated from Operating Activities

Cash generated from our operating activities reflects 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 by operating activities was RMB444.2 million and RMB362.3 million for the six months ended 30 June 2016 and 30 June 2015, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fix assets and intangible assets. Cash used for capital expenditures was RMB670.0 million and RMB516.2 million for the six months ended 30 June 2016 and 30 June 2015, respectively.

BUSINESS REVIEW AND OUTLOOK

Mr. Jun LEI, Chairman of Kingsoft, commented, “The outstanding performance of the newly-launched JX Online I mobile game exhibits the significant value of our core IP of JX Online, and marks a major milestone for the mobile transformation of our online game business. We are encouraged by the rapidly growing customer base and strong revenue growth momentum of Kingsoft Cloud in the second quarter. However, the second quarter of 2016 is a challenging one for Kingsoft as Cheetah Mobile is facing short-term revenue and profit pressure and we have made provisions for impairment on the carrying value of the investments in Xunlei and 21Vianet, which have directly affected our quarterly earnings. We still remain firmly committed to our focus on mobile, global and cloud businesses and are on track in addressing the problems we are facing.”

Dr. HongJiang ZHANG, Chief Executive Officer of Kingsoft, added, “Our total second quarter revenue was RMB1,765.0 million, representing an increase of 38% year-over-year and an increase of 1% quarter-over-quarter. Operating profit before the share-based compensation costs increased 25% year-over-year to RMB188.7 million and decreased 26% quarter-over-quarter, which reflected our investments in Cheetah Mobile’s content-driven products and cloud business expansion.

To cope with the lackluster revenue from overseas third-party advertisement platforms and rejuvenate its sustainable and profitable growth, Cheetah Mobile has been expanding its content-driven products portfolio to a wider range than before, including news service, short video, live streaming and casual gaming. Most notably, two of the content-driven products has demonstrated a strong performance over the second quarter, particularly in the U.S. market. According to App Annie’s July data, News Republic, a global mobile news service operator that Cheetah Mobile has recently acquired, was ranked as one of the top 3 news & magazine Apps in the U.S. on Google Play, and Live.me, a live streaming app, was ranked as one of the top 5 social Apps in the U.S. on Google Play in July and has recently ranked as one of the top 10 social networking apps in the U.S. on Apple App Store. Cheetah Mobile will continue to invest aggressively in content-driven products and services in the future and leverage its over 600 million mobile MAUs to deliver extensive personalized and relevant content to its users.

In the second quarter, Cheetah Mobile has also committed in refreshing its App products and advertisement layouts, strengthening its direct sales capabilities, implementing strict cost control and improving management efficiency of its product promotion strategies. These initiatives would help to sustain its growth and improve its financial position in the coming quarters. Cheetah Mobile is committed to establish a sustainable and profitable business model for the long term, and build itself into one of the world’s leading mobile Internet companies.

We are very excited with the significant breakthrough of our recently introduced mobile game and ongoing strong performance of our flagship game JX Online III in the second quarter. With the expansion pack “Zhuang Zhi Ling Yun” released in April and continuous content optimization, JX Online III’s quarterly revenue achieved a new record, representing a year-over-year growth of 88%. The outstanding performance of our first JX Online mobile game has been very encouraging. It has been ranked as one of the top 3 popular games on iOS platform since its launch, which marked the longstanding popularity and the great value of our core game IP. Its monthly gross billing achieved RMB506.8 million in June 2016, far exceeded our expectations. We will continue propelling the development of online game business by exploring player preferences and consolidating R&D

resources. Supported by the advantages of partnership with Tencent and Xiaomi and the launch of the second and third JX Online mobile games in the following quarters, it is expected that our mobile games begin to bear fruit in the second half of the year.

Kingsoft Cloud has maintained a strong growth momentum in the second quarter of 2016. It has become the leading cloud service provider in China's video cloud and game cloud segments respectively. Its fast penetration in healthcare cloud and government cloud sectors is also very encouraging. In the second quarter of 2016, the game cloud saw a steady revenue growth with more than 60 new games being introduced. We have been experiencing explosive growth in video cloud, as it has been establishing numerous new industry standards for video cloud services. In the first half of 2016, Kingsoft Cloud has successively completed Series C round and Series C+ round financing, which indicates the capital market's positive view of the cloud industry. The tremendous opportunities and market volume in China's cloud market will continue to boost Kingsoft Cloud's performance in the following quarters.

The commercialization of Kingsoft WPS personal edition has further enhanced and the monetization capability of WPS mobile applications traffic has made a breakthrough in the second quarter of 2016. The global MAU of the WPS family reached a new record of 222 million in June 2016. The traditional enterprise business of WPS contributed a healthy growth, meanwhile the mobile applications of WPS have been devoting better experiences to its mobile office users through continuous optimization of its applications. The business model of WPS has been transforming from a product provider to service provider, which has made a significant progress."

Mr. Jun LEI concluded, "Given the successful debut of the first JX Online mobile game, explosive growth in our cloud business, and steady performance of WPS, we are confident in our revenue growth prospects for the coming quarters. Our margins and profitability of the overall company may experience short term pressure but we are determined to put our efforts together to resolve these problems and continue focusing on our key business initiatives."

OTHER INFORMATION

Employee and Remuneration Policies

As at 30 June 2016, the Group had 6,603 full-time employees (30 June 2015: 5,687), inclusive of all its staff in Mainland China and overseas offices, most of whom are based in Beijing and Zhuhai, the PRC. The number of employees employed by the Group varies from time to time depending on business needs. Employee remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. The remuneration policy and package of the Group's employees are periodically reviewed. Apart from pension funds, in-house training programs, discretionary bonuses, medical insurance and mandatory provident fund, share awards and share options may be granted to employees according to the assessment of individual performance.

The total remuneration cost (including capitalized remuneration cost) incurred by the Group for the six months ended 30 June 2016 was RMB1,266.5 million (for the six months ended 30 June 2015: RMB854.0 million).

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 2016.

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. Our Audit Committee is comprised of three independent non-executive directors, namely Ms. Wenjie WU (chairman), Mr. Shun Tak WONG and Mr. David Yuen Kwan TANG.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with our external auditors has reviewed the Group's unaudited interim financial information for the three and six months ended 30 June 2016.

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as its own code of conduct regarding securities transactions by Directors. Having made specific enquiries 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 2016.

Corporate Governance Code

The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules except for the code provisions A.6.7, C.1.2 and E.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 and the code provision E.1.2 of the CG Code is regarding chairman's attendance at annual general meeting. Non-executive Directors Mr. Jun LEI (Chairman of the Board) and Mr. Chi Ping LAU and independent non-executive Director Mr. Shun Tak WONG did not attend the annual general meeting held on 20 May 2016 due to pre-arranged engagements. The code provision C.1.2 of the CG Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive Directors overseeing the daily operation of the Group and the effective communication between the executive Directors, the management and the non-executive Directors (including the independent

non-executive Directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

Publication of Interim Results and Interim Report

This announcement, containing the relevant information required by the Listing Rules, is published on the Company's website (www.kingsoft.com) and the website of the Stock Exchange (www.hkex.com.hk). The Company's interim report will be available on the above websites and dispatched to our shareholders in due course.

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, 19 August 2016

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