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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 2014**

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 2014. These interim results have been reviewed by Ernst & Young, 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 2014

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Revenue					
Online game		307,537	270,539	602,448	537,205
Cheetah Mobile		353,595	143,890	646,442	269,864
Office software and others		89,374	82,099	177,241	146,318
		<u>750,506</u>	<u>496,528</u>	<u>1,426,131</u>	<u>953,387</u>
Cost of revenue		<u>(116,285)</u>	<u>(66,044)</u>	<u>(222,898)</u>	<u>(127,625)</u>
Gross profit		634,221	430,484	1,203,233	825,762
Research and development costs, net of government grants		(222,742)	(136,203)	(419,079)	(251,381)
Selling and distribution expenses		(166,278)	(71,803)	(323,615)	(139,411)
Administrative expenses		(66,868)	(43,792)	(133,185)	(89,273)
Share-based compensation costs	5	(57,118)	(19,478)	(77,755)	(29,576)
Other income and gains		1,101	5,209	3,001	20,424
Other expenses		1,539	(5,093)	1,322	(15,203)
		<u>123,855</u>	<u>159,324</u>	<u>253,922</u>	<u>321,342</u>
Operating profit		123,855	159,324	253,922	321,342
Fair value (loss)/gain on financial instruments at fair value through profit or loss		(112)	249	(217)	249
Gain on disposal of a subsidiary		—	—	—	47,452
Gain on disposal of investment in a joint venture classified as held for sale		—	—	116,845	—
Finance income		61,449	28,517	107,290	55,068
Finance costs		(22,378)	(1,771)	(34,063)	(3,828)
Share of (losses)/profits of:					
Joint ventures		(953)	(164)	(953)	990
Associates		(630)	(294)	(3,769)	(559)
		<u>161,231</u>	<u>185,861</u>	<u>439,055</u>	<u>420,714</u>
Profit before tax	4	161,231	185,861	439,055	420,714
Income tax expense	6	(36,030)	(15,796)	(59,368)	(39,502)
		<u>125,201</u>	<u>170,065</u>	<u>379,687</u>	<u>381,212</u>
Profit for the period		125,201	170,065	379,687	381,212
Attributable to:					
Owners of the parent		118,121	145,255	364,358	341,169
Non-controlling interests		7,080	24,810	15,329	40,043
		<u>125,201</u>	<u>170,065</u>	<u>379,687</u>	<u>381,212</u>
Earnings per share attributable to ordinary equity holders of the parent	8	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
Basic		0.10	0.13	0.31	0.30
Diluted		0.10	0.12	0.30	0.29

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2014

	For the three months ended 30 June		For the six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Profit for the period	125,201	170,065	379,687	381,212
Other comprehensive income/(loss)				
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:				
Change in fair value of available-for-sale investments, net of tax	121,732	—	122,701	—
Exchange differences on translation of foreign operations	5,881	(1,042)	16,384	(6,521)
Other comprehensive income/(loss) for the period, net of tax	127,613	(1,042)	139,085	(6,521)
Total comprehensive income for the period	252,814	169,023	518,772	374,691
Attributable to:				
Owners of the parent	253,019	144,975	504,528	337,918
Non-controlling interests	(205)	24,048	14,244	36,773
	252,814	169,023	518,772	374,691

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	<i>Notes</i>	As at 30 June 2014 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2013 <i>RMB'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment		405,051	385,067
Lease prepayments		283,236	42,260
Goodwill		78,627	53,994
Other intangible assets		130,437	60,104
Investments in joint ventures		24,047	—
Investments in associates		34,394	34,852
Available-for-sale investments		782,745	56,723
Other financial assets		28,083	27,699
Loan receivables		13,265	15,976
Deferred tax assets		48,287	52,406
Long-term prepayment		3,089	—
Other long-term receivables		124,225	—
		<u>1,955,486</u>	<u>729,081</u>
Current assets			
Inventories		3,520	3,528
Trade receivables	9	238,589	185,161
Prepayments, deposits and other receivables		240,263	144,966
Due from related parties		128,553	142,285
Available-for-sale investment		37,811	55,780
Pledged deposit		19,739	19,588
Cash and cash equivalents		7,178,193	4,481,188
		<u>7,846,668</u>	<u>5,032,496</u>
Investment in a joint venture classified as held for sale		—	42,756
		<u>7,846,668</u>	<u>5,075,252</u>
Current liabilities			
Trade payables	10	94,792	32,463
Interest-bearing bank loans	11	15,876	15,724
Other payables and accruals		678,274	498,964
Deferred revenue		237,999	202,105
Income tax payable		47,837	39,338
		<u>1,074,778</u>	<u>788,594</u>
Net current assets		<u>6,771,890</u>	<u>4,286,658</u>
Total assets less current liabilities		<u>8,727,376</u>	<u>5,015,739</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2014

	<i>Notes</i>	As at 30 June 2014 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2013 <i>RMB'000</i> <i>(Audited)</i>
Non-current liabilities			
Deferred revenue		34,253	31,533
Deferred tax liabilities		27,222	30,545
Liability component of convertible bonds	12	2,796,396	1,037,587
Liability component of redeemable convertible preferred shares		83,390	77,982
Other liabilities		4,518	7,401
		<u>2,945,779</u>	<u>1,185,048</u>
Net assets		<u>5,781,597</u>	<u>3,830,691</u>
Equity			
Equity attributable to owners of the parent			
Issued capital		4,727	4,718
Share premium account		220,423	259,665
Shares held for share award scheme		(40,504)	(53,890)
Statutory reserves		173,228	173,228
Employee share-based reserve		194,697	166,756
Capital reserve		1,360,741	512,651
Equity component of convertible bonds	12	74,505	8,500
Equity component of redeemable convertible preferred shares		10,015	10,015
Foreign currency translation reserve		(78,651)	(89,277)
Retained earnings		2,653,362	2,278,468
Proposed final dividend	7	—	109,387
		<u>4,572,543</u>	<u>3,380,221</u>
Non-controlling interests		<u>1,209,054</u>	<u>450,470</u>
Total equity		<u>5,781,597</u>	<u>3,830,691</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the parent													
	Issued capital	Shares			Employee share-based reserves	Capital reserve	Equity component of convertible preferred shares			Foreign currency translation reserve	Retained earnings	Proposed final dividend	Non-controlling interests	Total equity
		premium account	held for share award scheme	Statutory reserves			convertible bonds	redeemable	of					
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2014	4,718	259,665	(53,890)	173,228	166,756	512,651	8,500	10,015	(89,277)	2,278,468	109,387	3,380,221	450,470	3,830,691
Profit for the period	—	—	—	—	—	—	—	—	—	364,358	—	364,358	15,329	379,687
Other comprehensive income/(loss) for the period:														
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	129,544	—	—	—	—	—	129,544	(6,843)	122,701
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	10,626	—	—	10,626	5,758	16,384
Total comprehensive income for the period	—	—	—	—	—	129,544	—	—	10,626	364,358	—	504,528	14,244	518,772
Approved and paid final dividend in respect of the previous year	—	(1,336)	—	—	—	—	—	—	—	—	(109,387)	(110,723)	—	(110,723)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(36,937)	(36,937)
Distribution in specie	—	(50,966)	—	—	—	—	—	—	—	—	—	(50,966)	—	(50,966)
Share-based compensation costs	—	—	—	—	44,612	—	—	—	—	—	—	44,612	33,616	78,228
Exercise of share options	9	13,060	—	—	(3,285)	—	—	—	—	—	—	9,784	—	9,784
Vested awarded shares transferred to employees	—	—	13,386	—	(13,386)	—	—	—	—	—	—	—	—	—
Issue of convertible bonds	—	—	—	—	—	—	66,005	—	—	—	—	66,005	—	66,005
Capital contributions from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	37,197	37,197
Business combination between subsidiaries under common control	—	—	—	—	—	—	—	—	—	10,536	—	10,536	(10,536)	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	718,546	—	—	—	—	—	718,546	721,000	1,439,546
At 30 June 2014	<u>4,727</u>	<u>220,423</u>	<u>(40,504)</u>	<u>173,228</u>	<u>194,697</u>	<u>1,360,741</u>	<u>74,505</u>	<u>10,015</u>	<u>(78,651)</u>	<u>2,653,362</u>	<u>—</u>	<u>4,572,543</u>	<u>1,209,054</u>	<u>5,781,597</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2013

	Attributable to owners of the parent											
	Issued capital	Share premium account	Shares held for share award scheme	Statutory reserves	Employee share-based reserve	Capital reserve	Foreign currency translation reserve	Retained earnings	Proposed final dividend	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2013	4,690	347,965	(82,127)	156,462	160,833	275,739	(75,353)	1,624,488	102,132	2,514,829	160,103	2,674,932
Profit for the period	—	—	—	—	—	—	—	341,169	—	341,169	40,043	381,212
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(3,251)	—	—	(3,251)	(3,270)	(6,521)
Total comprehensive income for the period	—	—	—	—	—	—	(3,251)	341,169	—	337,918	36,773	374,691
Approved and paid final dividend in respect of the previous year	—	1,381	—	—	—	—	—	—	(102,132)	(100,751)	—	(100,751)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(19,596)	(19,596)
Share-based compensation costs	—	—	—	—	20,318	—	—	—	—	20,318	6,859	27,177
Exercise of share options	20	14,190	—	—	(5,860)	—	—	—	—	8,350	—	8,350
Vested awarded shares transferred to employees	—	—	26,465	—	(26,465)	—	—	—	—	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	123,047	—	—	—	123,047	109,559	232,606
At 30 June 2013	<u>4,710</u>	<u>363,536</u>	<u>(55,662)</u>	<u>156,462</u>	<u>148,826</u>	<u>398,786</u>	<u>(78,604)</u>	<u>1,965,657</u>	<u>—</u>	<u>2,903,711</u>	<u>293,698</u>	<u>3,197,409</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	324,890	354,176
Net cash flows used in investing activities	(3,022,425)	(137,477)
Net cash flows from financing activities	3,096,900	342,494
	<hr/>	<hr/>
Net increase in cash and cash equivalents	399,365	559,193
Cash and cash equivalents at beginning of the period	2,677,248	696,499
Effect of foreign exchange rate changes, net	28,347	(13,331)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	3,104,960	1,242,361
Time deposits with original maturity of over three months when acquired	4,092,972	1,970,089
Less: pledged time deposit for a bank loan	(19,739)	(19,000)
	<hr/>	<hr/>
Cash and cash equivalents as stated in the consolidated statement of financial position	7,178,193	3,193,450
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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 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
- research, development and distribution of office application software, provision of cloud storage, cloud computation and dictionary services across devices, and provision of online marketing services.

The interim condensed consolidated financial statements for the six months ended 30 June 2014 were approved and authorised for issue in accordance with a resolution of the Board on 19 August 2014.

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 2013.

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 2013, 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 2014. The Group has applied the following new standards and amendments for the first time in 2014. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39

Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36

IFRIC 21 Levies

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 research and development of games, and 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 provision of online marketing services and internet value-added services across devices; and
- (c) the office software and others segment engages in the research, development and distribution of office application software, provision of cloud storage, cloud computation and dictionary services across devices, and provision of online advertising services.

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, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance income, finance costs, fair value gain or loss on financial instruments at fair value through profit or loss, administrative expenses, share-based compensation costs, share of profits and losses of joint ventures and associates, gain on disposal of a subsidiary, gain on disposal of investment in a joint venture classified as held for sale, other expenses and other income and gains are excluded from such measurement.

3. Operating segments (continued)

For the purpose of making decisions about resources allocation and performance assessment after the listing of Cheetah Mobile Incorporation (“Cheetah Mobile”) (originally named Kingsoft Internet Software Holdings Limited (“KIS Holdings”), which was renamed as Cheetah Mobile on 25 March 2014), the Company’s subsidiary, the directors of the Company decided to make some reclassification among the three business units. Segments’ information of comparative periods has been restated to conform to the current period’s presentation to facilitate comparison in accordance with *IFRS 8 Operating Segments*.

	Entertainment software RMB’000 (Unaudited)	Information security and internet services RMB’000 (Unaudited)	Office software and others RMB’000 (Unaudited)	Total RMB’000 (Unaudited)
<i>For the six months ended 30 June 2014</i>				
Segment revenue:				
Sales to external customers	602,448	646,442	177,241	1,426,131
Sales to intersegments	<u>12,051</u>	<u>2,611</u>	<u>33,602</u>	<u>48,264</u>
Segment results	300,802	155,447	4,290	460,539
<i>Reconciliation:</i>				
Administrative expenses				(133,185)
Share-based compensation costs				(77,755)
Other income and gains				3,001
Other expenses				1,322
Gain on disposal of investment in a joint venture classified as held for sale				116,845
Fair value loss on financial instruments at fair value through profit or loss				(217)
Finance income				107,290
Finance costs				(34,063)
Share of losses of:				
Joint ventures				(953)
Associates				(3,769)
Profit before tax				<u><u>439,055</u></u>

3. Operating segments (continued)

	Entertainment software RMB'000 (Unaudited)	Information security and internet services RMB'000 (Unaudited)	Office software and others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<i>For the six months ended 30 June 2013 (Restated)</i>				
Segment revenue:				
Sales to external customers	537,205	269,864	146,318	953,387
Sales to intersegments	1,361	110	24,129	25,600
Segment results	296,314	82,008	56,648	434,970
<i>Reconciliation:</i>				
Administrative expenses				(89,273)
Share-based compensation costs				(29,576)
Other income and gains				20,424
Other expenses				(15,203)
Gain on disposal of a subsidiary				47,452
Fair value gain on financial instrument at fair value through profit or loss				249
Finance income				55,068
Finance costs				(3,828)
Share of profits/(losses) of:				
Joint ventures				990
Associates				(559)
Profit before tax				420,714

Geographical information

(a) Revenue from external customers:

	For the three months ended 30 June		For the six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Mainland China	689,638	447,549	1,318,730	855,793
Hong Kong	33,400	13,293	45,908	26,298
Japan	23,675	29,038	51,178	56,337
Other countries	3,793	6,648	10,315	14,959
Total	750,506	496,528	1,426,131	953,387

3. Operating segments (continued)

(b) Non-current assets:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Mainland China	897,846	539,120
Japan	2,527	2,237
Other countries	58,508	34,920
	<hr/>	<hr/>
Total	958,881	576,277
	<hr/>	<hr/>

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

4. Profit before tax

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

	For the three months ended 30 June		For the six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Employee benefit expense	300,140	175,656	545,519	329,263
Depreciation of property, plant and equipment	18,358	14,963	37,303	32,627
Amortisation of lease prepayments	788	235	1,024	471
Amortisation of other intangible assets	15,003	7,533	24,746	14,094
Interest on bank loans, convertible bonds and preferred shares	22,378	1,771	34,063	3,828
(Reversal)/impairment of trade and other receivables*	(1,561)	5,143	(1,322)	15,203

* 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 2014 and 2013.

	2014	2013
	Number of	Number of
	Share options	Share options
	(Unaudited)	(Unaudited)
Outstanding at 1 January	8,184,600	17,026,800
Exercised during the period	(1,413,200)	(6,583,500)
Outstanding at 30 June	<u>6,771,400</u>	<u>10,443,300</u>
Exercisable at 30 June	<u>6,771,400</u>	<u>10,443,300</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 2014 and 2013.

	2014	2013
	Number of	Number of
	Share options	Share options
	(Unaudited)	(Unaudited)
Outstanding at 1 January	10,500,000	10,500,000
Exercised during the period	(1,600,000)	—
Outstanding at 30 June	<u>8,900,000</u>	<u>10,500,000</u>
Exercisable at 30 June	<u>2,000,000</u>	<u>1,500,000</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 2013 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 2014 and 2013.

The following table illustrates the number of and movements in the Company's Awarded Shares during the six months ended 30 June 2014 and 2013.

	2014	2013
	Number of	Number of
	Share options	Share options
	(Unaudited)	(Unaudited)
Outstanding at 1 January	13,102,935	17,644,670
Awarded during the period	415,000	800,000
Forfeited during the period	(576,400)	(20,000)
Vested and transferred during the period	(3,225,967)	(5,063,735)
Outstanding at 30 June	<u>9,715,568</u>	<u>13,360,935</u>
Exercisable at 30 June	<u>31,000</u>	<u>370,000</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	
	2014 <i>RMB'000</i> (Unaudited)	2013 <i>RMB'000</i> (Unaudited)	2014 <i>RMB'000</i> (Unaudited)	2013 <i>RMB'000</i> (Unaudited)
Current income tax	30,559	13,879	49,530	40,156
Deferred income tax	5,471	1,917	9,838	(654)
Income tax expense	<u>36,030</u>	<u>15,796</u>	<u>59,368</u>	<u>39,502</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 2013: 16.5%) on estimated assessable profits arising in Hong Kong for the six months ended 30 June 2014.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiaries in Japan was 41% for the six months ended 30 June 2014 (six months ended 30 June 2013: 41%).

The Group's subsidiary in Malaysia was granted the Multimedia Super Corridor Malaysia Status ("MSC Malaysia Status"). Therefore the online games related activities of the subsidiary were exempted from corporate income tax for the period from April 2010 to December 2014.

7. Dividends

Final dividend

A final dividend of HKD0.12 per ordinary share for 2013 proposed by the Board was approved by the shareholders on 28 May 2014. The actual 2013 final dividend paid was RMB110.7 million.

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

7. Dividends (continued)

Distribution in specie

In accordance with the requirements of Practice Note 15 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Company must give due regard to the interests of its existing shareholders by providing them with an assured entitlement to shares in Cheetah Mobile, either by way of a distribution in specie of existing shares in Cheetah Mobile or by way of preferred application in any offering of existing or new shares in Cheetah Mobile.

The Company has provided the shareholders with choice of American depositary shares (“ADSs”)/Class A shares of Cheetah Mobile, or cash payment in lieu, with value of each ADS to be HKD108.5, based on Cheetah Mobile’s initial public offering price of USD14.0 per ADS translated into HKD at the exchange rate of USD1 to HKD7.75.

According to the final record of the distribution in specie, total amount of cash payment distributed to the Company’s shareholders electing to receive cash is HKD41.4 million, total number of Class A shares distributed to the Company’s shareholders electing to receive ADSs is 641,810 shares, and total number of Class A shares distributed to the shareholders, who are Cheetah Mobile affiliates and electing to receive Class A shares, is 1,460,170 shares. The cheques for cash payment were despatched on 24 June 2014, the distributing ADSs were transferred on 24 June 2014 (New York time) and the transfer of Class A shares to Cheetah Mobile affiliates was completed on 3 July 2014. Thus, as of 30 June 2014, the equity interest in Cheetah Mobile held by the Company decreased from 52.55% to 52.52%.

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 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.

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

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

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent	364,358	341,169
Increase/(decrease) in earnings adjusted for the convertible bonds, the share option schemes and the award share schemes adopted by the Group's subsidiaries	18,278	(3,443)
Adjusted profit attributable to ordinary equity holders of the parent	382,636	337,726
	Number of shares For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme	1,163,375,769	1,149,910,622
Effect of dilution — weighted average number of ordinary shares:		
Share options	14,796,898	17,578,736
Awarded shares	9,440,617	12,946,244
Convertible bonds	80,064,713	—
	1,267,677,997	1,180,435,602

9. Trade receivables

Trade receivables, which are non-interest-bearing and generally on credit terms of 30 to 90 days, are recognised 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, is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
0–30 days	179,576	135,334
31–60 days	21,443	19,202
61–90 days	14,435	6,324
91–365 days	18,307	16,589
Over one year	4,828	7,712
	<u>238,589</u>	<u>185,161</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 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
0–30 days	73,880	17,246
31–60 days	7,554	6,967
61–90 days	3,759	1,857
91–365 days	8,385	4,740
Over one year	1,214	1,653
	<u>94,792</u>	<u>32,463</u>

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

11. Interest-bearing bank loans

	Maturity	Principal amount RMB'000 (Unaudited)
30 June 2014		
Current		
Bank loan — secured	2014	<u>15,876</u>
31 December 2013		<i>(Audited)</i>
Current		
Bank loan — secured	2014	<u>15,724</u>

As at 30 June 2014, the interest-bearing bank loan represented a drawdown of HKD20.0 million (equivalent to RMB15.9 million) (31 December 2013: HKD20.0 million equivalent to RMB15.7 million), which was secured by the Group's time deposit of RMB19.7 million (31 December 2013: RMB19.6 million).

12. Convertible bonds

- (a) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HKD1,356.0 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 HKD16.9363 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. There was no conversion or redemption of the 2013 Convertible Bonds during the six months ended 30 June 2014.

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.

12. Convertible bonds (continued)

- (b) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HKD2,327.0 million which bear interest at a rate of 1.25% per annum payable semi-annually (the “**2014 Convertible Bonds**”). The 2014 Convertible Bonds are convertible at the option of the bondholders into 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 HKD43.89 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. There was no conversion or redemption of the 2014 Convertible Bonds during the six months ended 30 June 2014.

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.

13. Events after the reporting period

- (a) Cheetah Mobile entered into a definitive agreement on 11 June 2014 to acquire 100% equity interest in HongKong Zoom Interactive Network Marketing Technology Limited (“**HongKong Zoom**”), for a total consideration payable up to USD30.0 million. HongKong Zoom is a leading mobile advertising agency, providing unique digital advertising experience for mobile campaign planning, management, and performance evaluation for global clients. The transaction was completed in July 2014.
- (b) Cheetah Mobile entered into a share purchase agreement with Hong Kong Youloft Technology Limited (“**Youloft**”) on 13 June 2014 to acquire approximately 51.9% of equity interest in Youloft for a total consideration payable up to USD16.6 million. Youloft mainly operates the Wannianli series of mobile applications. The transaction has not been completed till now.
- (c) Cheetah Mobile entered into a share purchase agreement with Beijing Starsinhand Technology Company Limited, a subsidiary of Tencent Holdings Limited (“**Tencent**”), on 12 August 2014 to acquire an additional of approximately 22.2% equity interest in Moxiu Technology (Beijing) Co., Ltd. (“**Moxiu Technology**”) for a total cash consideration of RMB30.0 million. Upon completion of the acquisition, Cheetah Mobile will hold approximately 50.5% equity interest and become the majority shareholder of Moxiu Technology.

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	30 June 2014	31 March 2014	31 December 2013	30 September 2013	30 June 2013	31 March 2013	31 December 2012	30 September 2012
Online Games								
Daily Average Peak Concurrent Users	572,374	599,384	632,171	614,263	616,285	631,098	633,084	611,474
Monthly Average Paying Accounts	2,255,404	1,972,027	1,869,433	1,791,194	2,002,414	1,768,190	1,650,636	1,524,761
Monthly Average Revenue per Paying User ("ARPU") (RMB)	<u>43</u>	<u>48</u>	<u>49</u>	<u>48</u>	<u>43</u>	<u>47</u>	<u>48</u>	<u>46</u>

	In June 2014	In March 2014	In December 2013	In September 2013	In June 2013
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Cheetah Mobile

Mobile Monthly Active Users ("MAU") (Million)	284.3	222.5	166.2	120.3	80.0
% of Mobile MAU from Overseas Markets	67%	63%	53%	Not Available	Not Available
Mobile Users Installations (Million)	662.2	502.1	346.6	Not Available	Not Available
MAU of Duba.com Personal Start Page* (Million)	67.6	54.3	46.8	39.9	39.7

* MAU of Duba.com Personal Start Page data is from iResearch.

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue		
Online game	602,448	537,205
Cheetah Mobile	646,442	269,864
Office software and others	177,241	146,318
	<u>1,426,131</u>	<u>953,387</u>
Cost of revenue	<u>(222,898)</u>	<u>(127,625)</u>
Gross profit	1,203,233	825,762
Research and development costs, net of government grants	(419,079)	(251,381)
Selling and distribution expenses	(323,615)	(139,411)
Administrative expenses	(133,185)	(89,273)
Share-based compensation costs	(77,755)	(29,576)
Other income and gains	3,001	20,424
Other expenses	1,322	(15,203)
	<u>253,922</u>	<u>321,342</u>
Operating profit	253,922	321,342
Fair value (loss)/gain on financial instruments at fair value through profit or loss	(217)	249
Gain on disposal of a subsidiary	—	47,452
Gain on disposal of investment in a joint venture classified as held for sale	116,845	—
Finance income	107,290	55,068
Finance costs	(34,063)	(3,828)
Share of (losses)/profits of:		
Joint ventures	(953)	990
Associates	(3,769)	(559)
	<u>439,055</u>	<u>420,714</u>
Profit before tax	439,055	420,714
Income tax expense	(59,368)	(39,502)
	<u>379,687</u>	<u>381,212</u>
Profit for the period	<u>379,687</u>	<u>381,212</u>
Attributable to:		
Owners of the parent	364,358	341,169
Non-controlling interests	15,329	40,043
	<u>379,687</u>	<u>381,212</u>
Earnings per share attributable to ordinary equity holders of the parent	<i>RMB</i>	<i>RMB</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Basic	0.31	0.30
Diluted	0.30	0.29

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the three months ended		
	30 June 2014 RMB'000 (Unaudited)	31 March 2014 RMB'000 (Unaudited)	30 June 2013 RMB'000 (Unaudited)
Revenue			
Online game	307,537	294,911	270,539
Cheetah Mobile	353,595	292,847	143,890
Office software and others	89,374	87,867	82,099
	<u>750,506</u>	<u>675,625</u>	<u>496,528</u>
Cost of revenue	<u>(116,285)</u>	<u>(106,613)</u>	<u>(66,044)</u>
Gross profit	634,221	569,012	430,484
Research and development costs, net of government grants	(222,742)	(196,337)	(136,203)
Selling and distribution expenses	(166,278)	(157,337)	(71,803)
Administrative expenses	(66,868)	(66,317)	(43,792)
Share-based compensation costs	(57,118)	(20,637)	(19,478)
Other income and gains	1,101	1,900	5,209
Other expenses	1,539	(217)	(5,093)
	<u>123,855</u>	<u>130,067</u>	<u>159,324</u>
Operating profit	123,855	130,067	159,324
Fair value (loss)/gain on financial instruments at fair value through profit or loss	(112)	(105)	249
Gain on disposal of investment in a joint venture classified as held for sale	—	116,845	—
Finance income	61,449	45,841	28,517
Finance costs	(22,378)	(11,685)	(1,771)
Share of losses of:			
Joint ventures	(953)	—	(164)
Associates	(630)	(3,139)	(294)
	<u>161,231</u>	<u>277,824</u>	<u>185,861</u>
Income tax expense	(36,030)	(23,338)	(15,796)
	<u>125,201</u>	<u>254,486</u>	<u>170,065</u>
Profit for the period	125,201	254,486	170,065
Attributable to:			
Owners of the parent	118,121	246,237	145,255
Non-controlling interests	7,080	8,249	24,810
	<u>125,201</u>	<u>254,486</u>	<u>170,065</u>
Earnings per share attributable to ordinary equity holders of the parent	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
Basic	0.10	0.21	0.13
Diluted	0.10	0.20	0.12

MANAGEMENT DISCUSSION AND ANALYSIS

First Half of 2014 Compared to First Half of 2013

Revenue

Revenue for the first half of 2014 increased 50% year-over-year to RMB1,426.1 million. Revenue from the online game, Cheetah Mobile and office software and others businesses represented 42%, 45% and 13%, respectively, of the Group's total revenue for the first half of 2014. 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's companies, 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 first half of 2014 increased 12% year-over-year to RMB602.4 million. This was primarily attributable to the impressive revenue growth in JX Online III driven by the continuous optimization and innovation of the game through expansion packs on quarterly basis.

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, operation of games and provision of global content distribution channel for its business partners. Revenue from Cheetah Mobile business for the first half of 2014 increased 140% year-over-year to RMB646.4 million. The remarkable year-over-year increase was primarily attributable to the increase in revenue from online marketing services and internet value-added services (“IVAS”), which were driven by significant growth in user traffic of the Cheetah Mobile's online platforms and the significant progress of mobile monetization made by Cheetah Mobile.

Revenue from the office software and others business consists of revenues from all the other businesses, including office application software, cloud storage, dictionary services, etc. Revenue from the office software and others business for the first half of 2014 increased 21% year-over-year to RMB177.2 million. The solid year-over-year increase was mainly due to the combination of: i) the increase in online marketing revenue from WPS Office driven by the monetization of free user traffic of WPS and ii) revenue contribution from Kingsoft Cloud.

Cost of Revenue and Gross Profit

Cost of revenue for the first half of 2014 increased 75% year-over-year to RMB222.9 million. This increase was mainly due to: i) the higher bandwidth cost and server hosting cost driven by the growing user base and user traffic of Cheetah Mobile and ii) increase in channel and content costs associated with ramp-up of revenue from operation of licensed mobile game titles by Cheetah Mobile.

Gross profit for the first half of 2014 increased 46% to RMB1,203.2 million. The Group's gross profit margin decreased by three percentage points year-over-year to 84%.

Research and Development (“R&D”) Costs

R&D costs, net of government grants, for the first half of 2014 increased 67% year-over-year to RMB419.1 million. The year-over-year increase was primarily attributable to the expansion of the Group's mobile application development teams. The following table sets forth a breakdown of our R&D costs for the six months ended 30 June 2014 and 30 June 2013:

	For the six months ended	
	30 June 2014 RMB'000 (Unaudited)	30 June 2013 RMB'000 (Unaudited)
Staff costs	320,473	202,967
Depreciation & Amortisation	21,635	16,526
Others	72,779	36,807
	<u>414,887</u>	<u>256,300</u>
Less: Capitalised software costs (excluding share-based compensation costs)	—	(9,121)
Add: Amortisation of capitalised software costs	6,808	7,123
Less: Government grants for research and development activities	<u>(2,616)</u>	<u>(2,921)</u>
Total	<u>419,079</u>	<u>251,381</u>

Selling and distribution expenses

Selling and distribution expenses for the first half of 2014 increased 132% year-over-year to RMB323.6 million. The year-over-year increase was primarily driven by increased marketing expenses as Cheetah Mobile continued the efforts to expand its mobile internet penetration in global market.

Administrative Expenses

Administrative expenses for the first half of 2014 increased 49% year-over-year to RMB133.2 million. This increase was primarily due to the increase in professional service fees as well as staff costs.

Share-based Compensation Costs

Share-based compensation costs for the first half of 2014 increased 163% year-over-year to RMB77.8 million. This mainly reflected the grants of Cheetah Mobile's options and awarded shares to selected employees.

Other Income and Gains

Other income and gains for the first half of 2014 decreased 85% year-over-year to RMB3.0 million. The year-over-year decrease was primarily due to that certain amount of deferred government grants relating to a WPS project funded by HEGAOJI was recognized in the first quarter of 2013 upon completion of final inspection.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first half of 2014 decreased 5% year-over-year to RMB331.7 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the first half of 2014 decreased fourteen percentage points year-over-year to 23%.

Gain on Disposal of a Subsidiary

Gain on disposal of a subsidiary for the first half of 2014 was nil, compared to RMB47.5 million in the first half of 2013.

Gain on Disposal of Investment in a Joint Venture Classified as Held for Sale

Gain on disposal of investment in a joint venture classified as held for sale for the first half of 2014 was RMB116.8 million, compared to nil for the first half of 2013.

Finance Income

Finance income for the first half of 2014 increased 95% year-over-year to RMB107.3 million. The increase was mainly due to the increased deposit balances.

Income Tax Expense

Income tax expense for the first half of 2014 increased 50% year-over-year to RMB59.4 million. The Group's effective tax rate increased five percentage points year-over-year to 14%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent for the first half of 2014 increased 7% year-over-year to RMB364.4 million.

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

Profit attributable to owners of the parent before share-based compensation costs, which is defined as profit attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent, a measure supplementary to the consolidated financial statements presented in accordance with IFRSs.

We believe the 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 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 for the first half of 2014 increased 12% year-over-year to RMB408.5 million. The net profit margin excluding the effect of share-based compensation costs was 29% and 38% for the six months ended 30 June 2014 and 30 June 2013, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 30 June 2014, the group had major financial resources in the forms of cash and cash equivalents, time deposits with original maturity of over three months amounting to RMB3,105.0 million, RMB4,093.0 million, respectively, which totally represented 73% of the Group's total assets.

As at 30 June 2014 the Group's gearing ratio, which represents total liabilities divided by total assets, was 41%, compared to 34% as at 31 December 2013. As at 30 June 2014, the Group had HKD3,522.8 million (equivalent of RMB2,796.4 million) debt of convertible bonds, USD13.5 million (equivalent of RMB83.4 million) debt of preferred shares of a subsidiary and HKD20.0 million (equivalent of RMB15.9 million) bank loan.

Foreign Currency Risk Management

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

As at 30 June 2014, RMB3,628.0 million of the Group's financial assets were held in deposits and investments 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 2014 was RMB272.3 million compared to RMB233.6 million as at 31 December 2013. The increase was mainly due to the increased sales of prepaid game cards during the first half of 2014.

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, amortisation of capitalised 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 RMB324.9 million and RMB354.2 million for the six months ended 30 June 2014 and 30 June 2013, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of properties, land use rights, fixed assets and intangible assets. Cash used for capital expenditures was RMB195.0 million and RMB103.0 million for the six months ended 30 June 2014 and 30 June 2013, respectively.

Second Quarter of 2014 Compared to First Quarter of 2014 and Second Quarter of 2013

Revenue

Revenue for the second quarter of 2014 increased 11% quarter-over-quarter and 51% year-over-year to RMB750.5 million. Revenue from the online game, Cheetah Mobile and office software and others businesses represented 41%, 47% and 12%, respectively, of the Group's total revenue for the second quarter of 2014.

Revenue from the online game business for the second quarter of 2014 increased 4% quarter-over-quarter and 14% year-over-year to RMB307.5 million. The sequential and year-over-year increases were primarily due to the sustainable strong performance of JX Online III driven by the release of expansion packs in April and June respectively and our continued efforts in improvement of game experiences.

Daily average peak concurrent users ("ADPCU") for the Group's online games for the second quarter of 2014 decreased 5% quarter-over-quarter and 7% year-over-year to 0.6 million. The sequential and year-over-year decreases were largely due to a decline in the ADPCU of games in Vietnam as a result of poor game market condition. Monthly average paying accounts ("APA")

for the Group's online games for the second quarter of 2014 increased 14% quarter-over-quarter and 13% year-over-year to 2.3 million. The quarter-over-quarter and year-over-year increases were primarily attributable to expanded user base of JX Online III. The monthly ARPU for the Group's online games for the second quarter of 2014 decreased 10% quarter-over-quarter and held flat year-over-year to RMB43.

Revenue from Cheetah Mobile for the second quarter of 2014 increased 21% quarter-over-quarter and 146% year-over-year to RMB353.6 million. The quarter-over-quarter increase was mainly attributable to revenue increase in online marketing services, driven by growth in user traffic on the Cheetah Mobile's online platforms as well as the initial monetization of Clean Master. The remarkable year-over-year increase was primarily attributable to the increase in revenues from online marketing services and IVAS, driven by strong user traffic growth and further monetization of our PC and mobile internet platforms.

Mobile MAU from Cheetah Mobile increased 28% quarter-over-quarter and 255% year-over-year to 284.3 million in June 2014. In June 2014, approximately 67% of mobile MAU were from overseas markets, mostly the United States, Asia (excluding China) and Europe, compared to approximately 53% in December 2013. Our mobile user installations as of 30 June 2014 has reached to 662.2 million. These significant increases mainly reflected that our mobile mission critical applications, particularly Clean Master, were very popular and expanded rapidly in global markets. Duba.com aggregates a large collection of popular online resources and provides users quick access to most of their online destinations such as online shopping, video, online game, travel and local information. MAU of Duba.com Personal Start Page increased 25% quarter-over-quarter and 70% year-over-year to 67.6 million in June 2014.

Revenue from the office software and others business for the second quarter of 2014 increased 2% quarter-over-quarter and 9% year-over-year to RMB89.4 million. The sequential and year-over-year increases were mainly attributable to the increased revenue from online marketing services from WPS Office driven by the monetization of free user traffic of WPS Office and the emerging revenue contribution from Kingsoft Cloud.

Cost of Revenue and Gross Profit

Cost of revenue for the second quarter of 2014 increased 9% quarter-over-quarter and 76% year-over-year to RMB116.3 million. The quarter-over-quarter increase was primarily due to an increase in bandwidth and server costs as a result of the expansion of Kingsoft Cloud business and user base. The year-over-year increase was mainly due to higher bandwidth and IDC costs as well as increased channel and content costs associated with the ramp-up of revenue from mobile game operation of Cheetah Mobile.

Gross profit for the second quarter of 2014 increased 11% quarter-over-quarter and 47% year-over-year to RMB634.2 million. The Group's gross profit margin increased one percentage point quarter-over-quarter and decreased two percentage points year-over-year to 85%.

R&D Costs

R&D costs, net of government grants, for the second quarter of 2014 increased 13% quarter-over-quarter and 64% year-over-year to RMB222.7 million. The sequential and year-over-year increases in R&D costs were primarily due to continuous investments in research and development for mobile applications.

The following table sets forth a breakdown of our R&D costs for the three months ended 30 June 2014, 31 March 2014 and 30 June 2013:

	For the three months ended		
	30 June 2014 RMB'000 (Unaudited)	31 March 2014 RMB'000 (Unaudited)	30 June 2013 RMB'000 (Unaudited)
Staff costs	170,228	150,245	107,403
Depreciation & Amortisation	10,795	10,840	9,034
Others	39,907	32,872	22,053
	<u>220,930</u>	<u>193,957</u>	<u>138,490</u>
Less: Capitalised software costs (excluding share-based compensation costs)	—	—	(4,679)
Add: Amortisation of capitalised software costs	3,404	3,404	3,563
Less: Government grants for research and development activities	(1,592)	(1,024)	(1,171)
Total	<u>222,742</u>	<u>196,337</u>	<u>136,203</u>

Selling and distribution expenses

Selling and distribution expenses for the second quarter of 2014 increased 6% quarter-over-quarter and 132% year-over-year to RMB166.3 million. The quarter-over-quarter increase was mainly attributable to an increase in advertising and marketing expenses for the launch of expansion pack and summer version for JX Online III. The year-over-year increase was primarily due to higher marketing and promotion expenses for promoting Cheetah's mobile applications.

Administrative Expenses

Administrative expenses for the second quarter of 2014 increased 1% quarter-over-quarter and 53% year-over-year to RMB66.9 million. The year-over-year increase was mainly due to an increase in professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the second quarter of 2014 increased 177% quarter-over-quarter and 193% year-over-year to RMB57.1 million. The increases in share-based compensation costs primarily reflected the grants of Cheetah Mobile's options and awarded shares to selected employees.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the second quarter of 2014 increased 20% quarter-over-quarter and 1% year-over-year to RMB181.0 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the second quarter of 2014 increased two percentage points quarter-over-quarter and decreased twelve percentage points year-over-year to 24%.

Gain on Disposal of Investment in a Joint Venture Classified as Held for Sale

Gain on disposal of investment in a joint venture classified as held for sale for the second quarter of 2014 was nil, compared to RMB116.8 million in the first quarter of 2014 and nil in the second quarter of 2013.

Finance Income

Finance income for the second quarter of 2014 increased 34% quarter-over-quarter and 115% year-over-year to RMB61.4 million.

Income Tax Expense

Income tax expense for the second quarter of 2014 increased 54% quarter-over-quarter and 128% year-over-year to RMB36.0 million. The Group's effective tax rate increased fourteen percentage points quarter-over-quarter and year-over-year to 22%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent for the second quarter of 2014 decreased 52% quarter-over-quarter and 19% year-over-year to RMB118.1 million.

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 second quarter of 2014 decreased 42% quarter-over-quarter and 6% year-over-year to RMB150.1 million. The net profit margin excluding the effect of share-based compensation costs was 20%, 38% and 32% for the three months ended 30 June 2014, 31 March 2014 and 30 June 2013, respectively.

BUSINESS REVIEW AND OUTLOOK

Mr. Jun LEI, Chairman of Kingsoft, commented, “During the first half of 2014, we achieved significant progress in our mobile internet business. We are particularly pleased with the rapid growth of our global Mobile MAU, which increased 242% year-over-year to a new record of 344 million in June 2014. We have continued to gain traffic share and competitive advantage with the rapid growth of our mission critical apps. In the coming quarters, we will continue to reinforce our core competence, expand our mobile user base, strengthen our position in mobile security, mobile office and mobile game, and speed up the global penetration.”

Dr. Hongjiang ZHANG, Chief Executive Officer of Kingsoft added, “The second quarter of 2014 marked another quarter of consistent and strong top-line growth with revenue posted a growth of 11% quarter-over-quarter and 51% year-over-year to RMB750.5 million. Excluding the impact of share-based compensation costs, the operating profit recorded RMB181.0 million, an increase of 20% quarter-over-quarter and 1% year-over-year. I am pleased with the outstanding results, particularly the progress of mobile monetization. All of our business lines have set new records in terms of revenue and operational results. The decrease in operating profit primarily reflected our proactive investments in mobile applications development and market expansion, which is in line with our strategy. As mobile internet is growing explosively, we firmly believe that it is the right time to make investment in mobile application development and market expansion, which will support our long term business growth. The rapid increase of our overall mobile user base has shown that our strategy is effective.

We are excited to see the impressive growth of Cheetah Mobile in terms of revenue and operating metrics. The revenue for Cheetah Mobile for the six months ended 30 June 2014 achieved a year-over-year growth of 140% to RMB 646.4 million. This strong growth momentum was supported by the significant progress we have made in mobile monetization, robust growth in traffic from Duba.com personal start page. Mobile MAU of Cheetah Mobile has increased 255% year-over-year to 284.3 million in June 2014. Since its launch in September 2012, Clean Master has gained extremely large user base and developed into a “super app”. During the first half of 2014, we launched CM Security and CM Browser, both have gained ramping traffic. For the first half of 2014, Cheetah Mobile generated approximately 18% of its revenue from mobile services, compared with approximately 3% in the first half of 2013.

Our revenue for online game for the six months ended 30 June 2014 posted a year-over-year growth of 12% to RMB602.4 million, outperformed the growth rate of MMO gaming market in China. We are more pleased to see JX Online III continued to achieve a 64% year-over-year growth for the first half of 2014 and accounted for 54% of the revenue for online game. On 21 July, the “Polished” version of JX Online III was launched and has gained solid ground in terms of user population, users’ rating and revenue. We have twelve mobile games in our development pipeline and four of which will be in close beta testing in the third quarter.

Revenue from WPS Office for the first half of 2014 grew 30% year-over-year to RMB132.4 million. During the second quarter, we made significant improvements in the WPS Office’s compatibility with other enterprise application systems, such as SAP, OA and etc., to enhance our competitiveness and penetration to the enterprise markets. In addition, we are glad to see that the online marketing revenue from WPS is becoming a growth catalyst supported by the increasing user traffic of WPS Personal Edition and Docer.com. The MAU of WPS Personal Edition recorded 73 million in June 2014 compared to 56 million in June 2013. The global mobile MAU of WPS Office continued to grow robustly and achieved over 50 million in June 2014 compared to 21 million in June 2013. During the quarter, WPS Mobile Office for Android 6.0 was launched and new features, such as simplified UI, redesigned mobile phone reading mode and document synchronization, were introduced to enhance the mobile user experiences.

The growth of our enterprise data storage services has been accelerated, driven by the rapid increase of users’ data from Xiaomi and WPS. The daily upload of data into our storage services is approximately 250T at the end of June 2014. We will focus on optimizing the underlying storage framework and providing our users with stable, secure and cost-efficient storage services. Also, our one-stop game cloud service platform has grown robustly. We have provided game cloud services to around 50 third party game developers since we launched the services. In the second quarter, we improved the platform layout based on the feedbacks from third party developers. These progresses have laid a solid ground for Kingsoft to become a leading player in China cloud storage and computing market.

On 3 April 2014 we made a strategic investment of USD90.0 million in Xunlei Limited. On 11 April 2014 we issued convertible bonds of HKD2,327.0 million. On 8 May 2014, Cheetah Mobile was successfully listed on NYSE. We believe that these events will help us to strengthen and accelerate the execution of our strategies and the expansion of Kingsoft’s footprints in global markets.”

“We had an impressive and encouraging first half of 2014. With the continuous proactive investment in mobile businesses, strengthened mobile monetization of Cheetah Mobile, continuous optimization of JX Online III, four mobile games to be launched, strong sales and fast growing user base of WPS, advantageous partnership with Xiaomi, Tencent, Sogou and Xunlei, we are well positioned to achieve our goal in 2014.” concluded Dr. Zhang.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) (the "Listing Rules") since the date of the Company's 2013 annual report:

NAME OF DIRECTOR	DETAILS OF CHANGES
Mr. Guangming George LU	Resignation on 15 July 2014 as an independent non-executive Director, the chairman of the Nomination Committee, the chairman of the Remuneration Committee and a member of the Audit Committee of the Company
Mr. Shun Tak WONG	Appointment on 15 July 2014 as an independent non-executive Director, the chairman of the Nomination Committee, the chairman of the Remuneration Committee and a member of the Audit Committee of the Company; director fee of USD40,000 per annum
Mr. Chi Ping LAU	Appointment on 10 March 2014 as a director of JD.com, an online direct sales company listed on NASDAQ, and appointment on 31 March 2014 as a director of Leju Holdings Limited, an online-to-offline real estate provider listed on New York Stock Exchange ("NYSE")
Mr. Jun LEI	Chairman of Cheetah Mobile Inc. (NYSE: CMCM) which is a subsidiary of the Company and was listed on NYSE in May 2014; chairman of Xunlei Limited (NASDAQ: XNET) which was listed on NASDAQ in June 2014; emoluments of USD40,000 per annum
Mr. Pak Kwan KAU	Emoluments of USD40,000 per annum
Mr. David Yuen Kwan TANG	Director fee of USD40,000 per annum
Ms. Wenjie WU	Director of Xunlei Limited (NASDAQ: XNET) which was listed on NASDAQ in June 2014; director fee of USD50,000 per annum

Employee and Remuneration Policies

As at 30 June 2014, the Group had 4561 full-time employees (30 June 2013: 3,275), 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 need. Employees' 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 2014 was RMB545.5 million (for the six months ended 30 June 2013: RMB329.3 million).

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

None of the Company, its subsidiaries and the trustee of the Share Award Scheme had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the period under review.

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. Guangming George Lu (resigned as member of Audit Committee on 15 July 2014), Mr. Shun Tak WONG (appointed as member of Audit Committee on 15 July 2014) 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 2014.

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 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 2014.

Corporate Governance Code

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

The code provision A.6.7 of the CG Code is regarding non-executive directors’ attendance at general meetings. Non-executive directors Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Chi Ping LAU, and independent non-executive directors Mr. Guangming George Lu, Mr. David Yuen Kwan TANG and Ms. Wenjie WU did not attend the extraordinary general meeting held on 2 January 2014 due to previously arranged engagements. Non-executive directors Mr. Chi Ping Lau, and independent non-executive directors Mr. Guangming George Lu did not attend the annual general meeting held on 28 May 2014 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 2014

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.