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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 2015**

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 2015. 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 2015

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Revenue					
Online game		298,065	307,537	622,957	602,448
Cheetah Mobile		843,809	353,595	1,490,363	646,442
Office software and others		140,366	89,374	278,280	177,241
		<u>1,282,240</u>	<u>750,506</u>	<u>2,391,600</u>	<u>1,426,131</u>
Cost of revenue		<u>(306,892)</u>	<u>(116,285)</u>	<u>(530,616)</u>	<u>(222,898)</u>
Gross profit		975,348	634,221	1,860,984	1,203,233
Research and development costs, net of government grants		(325,211)	(222,742)	(619,533)	(419,079)
Selling and distribution expenses		(396,267)	(166,278)	(686,239)	(323,615)
Administrative expenses		(116,526)	(66,868)	(217,687)	(133,185)
Share-based compensation costs	5	(60,096)	(57,118)	(117,979)	(77,755)
Other income		34,391	1,101	39,221	3,001
Other expenses		<u>(11,998)</u>	<u>1,539</u>	<u>(21,128)</u>	<u>1,322</u>
Operating profit		99,641	123,855	237,639	253,922
Other gains/(losses), net		12,671	(112)	(4,753)	116,628
Finance income		45,715	61,449	98,091	107,290
Finance costs		(18,396)	(22,378)	(38,658)	(34,063)
Share of losses of:					
Joint ventures		(8,297)	(953)	(14,269)	(953)
Associates		<u>(4,281)</u>	<u>(630)</u>	<u>(6,947)</u>	<u>(3,769)</u>
Profit before tax	4	127,053	161,231	271,103	439,055
Income tax expense	6	<u>(33,668)</u>	<u>(36,030)</u>	<u>(61,287)</u>	<u>(59,368)</u>
Profit for the period		<u>93,385</u>	<u>125,201</u>	<u>209,816</u>	<u>379,687</u>
Attributable to:					
Owners of the parent		93,972	118,121	208,508	364,358
Non-controlling interests		<u>(587)</u>	<u>7,080</u>	<u>1,308</u>	<u>15,329</u>
		<u>93,385</u>	<u>125,201</u>	<u>209,816</u>	<u>379,687</u>
Earnings per share attributable to ordinary equity holders of the parent	8	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
Basic		<u>0.07</u>	<u>0.10</u>	<u>0.17</u>	<u>0.31</u>
Diluted		<u>0.06</u>	<u>0.10</u>	<u>0.16</u>	<u>0.30</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2015

	For the three months ended 30 June		For the six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	93,385	125,201	209,816	379,687
OTHER COMPREHENSIVE INCOME				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Available-for-sale investments:				
Change in fair value, net of tax	448,965	121,732	353,451	122,701
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss				
— impairment losses	—	—	25,891	—
Exchange differences on translation of foreign operations	(12,203)	5,881	(2,144)	16,384
Share of other comprehensive income of associates	3,404	—	3,404	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	440,166	127,613	380,602	139,085
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	533,551	252,814	590,418	518,772
Attributable to:				
Owners of the parent	528,386	253,019	583,289	504,528
Non-controlling interests	5,165	(205)	7,129	14,244
	533,551	252,814	590,418	518,772

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

		As at 30 June 2015	As at 31 December 2014
	<i>Notes</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment		731,093	583,637
Prepaid land lease payments		278,896	281,066
Goodwill		579,993	267,288
Other intangible assets		279,805	197,425
Investments in joint ventures		113,437	118,153
Investments in associates		197,896	30,718
Available-for-sale investments		2,227,865	566,672
Other financial assets		63,791	10,063
Loan receivables		12,072	13,555
Deferred tax assets		92,761	77,988
Long-term prepayments		6,506	40,246
Other long-term receivables		100,532	122,524
		<hr/>	<hr/>
Total non-current assets		4,684,647	2,309,335
Current assets			
Inventories		12,737	6,945
Trade receivables	9	729,837	411,137
Prepayments, deposits and other receivables		622,764	397,808
Due from related parties		115,203	117,411
Available-for-sale investments		56,616	56,913
Other financial assets		5,832	78,378
Restricted cash		122,192	—
Pledged deposits		70,158	19,978
Cash and bank deposits		7,706,733	6,983,699
		<hr/>	<hr/>
Total current assets		9,442,072	8,072,269
Current liabilities			
Trade payables	10	169,766	79,324
Other payables and accruals		1,214,425	931,437
Interest-bearing bank loans	11	94,632	15,778
Deferred revenue		350,402	310,983
Due to related parties		—	1,020
Income tax payable		98,883	56,806
		<hr/>	<hr/>
Total current liabilities		1,928,108	1,395,348
Net current assets		<hr/>	<hr/>
		7,513,964	6,676,921
Total assets less current liabilities		<hr/>	<hr/>
		12,198,611	8,986,256

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2015

		As at 30 June 2015	As at 31 December 2014
	<i>Notes</i>	<i>RMB'000</i> <i>(Unaudited)</i>	<i>RMB'000</i> <i>(Audited)</i>
Non-current liabilities			
Other liabilities		70,262	22,272
Deferred revenue		15,018	13,535
Deferred tax liabilities		77,429	41,583
Interest-bearing bank loans	11	10,257	—
Liability component of convertible bonds	12	2,540,387	2,792,322
		<u>2,713,353</u>	<u>2,869,712</u>
Total non-current liabilities		<u>2,713,353</u>	<u>2,869,712</u>
Net assets		<u>9,485,258</u>	<u>6,116,544</u>
Equity			
Equity attributable to owners of the parent			
Issued capital		5,089	4,730
Share premium account		2,467,586	99,769
Treasury shares		(35,236)	(83,964)
Statutory reserves		185,513	185,513
Share-based compensation reserve		265,497	231,360
Other capital reserve		1,326,692	1,192,967
Available-for-sale investment revaluation reserve		161,154	(211,898)
Equity component of convertible bonds	12	72,388	74,505
Foreign currency translation reserve		(96,472)	(94,797)
Retained earnings		3,252,260	3,043,752
Proposed final dividend	7	—	119,438
		<u>7,604,471</u>	<u>4,561,375</u>
Non-controlling interests		<u>1,880,787</u>	<u>1,555,169</u>
Total equity		<u>9,485,258</u>	<u>6,116,544</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the parent													
	Issued capital	Share premium	Treasury shares	Statutory reserves	Share-based compensation reserve	Other capital reserve	Available for-sale investment revaluation reserve	Equity component of convertible bonds	Foreign currency translation reserve	Retained earnings	Proposed final dividends	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	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2015	4,730	99,769	(83,964)	185,513	231,360	1,192,967	(211,898)	74,505	(94,797)	3,043,752	119,438	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	—	(2,083)	—	—	—	—	—	—	—	—	(119,438)	(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	<u>5,089</u>	<u>2,467,586</u>	<u>(35,236)</u>	<u>185,513</u>	<u>265,497</u>	<u>1,326,692</u>	<u>161,154</u>	<u>72,388</u>	<u>(96,472)</u>	<u>3,252,260</u>	<u>—</u>	<u>7,604,471</u>	<u>1,880,787</u>	<u>9,485,258</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2014

	Attributable to owners of the parent														
	Issued capital	Share premium	Treasury shares	Statutory reserves	Share-based compensation reserve	Other capital reserve	Available for sale investment reserve	Equity component of convertible bonds	Equity of redeemable preferred shares	Foreign currency 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	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2014	4,718	259,665	(53,890)	173,228	166,756	500,055	12,596	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>1,218,601</u>	<u>142,140</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 CASH FLOWS

For the six months ended 30 June 2015

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	362,260	324,890
Net cash flows used in investing activities	(1,444,551)	(3,022,425)
Net cash flows from financing activities	2,300,412	3,096,900
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Net increase in cash and cash equivalents	1,218,121	399,365
Cash and cash equivalents at beginning of the period	3,193,934	2,677,248
Effect of foreign exchange rate changes, net	7,715	28,347
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	4,419,770	3,104,960
Time deposits with original maturity of over three months when acquired	1,098,170	2,585,121
Principle protected structure deposits with original maturity of over three months when acquired	2,258,951	1,507,851
Less: pledged deposits	(70,158)	(19,739)
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Cash and bank deposits as stated in the consolidated statement of financial position	7,706,733	7,178,193
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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 (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
- 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 2015 were approved and authorised for issue in accordance with a resolution of the Board on 18 August 2015.

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 2014.

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 2014, 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 2015. The following amendments to IFRSs did not have any significant impact on the accounting policies, financial position or performance of the Group:

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

Amendments included in *Annual Improvements 2010–2012 Cycle*:

IFRS 2	<i>Share-based Payment</i>
IFRS 3	<i>Business Combinations</i>
IFRS 8	<i>Operating Segments</i>
IAS 16	<i>Property, Plant and Equipment</i>
IAS 38	<i>Intangible Assets</i>
IAS 24	<i>Related Party Disclosures</i>

Amendments included in *Annual Improvements 2011–2013 Cycle*:

IFRS 3	<i>Business Combinations</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 40	<i>Investment Property</i>

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 office software and others segment engages in the research, development and distribution of office application software, the provision of cloud storage, cloud computation and dictionary services across devices, and the provision of online advertising 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, 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, administrative expenses, share-based compensation costs, share of losses of joint ventures and associates, other gains (losses), net, other expenses and other income are excluded from such measurement.

	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 2015</i>				
Segment revenue:				
Sales to external customers	622,957	1,490,363	278,280	2,391,600
Sales to intersegments	<u>4,727</u>	<u>2,148</u>	<u>35,656</u>	<u>42,531</u>
Segment results	245,851	342,857	(33,496)	555,212
<i>Reconciliation:</i>				
Administrative expenses				(217,687)
Share-based compensation costs				(117,979)
Other income				39,221
Other expenses				(21,128)
Other losses, net				(4,753)
Finance income				98,091
Finance costs				(38,658)
Share of losses of:				
Joint ventures				(14,269)
Associates				<u>(6,947)</u>
Profit before tax				<u>271,103</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>	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</i>				
30 June 2014				
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				3,001
Other expenses				1,322
Other gains, net				116,628
Finance income				107,290
Finance costs				(34,063)
Share of losses of:				
Joint ventures				(953)
Associates				<u>(3,769)</u>
Profit before tax				<u><u>439,055</u></u>

Geographical information

(a) Revenue from external customers:

	For the three months ended 30 June		For the six months ended 30 June	
	2015 <i>RMB'000</i> <i>(Unaudited)</i>	2014 <i>RMB'000</i> <i>(Unaudited)</i>	2015 <i>RMB'000</i> <i>(Unaudited)</i>	2014 <i>RMB'000</i> <i>(Unaudited)</i>
Mainland China	821,056	689,638	1,620,521	1,318,730
Hong Kong	386,684	33,400	647,868	45,908
Japan	17,474	23,675	62,644	51,178
Other countries	57,026	3,793	60,567	10,315
Total	<u>1,282,240</u>	<u>750,506</u>	<u>2,391,600</u>	<u>1,426,131</u>

3. Operating segments (continued)

(b) Non-current assets:

	30 June 2015	31 December 2014
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
China	2,025,316	1,361,944
Japan	10,112	7,551
Other countries	152,198	149,038
	<hr/>	<hr/>
Total	<u>2,187,626</u>	<u>1,518,533</u>

The non-current asset information above is based on the locations of the assets and excludes available-for-sale investments, other financial assets, loan receivables, other long term receivables 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	
	2015	2014	2015	2014
	<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 expense	441,574	300,140	854,004	545,519
Depreciation of property, plant and equipment	44,562	18,358	80,476	37,303
Amortisation of lease prepayments	1,085	788	2,170	1,024
Amortisation of other intangible assets	39,819	15,003	67,355	24,746
Interest on bank loans, convertible bonds and preferred shares	18,396	22,378	38,658	34,063
Impairment/(reversal) of trade and other receivables*	3,251	(1,561)	2,091	(1,322)
Impairment of available- for-sale investments	—	—	27,534	—
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 2015 and 2014.

	2015	2014
	Number of	Number of
	Share options	Share options
	(Unaudited)	(Unaudited)
Outstanding at 1 January	5,365,740	7,974,600
Exercised during the period	(548,850)	(1,413,200)
	<u>4,816,890</u>	<u>6,561,400</u>
Outstanding at 30 June	<u>4,816,890</u>	<u>6,561,400</u>
Exercisable at 30 June	<u>4,816,890</u>	<u>6,561,400</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 2015 and 2014.

	2015	2014
	Number of	Number of
	Share options	Share options
	(Unaudited)	(Unaudited)
Outstanding at 1 January	8,900,000	10,500,000
Exercised during the period	—	(1,600,000)
Forfeited during the period	(3,000,000)	—
	<u>5,900,000</u>	<u>8,900,000</u>
Outstanding at 30 June	<u>5,900,000</u>	<u>8,900,000</u>
Exercisable at 30 June	<u>4,100,000</u>	<u>2,000,000</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 2014 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 2015 and 2014.

The following table illustrates the number of and movements in the Company's Awarded Shares during the six months ended 30 June 2015 and 2014.

	2015	2014
	Number of	Number of
	Awarded	Awarded
	shares	shares
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Outstanding at 1 January	11,597,068	13,102,935
Awarded during the period	285,000	415,000
Forfeited during the period	(3,522,000)	(576,400)
Vested and transferred during the period	(1,546,467)	(3,225,967)
Outstanding at 30 June	<u>6,813,601</u>	<u>9,715,568</u>
Exercisable at 30 June	<u>—</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	
	2015 <i>RMB'000</i> <i>(Unaudited)</i>	2014 <i>RMB'000</i> <i>(Unaudited)</i>	2015 <i>RMB'000</i> <i>(Unaudited)</i>	2014 <i>RMB'000</i> <i>(Unaudited)</i>
Current income tax	39,023	30,559	70,122	49,530
Deferred income tax	(5,355)	5,471	(8,835)	9,838
Income tax expense	<u>33,668</u>	<u>36,030</u>	<u>61,287</u>	<u>59,368</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 2014: 16.5%) on estimated assessable profits arising in Hong Kong for the six months ended 30 June 2015.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiaries in Japan was 35.64% for the six months ended 30 June 2015 (six months ended 30 June 2014: 38%).

7. Dividends

Final dividend

A final dividend of HKD0.13 per ordinary share for 2014 proposed by the Board was approved by the shareholders on 20 May 2015. The actual 2014 final dividend paid was RMB121.5 million.

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2015 (six months ended 30 June 2014: 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 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	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent	208,508	364,358
(Decrease)/increase in earnings adjusted for the convertible bonds, the share option schemes and the award share schemes adopted by the Group's subsidiaries	(1,608)	18,278
	<u>206,900</u>	<u>382,636</u>
Adjusted profit attributable to ordinary equity holders of the parent		
	<u>206,900</u>	<u>382,636</u>
	Number of shares	
	For the six months	
	ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme	1,255,294,457	1,163,375,769
Effect of dilution — weighted average number of ordinary shares:		
Share options	9,965,602	14,602,185
Awarded shares	6,475,756	9,440,617
Convertible bonds	—	80,064,713
	<u>1,271,735,815</u>	<u>1,267,483,284</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, is as follows:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
0–30 days	562,221	338,453
31–60 days	42,076	36,366
61–90 days	18,061	11,890
91–365 days	99,256	23,668
Over one year	8,223	760
	<u>729,837</u>	<u>411,137</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 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
0–30 days	112,010	45,073
31–60 days	6,496	6,148
61–90 days	32,815	959
91–365 days	16,641	24,852
Over one year	1,804	2,292
	<u>169,766</u>	<u>79,324</u>

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

11. Interest-bearing bank loans

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Current	<u><u>94,632</u></u>	<u><u>15,778</u></u>
Non-current	<u><u>10,257</u></u>	<u><u>—</u></u>

12. Convertible bonds

- (a) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HKD1,356,000,000 which bear interest at a rate of 3% per annum payable semi-annually (the “**2013 Convertible Bonds**”). The 2013 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date, at a price of 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.

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

In accordance with the respective terms and conditions of the 2013 Convertible Bonds, the payment of the 2014 final dividend, together with the distribution in specie of American Depository Shares (“**ADSs**”) of Cheetah Mobile in May 2014 and the payment of final dividend of HKD0.12 per share for the financial year of 2013, will result in an adjustment (the “**Adjustment**”) to the respective conversion prices of each of the convertible bonds. Considering the 2014 final dividend has been approved by the shareholders at the annual general meetings (the “**AGM**”), the Adjustment become effective on 2 June 2015, the respective conversion price of the 2013 Convertible Bonds was adjusted to HKD16.70 per share.

12. Convertible bonds (continued)

Certain holders of the bonds have exercised their rights to convert the conversion bonds into shares at the conversion price of HKD16.9363 (HKD16.70 adjusted price after 2 June 2015) per share during the six months ended 30 June 2015. Upon such conversions of the convertible bonds, 20,145,951 shares were allotted and issued by the Company to the relevant holders of the bonds. The aggregate principal amount of the bonds remaining outstanding following the conversion of the conversion bonds is HKD1,015 million.

- (b) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HKD2,327,000,000 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 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.

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

Similar with the 2013 Convertible Bonds, the convertible price of the 2014 Convertible Bonds adjusted to HKD43.29 per share since 2 June 2015.

There was no conversion or redemption of the 2014 Convertible Bonds during the six months ended 30 June 2015.

13. Events after the reporting period

Conversion of 2013 Convertible Bonds due 2018

Certain holders of the 2013 Convertible Bonds exercised their rights to convert the 2013 Conversion Bonds into shares at the conversion price of HKD16.70 (which adjusted on 2 June 2015) per share on 8 July 2015. Upon such conversions of the 2013 Convertible Bonds, 898,203 shares were allotted and issued by the Company to the relevant holders of the bonds. The aggregate principal amount of the bonds remaining outstanding following the conversion of the conversion bonds is HKD1,000 million.

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	30 June 2015	31 March 2015	31 December 2014	30 September 2014	30 June 2014	31 March 2014	31 December 2013	30 September 2013
Online Games								
Daily Average Peak Concurrent Users (“ADPCU”)	607,571	672,779	661,002	617,717	572,374	599,384	632,171	614,263
Monthly Average Paying Accounts (“APA”)	3,438,493	3,069,052	2,717,443	2,374,699	2,255,404	1,972,027	1,869,433	1,791,194
Monthly Average Revenue per Paying User (“ARPU”) (RMB)	<u>27</u>	<u>33</u>	<u>39</u>	<u>41</u>	<u>43</u>	<u>48</u>	<u>49</u>	<u>48</u>

	In June 2015	In March 2015	In December 2014	In September 2014	In June 2014
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Cheetah Mobile

Mobile Monthly Active Users (“MAU”) (Million)	493.8	443.6	395.4	340.7	284.3
% of Mobile MAU from Overseas Markets	71%	71%	69%	65%	67%
Mobile Users Installations (Million)	1,595.8	1,340.5	1,089.1	862.2	662.2

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue		
Online game	622,957	602,448
Cheetah Mobile	1,490,363	646,442
Office software and others	278,280	177,241
	<u>2,391,600</u>	<u>1,426,131</u>
Cost of revenue	<u>(530,616)</u>	<u>(222,898)</u>
Gross profit	1,860,984	1,203,233
Research and development costs, net of government grants	(619,533)	(419,079)
Selling and distribution expenses	(686,239)	(323,615)
Administrative expenses	(217,687)	(133,185)
Share-based compensation costs	(117,979)	(77,755)
Other income	39,221	3,001
Other expenses	(21,128)	1,322
	<u>237,639</u>	<u>253,922</u>
Other (losses)/gains, net	(4,753)	116,628
Finance income	98,091	107,290
Finance costs	(38,658)	(34,063)
Share of losses of:		
Joint ventures	(14,269)	(953)
Associates	(6,947)	(3,769)
	<u>271,103</u>	<u>439,055</u>
Income tax expense	(61,287)	(59,368)
Profit for the period	<u>209,816</u>	<u>379,687</u>
Attributable to:		
Owners of the parent	208,508	364,358
Non-controlling interests	1,308	15,329
	<u>209,816</u>	<u>379,687</u>
Earnings per share attributable to ordinary equity holders of the parent	RMB	RMB
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Basic	0.17	0.31
Diluted	<u>0.16</u>	<u>0.30</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	For the three months ended		
	30 June 2015	31 March 2015	30 June 2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue			
Online game	298,065	324,892	307,537
Cheetah Mobile	843,809	646,554	353,595
Office software and others	140,366	137,914	89,374
	1,282,240	1,109,360	750,506
Cost of revenue	(306,892)	(223,724)	(116,285)
Gross profit	975,348	885,636	634,221
Research and development costs, net of government grants	(325,211)	(294,322)	(222,742)
Selling and distribution expenses	(396,267)	(289,972)	(166,278)
Administrative expenses	(116,526)	(101,161)	(66,868)
Share-based compensation costs	(60,096)	(57,883)	(57,118)
Other income	34,391	4,830	1,101
Other expenses	(11,998)	(9,130)	1,539
Operating profit	99,641	137,998	123,855
Other gains/(losses), net	12,671	(17,424)	(112)
Finance income	45,715	52,376	61,449
Finance costs	(18,396)	(20,262)	(22,378)
Share of losses of:			
Joint ventures	(8,297)	(5,972)	(953)
Associates	(4,281)	(2,666)	(630)
Profit before tax	127,053	144,050	161,231
Income tax expense	(33,668)	(27,619)	(36,030)
Profit for the period	93,385	116,431	125,201
Attributable to:			
Owners of the parent	93,972	114,536	118,121
Non-controlling interests	(587)	1,895	7,080
	93,385	116,431	125,201
Earnings per share attributable to ordinary equity holders of the parent	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>
Basic	0.07	0.10	0.10
Diluted	0.06	0.10	0.10

MANAGEMENT DISCUSSION AND ANALYSIS

First Half of 2015 Compared to First Half of 2014

Revenue

Revenue for the first half of 2015 increased 68% year-over-year to RMB2,391.6 million. Revenue from the online game, Cheetah Mobile and office software and others businesses represented 26%, 62% and 12%, respectively, of the Group's total revenue for the first half of 2015. 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 2015 increased 3% year-over-year to RMB623.0 million. This was primarily attributable to the stable revenue growth in JX Online III driven by growing community of users, with the effort of providing innovative expansion packs.

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 business for the first half of 2015 increased 131% year-over-year to RMB1,490.4 million. The remarkable year-over-year increase was primarily attributable to the increase in revenue from mobile advertising business, especially in oversea markets, which reflected substantial improvements in mobile monetization of Cheetah Mobile.

Revenue from the office software and others business consists of revenues from all the other businesses, including office application software, cloud storage and computation, dictionary services, etc. Revenue from the office software and others business for the first half of 2015 increased 57% year-over-year to RMB278.3 million. The strong year-over-year increase was mainly due to the combination of: i) increasing revenue contribution from cloud storage and cloud computation services of Kingsoft Cloud, driven by rapidly growing data storage demand of Xiaomi, Xunlei and its business expansion into mobile game industry and ii) The increase in online marketing revenue from WPS Office driven by continuous monetization of free user traffic of WPS PC version.

Cost of Revenue and Gross Profit

Cost of revenue for the first half of 2015 increased 138% year-over-year to RMB530.6 million. This increase was mainly due to: i) the higher costs associated with the Cheetah Mobile's mobile advertising business, higher bandwidth and internet data center (IDC) costs associated with Cheetah Mobile's increased user traffic and big data analytics, as well as higher amortization costs from intangible assets resulting from acquisitions of Cheetah Mobile and ii) increase in IDC costs and equipment depreciation expenses of Kingsoft Cloud as a result of rapid usage growth and investments in Cloud computation and data platform.

Gross profit for the first half of 2015 increased 55% to RMB1,861.0 million. The Group's gross profit margin decreased by six percentage points year-over-year to 78%.

Research and Development (“R&D”) Costs

R&D costs, net of government grants, for the first half of 2015 increased 48% year-over-year to RMB619.5 million. The year-over-year increase was primarily attributable to the expansion of research and development personnel of Cheetah Mobile and online game business.

Selling and distribution expenses

Selling and distribution expenses for the first half of 2015 increased 112% year-over-year to RMB686.2 million. The year-over-year increase was primarily driven by increased marketing expenses as Cheetah Mobile accelerated the process of global market expansion.

Administrative Expenses

Administrative expenses for the first half of 2015 increased 63% year-over-year to RMB217.7 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 2015 increased 52% year-over-year to RMB118.0 million. This mainly reflected the grants of Cheetah Mobile's options and awarded shares to selected employees.

Other Income

Other income for the first half of 2015 increased 1,207% year-over-year to RMB39.2 million. The year-over-year increase was mainly due to the recognition of certain government financial incentives in the second quarter of 2015.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first half of 2015 increased 7% year-over-year to RMB355.6 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the first half of 2015 decreased eight percentage points year-over-year to 15%.

Other (losses)/gains, net

Other (losses)/gains, net recorded losses of RMB4.8 million for the first half of 2015, compared to gains of RMB116.6 million during the same period last year, which primarily reflected the gain on disposal of investment in Sky Profit Limited in February 2014.

Income Tax Expense

Income tax expense for the first half of 2015 increased 3% year-over-year to RMB61.3 million. The Group's effective tax rate increased nine percentage points year-over-year to 23%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, especially because of the one-off gain from disposing the shares of Sky Profit Limited in the prior year period, profit attributable to owners of the parent for the first half of 2015 decreased 43% year-over-year to RMB208.5 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.

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 2015 decreased 29% year-over-year to RMB290.8 million. The net profit margin excluding the effect of share-based compensation costs was 12% and 29% for the six months ended 30 June 2015 and 30 June 2014, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 30 June 2015, 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 RMB4,542.0 million, RMB3,357.1 million, respectively, which totally represented 56% of the Group's total assets.

As at 30 June 2015 the Group's gearing ratio, which represents total liabilities divided by total assets, was 33%, compared to 41% as at 31 December 2014. As at 30 June 2015, the Group had HKD3,215.6 million (equivalent of RMB2,540.4 million) debt of convertible bonds and HKD120.0 million and EUR1.5 million (equivalent of RMB104.9 million) bank loans.

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 2015, RMB4,005.7 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 2015 was RMB365.4 million compared to RMB324.5 million as at 31 December 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, 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 RMB362.3 million and RMB324.9 million for the six months ended 30 June 2015 and 30 June 2014, 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 RMB308.9 million and RMB195.0 million for the six months ended 30 June 2015 and 30 June 2014, respectively.

Second Quarter of 2015 Compared to First Quarter of 2015 and Second Quarter of 2014

Revenue

Revenue for the second quarter of 2015 increased 16% quarter-over-quarter and 71% year-over-year to RMB1,282.2 million. Revenue from the online game, Cheetah Mobile and office software and others businesses represented 23%, 66% and 11%, respectively, of the Group's total revenue for the second quarter of 2015.

Revenue from the online game business for the second quarter of 2015 decreased 8% quarter-over-quarter and 3% year-over-year to RMB298.1 million. The quarter-over-quarter and year-over-year decreases were largely due to decline in revenue from the existing games.

Daily average peak concurrent users (“ADPCU”) for the Group's online games for the second quarter of 2015 decreased 10% quarter-over-quarter and increased 6% year-over-year to 0.6 million. The quarter-over-quarter decrease was largely due to a decline in the ADPCU of games in Vietnam as a result of poor game market conditions. The year-over-year increase was primarily due to the launch of new version of JX Online I in Vietnam. Monthly average paying accounts (“APA”) for the Group's online games for the second quarter of 2015 increased 12% quarter-over-quarter and 52% year-over-year to 3.4 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 2015 decreased 18% quarter-over-quarter and 37% year-over-year to RMB27.

Revenue from Cheetah Mobile for the second quarter of 2015 increased 31% quarter-over-quarter and 139% year-over-year to RMB843.8 million. The quarter-over-quarter and year-over-year increases were mainly attributable to revenue growth from mobile advertising business in both overseas and domestic markets, driven by substantial improvements in global mobile monetization capabilities of Cheetah Mobile, and, to a lesser extent, the additional revenue contributed by the MobPartner business, which we recently acquired in 2015.

Mobile MAU from Cheetah Mobile increased 11% quarter-over-quarter and 74% year-over-year to 493.8 million in June 2015. In June 2015, approximately 71% of mobile MAU were from overseas markets, mostly the United States, Asia (excluding China) and Europe, compared to approximately 69% in December 2014. Our mobile user installations as of 30 June 2015 has reached to 1,595.8 million. These significant increases mainly reflected that our mobile mission critical applications, particularly Clean Master and CM Security, were very popular and expanded rapidly in global markets.

Revenue from the office software and others business for the second quarter of 2015 increased 2% quarter-over-quarter and 57% year-over-year to RMB140.4 million. The sequential and year-over-year increases were mainly attributable to: i) the increase of revenue was driven by rapidly growing demand for cloud storage and cloud computation services from new and existing customers; ii) increase in online marketing revenue from WPS Office driven by the increasing monetization of free user traffic of WPS PC version.

Cost of Revenue and Gross Profit

Cost of revenue for the second quarter of 2015 increased 37% quarter-over-quarter and 164% year-over-year to RMB306.9 million. The quarter-over-quarter and year-over-year increases were primarily due to: i) higher costs associated with the mobile advertising business, higher overseas bandwidth and IDC costs from Cheetah Mobile, in line with its revenue; ii) an increase in bandwidth and equipment depreciation expenses of Kingsoft Cloud as a result of rapid usage growth and investments in Cloud computation and data platform.

Gross profit for the second quarter of 2015 increased 10% quarter-over-quarter and 54% year-over-year to RMB975.3 million. The Group's gross profit margin decreased four percentage points quarter-over-quarter and nine percentage points year-over-year to 76%.

R&D Costs

R&D costs, net of government grants, for the second quarter of 2015 increased 10% quarter-over-quarter and 46% year-over-year to RMB325.2 million. The quarter-over-quarter increase was due to headcount expansion of Cheetah Mobile, as it continued to focus on mobile internet platform development, and as a result of acquisitions. The year-over-year increase was due to the increased personnel of Cheetah Mobile and online game business.

Selling and distribution expenses

Selling and distribution expenses for the second quarter of 2015 increased 37% quarter-over-quarter and 138% year-over-year to RMB396.3 million. The quarter-over-quarter and year-over-year increases were primarily due to higher spending in promotional activities for the Cheetah Mobile's mobile business.

Administrative Expenses

Administrative expenses for the second quarter of 2015 increased 15% quarter-over-quarter and 74% year-over-year to RMB116.5 million. The quarter-over-quarter and year-over-year increases were mainly due to an increase in staff costs as well as professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the second quarter of 2015 increased 4% quarter-over-quarter and 5% year-over-year to RMB60.1 million. This 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 2015 decreased 18% quarter-over-quarter and 12% year-over-year to RMB159.7 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the second quarter of 2015 decreased six percentage points quarter-over-quarter and twelve percentage points year-over-year to 12%.

Other gains/(losses), net

Other gains/(losses), net recorded gains of RMB12.7 million for the second quarter of 2015, compared of losses of RMB17.4 million for the first quarter of 2015 and losses of RMB0.1 million for the second quarter of 2014. The gains for the second quarter in 2015 primarily reflected deemed disposal gains and disposal gains arising from certain investee companies, partly offset by impairment provision for certain goodwill.

Income Tax Expense

Income tax expense for the second quarter of 2015 increased 22% quarter-over-quarter and decreased 7% year-over-year to RMB33.7 million. The Group's effective tax rate increased seven percentage points quarter-over-quarter and four percentage points year-over-year to 26%.

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 2015 decreased 18% quarter-over-quarter and 20% year-over-year to RMB94.0 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 2015 decreased 13% quarter-over-quarter and 10% year-over-year to RMB135.5 million. The net profit margin excluding the effect of share-based compensation costs was 11%, 14% and 20% for the three months ended 30 June 2015, 31 March 2015 and 30 June 2014, respectively.

BUSINESS REVIEW AND OUTLOOK

Mr. Jun Lei, Chairman of Kingsoft, commented, “The performances of our business lines in the first half of 2015 demonstrated firm execution of our mobile, globalization and “ALL-IN CLOUD” strategies. Our mobile MAU reached another new high of 588.2 million in June, an increase of 71% year-over-year. Mobile revenue in the second quarter accounted for 66% of Cheetah Mobile’s total revenue, with overseas revenue contributing 51% of the total revenue. The progresses that Cheetah Mobile achieved so far demonstrated that Cheetah Mobile is well on its way to achieve its strategic goal of becoming one of the top three global mobile advertising platforms. We are also encouraged to see the accelerating growth of our cloud services, building strong game cloud alliance and deepening cooperation with intelligent hardware platforms. In order to exploit the huge growth potential ahead in the mobile internet worldwide and cloud businesses, we remain committed to our investment strategies.”

Mr. Jun Lei continued, “We are pleased to announce strong and impressive top line growth in the second quarter of 2015, with revenue achieving a new record of RMB1,282.2 million, an increase of 16% quarter-over-quarter and 71% year-over-year. Excluding the impact of share-based compensation costs, the operating profit for the second quarter declined 18% quarter-over-quarter and 12% year-over-year to RMB159.7 million and operating profit margin decreased by six percentage points quarter-over-quarter and twelve percentage points year-over-year to 12%. The operating result is in line with our expectations and the result of execution of our heavy investment strategies in mobile and cloud businesses. The investment strategies would continue to have impact on the Group’s performance for the year 2015 and we expect that the operating profit margin might decline to single digit percentages in the coming quarters this year. We are delighted by the progresses we have achieved and are confident that these investments will generate long term shareholder value.”

Dr. Hongjiang Zhang, Chief Executive Officer of Kingsoft added, “The second quarter was another strong quarter for Cheetah Mobile both financially and operationally. The total revenue of Cheetah Mobile achieved a high of RMB843.8 million, an increase of 31% quarter-over-quarter and an increase of 139% year-over-year. Most importantly, Cheetah Mobile has achieved its mobile and global transformation goals with overseas revenue improving to 51% of total revenue and mobile revenue increasing to 66% of total revenue. Today, 493.8 million people use Cheetah apps each month worldwide, with 71% coming from overseas markets, which underpinned its robust financial performance. During the quarter, Cheetah Mobile also continued to improve its mobile and global monetization capabilities. Mobile revenue increased 57% quarter-over-quarter and overseas revenue increased 68% quarter-over-quarter, which were driven by a continued ramp-up of its mobile advertising business, especially in the overseas markets. Cheetah Mobile’s mobile and global monetization capabilities have benefited from its strong partnerships with key global Internet giants, such as Facebook, Google and Tencent. In addition, Cheetah Mobile launched Cheetah Mobile advertising platform in June, further improving its mobile and global monetization capabilities. We are delighted by the progress Cheetah Mobile has achieved in the global mobile Internet market. Looking ahead, Cheetah Mobile will continue to invest decisively to solidify its leading position as a global traffic platform, while further enhancing its mobile and global monetization capabilities.

During the quarter, we further consolidated our competitive advantages in cloud storage and computation services and we are excited to capture the rapidly growing cloud market in China. Kingsoft Cloud continued its tremendous momentum in mobile game industry and successfully introduced Hero Entertainment, Changyou, Perfect World, SkyMoons, and Youzu as our new and key customers in the second quarter. Kingsoft Cloud launched cloud distribution, storage acceleration and integration for mobile video services, successfully expanded its services into video industry and introduced GIF Deft and Today's Headlines as its main video customers. For intelligent hardware industry, Kingsoft Cloud deepened its corporation with Xiaomi intelligent hardware platform and ecosystem and also expanded its customer base. In the second quarter, Kingsoft Cloud also entered into strategic cooperation with Peking University Healthcare and Kingdee to further explore opportunities in enterprise service and healthcare markets. The progress Kingsoft Cloud achieved so far gave us confidence in exploring the explosive potential in cloud business.

We are pleased with the performance of our game business. While we did not launch any major marketing activities or expansion packs for JX Online III in the second quarter, its revenue still achieved RMB180.6 million, a growth of 9% year-over-year, well above the growth rate of traditional PC game segment. We are excited to see significant breakthrough in our mobile game business. The release of the 3D version of "Journey to the West: Conquering the Demons" was well accepted by the market and ranked as one of the top ten popular games on Xiaomi and IOS game platforms in July 2015. We expect that our prior investments in mobile games will begin to generate top line contribution in the second half of 2015. The mobile games developed on the basis of our core IP, namely JX world and JX III, are expected to be tested in later 2015 and early 2016 respectively. Our mobile game Relics of Gods also expects to be tested in large scale in North America later this year.

Revenue from WPS office, net of advertising revenue derived from cooperation with Cheetah Mobile, achieved rapid quarter-over-quarter and year-over-year increase in the second quarter of 2015 to RMB74.9 million, benefiting from the enlarged enterprise customer base and enhanced monetization capabilities on free traffic of WPS. The global MAU of WPS family reached 169 million, among which the mobile MAU of WPS Office were nearly 74 million, with a 48% increase year-over-year. To solidify its leading position as an office solution provider in China and capture explosive enterprise markets, Kingsoft WPS released "WPS+cloud office" products across platforms with enhanced features such as mail services, WPS cloud documents, business contacts, instant messaging and other more value-added services to provide one-stop cloud office solution. In the second quarter, Kingsoft WPS also established strategic cooperation with Seeyon and Baidu to provide simple, convenient and reliable mobile office solutions."

Mr. Jun Lei concluded, "We had a sound and promising first half of 2015. All the business lines are well on their way to reach our strategic goals. We will continue to invest aggressively in our core businesses and key strategic focuses in the coming quarters to capture great opportunities in mobile internet and cloud businesses."

OTHER INFORMATION

Employee and Remuneration Policies

As at 30 June 2015, the Group had 5,687 full-time employees (30 June 2014: 4,561), 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 2015 was RMB854.0 million (for the six months ended 30 June 2014: RMB545.5 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 2015.

Completion of Placing of Existing Shares and Subscription for New Shares

On 4 June 2015, Color Link Management Limited (a company wholly owned by Mr. Jun LEI, the chairman and substantial shareholder of the Company), the Company, Morgan Stanley & Co. International plc and J.P. Morgan Securities (Asia Pacific) Limited entered into a placing and subscription agreement pursuant to which (i) Morgan Stanley & Co. International plc and J.P. Morgan Securities (Asia Pacific) Limited have severally agreed to procure purchasers for, or failing which, to purchase, an aggregate of 100,000,000 existing shares beneficially owned by Color Link Management Limited, on a fully underwritten basis, at a price of HKD27.40 per share on the terms of the placing and subscription agreement; and (ii) Color Link Management Limited has agreed to subscribe for, and the Company has agreed to issue, 100,000,000 new shares at subscription price, which is equal to the placing price less the commissions, fees and the expenses properly incurred by Color Link Management Limited in relation to the placing and/or the subscription. The gross proceeds from the subscription (before deducting the commissions, fees and the expenses properly incurred by Color Link Management Limited in relation to the placing and/or the subscription) was HKD2,740 million. The net proceeds which received by the Company from the subscription was HKD2,720.6 million. The Completion of the placing and the subscription took place on 8 June 2015 and 11 June 2015, respectively, in accordance with the terms and conditions of the placing and subscription agreement.

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's 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 2015.

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 to 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 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 2015.

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 and Mr. Chi Ping LAU, did not attend the annual general meeting of the Company held on 20 May 2015 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, 18 August 2015

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.