



(continued into the Cayman Islands with limited liability)

Stock Code:03888

KINGSOFT CORPORATION LIMITED

2014 INTERIM REPORT



獵豹清理大師



獵豹瀏覽器



金山雲服務平台



Kingsoft Corporation Limited

Interim Report 2014 | KINGSOFT CORPORATION LIMITED

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CORPORATE INFORMATION

Legal Name of the Company

Kingsoft Corporation Limited (the “Company” or “Kingsoft”)

Stock Code

03888

Date of Listing

9 October 2007

Head Office and Principal Place of Business

Kingsoft Tower No.33, Xiaoying West Road

Haidian District

Beijing 100085

PRC

Principal Place of Business in Hong Kong

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

Registered Office

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman KY1-1108

Cayman Islands

Executive Directors

Mr. HongJiang ZHANG

Mr. Yuk Keung NG

Mr. Tao ZOU

Non-executive Directors

Mr. Jun LEI (Chairman)

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

Independent Non-executive Directors

Mr. Shun Tak WONG

Ms. Wenjie WU

Mr. David Yuen Kwan TANG

Audit Committee

Ms. Wenjie WU

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Remuneration Committee

Mr. Shun Tak WONG

Mr. Jun LEI

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Nomination Committee

Mr. Shun Tak WONG

Mr. Chi Ping LAU

Ms. Wenjie WU

Board Secretary/Company Secretary

Mr. Yuk Keung NG

Authorised Representatives

Mr. Pak Kwan KAU

Mr. Yuk Keung NG

CORPORATE INFORMATION (continued)

Principal Share Registrar and Transfer Office

Appleby Trust (Cayman) Ltd.

Clifton House

75 Fort Street

P.O. Box 1350

GT George Town

Grand Cayman KY1-1108

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17/F.

Hopewell Centre

183 Queen's Road East

Hong Kong

Auditors

Ernst & Young

Certified Public Accountants

22th Floor, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

Legal Advisers on Hong Kong law

Baker & Mckenzie

23rd Floor, One Pacific Place 88 Queensway

Hong Kong

Principal Bankers

Shanghai Pudong Development Bank Co., Ltd.

Bank of Tokyo-Mitsubishi UFJ (China), Ltd.

China Guangfa Bank Co., Ltd.

Hang Seng Bank Limited

China Merchants Bank Co., Ltd.

Bank of communications Co., Ltd.

Industrial and Commercial Bank of China Co., Ltd.

Investor and Media Relations

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OPERATIONAL HIGHLIGHTS

	FOR THE THREE MONTHS ENDED							
	30	31	31	30	30	31	31	30
	JUNE	MARCH	DECEMBER	SEPTEMBER	JUNE	MARCH	DECEMBER	SEPTEMBER
	2014	2014	2013	2013	2013	2013	2012	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)	43	48	49	48	43	47	48	46

	IN JUNE	IN MARCH	IN DECEMBER	IN SEPTEMBER	IN JUNE
	2014	2014	2013	2013	2013
Cheetah Mobile Inc. ("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 RMB'000 (UNAUDITED)	2013 RMB'000 (UNAUDITED)
REVENUE		
Online game	602,448	537,205
Cheetah Mobile	646,442	269,864
Office software and others	177,241	146,318
	1,426,131	953,387
Cost of revenue	(222,898)	(127,625)
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)
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)
PROFIT BEFORE TAX	439,055	420,714
Income tax expense	(59,368)	(39,502)
PROFIT FOR THE PERIOD	379,687	381,212
ATTRIBUTABLE TO:		
Owners of the parent	364,358	341,169
Non-controlling interests	15,329	40,043
	379,687	381,212
	RMB (UNAUDITED)	RMB (UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	0.31	0.30
Diluted	0.30	0.29

FINANCIAL HIGHLIGHTS (continued)

	FOR THE THREE MONTHS ENDED		
	30 JUNE 2014	31 MARCH 2014	30 JUNE 2013
	RMB'000	RMB'000	RMB'000
	(UNAUDITED)	(UNAUDITED)	(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
	750,506	675,625	496,528
Cost of revenue	(116,285)	(106,613)	(66,044)
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)
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)
PROFIT BEFORE TAX	161,231	277,824	185,861
Income tax expense	(36,030)	(23,338)	(15,796)
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
	125,201	254,486	170,065
	RMB	RMB	RMB
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	0.10	0.21	0.13
Diluted	0.10	0.20	0.12

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 Doba.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.

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%.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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
	414,887	256,300
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	(2,616)	(2,921)
Total	419,079	251,381

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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
	220,930	193,957	138,490
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	222,742	196,337	136,203

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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.

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

Directors' Interests in Securities

As at 30 June 2014, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO") which (a) were required to be notified to the

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

OTHER INFORMATION (continued)

Interest in the shares and underlying shares of the Company:

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL (NOTE 1)	NATURE OF SHARES INTERESTED
Jun LEI	Interest of controlled corporation	174,818,191	14.77	Long position
	Other	142,714,003	12.06	Long position
		Total: 317,532,194 (Note 2)	Total: 26.83	
Pak Kwan KAU	Interest of controlled corporation	108,032,566 (Note 3)	9.13	Long position
HongJiang ZHANG	Beneficial owner	11,266,044	0.95	Long position
Yuk Keung NG	Beneficial owner	2,840,000	0.24	Long position
Tao ZOU	Beneficial owner	409,307	0.03	Long position

Notes:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 30 June 2014, which was 1,183,646,833.
2. Among these 317,532,194 shares, 174,818,191 shares are held by Color Link Management Limited, a BVI company owned as to 100% by Mr. Jun LEI and the other 142,714,003 shares are deemed to be interested by Mr. Jun LEI under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG will vote in the same way as Mr. Jun LEI with these shares.

3. These shares are held by Topclick Holdings Limited, a BVI company wholly owned by Kau Management Limited. Kau Management Limited is a company indirectly owned by a discretionary trust, the beneficiaries of which include Mr. Pak Kwan KAU and his family members. As such, Mr. Pak Kwan KAU is deemed to be interested in these shares under the SFO. In addition, Mr. Jun LEI is also deemed to be interested in these shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU will vote in the same way as Mr. Jun LEI with these shares.

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

Cheetah Mobile (Note 1)

NAME OF DIRECTOR	CAPACITY	NUMBER OF CMCM SHARES INTERESTED	% OF ISSUED SHARE CAPITAL IN CLASS (NOTE 2)	NATURE OF SHARES INTERESTED
Jun LEI (Note 3)	Interest of controlled corporation	14,285,714	8.22	Long position
Pak Kwan KAU	Beneficial owner	1,465,000	0.84	Long position
Guangming George LU	Beneficial owner	247,500	0.14	Long position

Notes:

1. Cheetah Mobile is a non-wholly owned subsidiary of the Company listed on the NYSE.
2. % of issued share capital in class was calculated on basis of the issued Class A ordinary shares of Cheetah Mobile ("Cheetah Shares") as at 30 June 2014, which was 173,714,285.

3. As at 30 June 2014, Mr. Jun LEI held 56.42% of the voting power of Xiaomi Corporation, which in turn is deemed to have an interest in approximately 8.22% of the Cheetah Shares under the SFO.

Save as disclosed above, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 June 2014.

OTHER INFORMATION (continued)

Share Option Schemes

2004 and 2007 Pre-IPO Share Option Schemes

The Company adopted the 2004 and 2007 Pre-IPO Share Option Schemes which were approved by resolutions in writing of all the shareholders passed on 30 June 2004 and 22 January 2007. Options granted under the 2004 and 2007 Pre-IPO Share Option Schemes generally vest over a period of four years, with one fourth of the options to vest on the first anniversary of the grant date, and an additional one eighth to vest at the end of each of the third to eighth six-month periods after the grant date as stipulated in the periods of up to ten years.

The weighted average closing price immediately before the dates on which the options were exercised during the six months ended 30 June 2014 was HKD27.34 (six months ended 30 June 2013: HKD8.63).

The 2004 and 2007 Pre-IPO Share Option Schemes were terminated on 3 September 2007. No share options have been granted since then.

The following share options were outstanding under 2004 and 2007 Pre-IPO Share Option Schemes during six months ended 30 June 2014:

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS				DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS USD PER SHARE
	AT 1 JANUARY 2014	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT 30 JUNE 2014		
Other employees						
In aggregate						
	500,500	240,000	—	260,500	1 January 2000*	0.0005
	60,300	35,300	—	25,000	1 August 2004	0.0353
	84,500	7,600	—	76,900	1 August 2005	0.2118
	7,125,300	1,124,300	—	6,001,000	1 February 2007**	0.2400
	10,000	—	—	10,000	8 May 2007**	0.2400
	194,000	6,000	—	188,000	1 August 2007**	0.4616
	7,974,600	1,413,200	—	6,561,400		

* The option agreement was restated on 1 August 2004, and has an expiry period of ten years starting from the restatement date.

** These options were granted under the 2007 Scheme, while others were granted under the 2004 Scheme.

OTHER INFORMATION (continued)

2011 Share Option Scheme

The Company operates the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Share Option Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group. The 2011 Share Option Scheme became effective on 9 December 2011 and, unless otherwise

cancelled or amended, will remain in force for 10 years from that date.

The weighted average closing price immediately before the dates on which the options were exercised during the six months ended 30 June 2014 was HKD23.83.

The following share options were outstanding under the 2011 Share Option Scheme during six months ended 30 June 2014:

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS					DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HKD PER SHARE
	AT 1 JANUARY 2014	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT 30 JUNE 2014		
Executive directors							
HongJiang Zhang	7,500,00	—	1,000,000	—	6,500,000	20 December 2011	2.89
Yuk Keung Ng	3,000,00	—	600,000	—	2,400,000	20 July 2012	3.28
	10,500,00	—	1,600,000	—	8,900,000		

Kingsoft Cloud Holdings Limited ("KC Holdings") Share Option Scheme

On 27 February 2013, the shareholders of the Company and KC Holdings, a subsidiary of the Company, approved and adopted the KC Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of KC Holdings, its subsidiaries or any invested entity are entitled to participate. The KC Holdings Share Option Scheme was amended and refreshed on 27 June 2013 and will remain in force for 10 years from 27 February 2013. More details regarding the KC Share Option Scheme are set out in note 20 to the financial statements.

Westhouse Holdings Limited ("Westhouse Holdings") Share Option Scheme

On 27 June 2013, the shareholders of the Company and Westhouse Holdings, a subsidiary of the Company, approved and adopted the Westhouse Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Westhouse Holdings, its subsidiaries or any invested entity are entitled to participate. The Westhouse Share Option Scheme will remain in force for 10 years from 27 June 2013. More details regarding the Westhouse Holdings Share Option Scheme are set out in note 20 to the financial statements.

Kingsoft Jingcai Online Game Holdings Limited ("JC Holdings") Share Option Scheme

On 27 February 2013, the shareholders of the Company and JC Holdings, a subsidiary of the Company, approved and adopted the JC Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of JC Holdings and its subsidiaries, any invested entity or the Group are entitled to participate. The JC Holdings Share Option Scheme will remain in force for 10 years from 27 February 2013. More details regarding the JC Share Option Scheme are set out in note 20 to the financial statements.

OTHER INFORMATION (continued)

Cheetah Mobile Share Option Scheme

On 2 January 2014 (the “Cheetah Mobile Equity Incentive Scheme Adoption Date”), the shareholders of the Company approved an equity incentive scheme of Cheetah Mobile (the “Cheetah Mobile Equity Incentive Scheme”) for the purpose of aiding Cheetah Mobile and Cheetah Mobile Affiliates in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of Cheetah Mobile and its affiliates by providing incentives through the granting of awards, including but not limited to, the Cheetah Mobile Options. The Cheetah Mobile Equity Incentive Scheme will remain in force for 10 years from 2 January 2014. More details regarding the Cheetah Mobile Equity Incentive Scheme are set out in note 20 to the financial statements.

Kingsoft Japan Inc. (“Kingsoft Japan”) Share Option Scheme

On 2 January 2014, the shareholders of the Company approved a share option scheme of Kingsoft Japan (the “KJ Share Option Scheme”) for the purpose of providing incentives or rewards to eligible participants thereunder for their contribution to Kingsoft Japan and its subsidiaries and/or to enable Kingsoft Japan to recruit and retain high-calibre employees and attract human resources that are valuable to Kingsoft Japan, its subsidiaries and Kingsoft Japan Invested Entities. The KJ Share Option Scheme was approved and adopted by shareholders of Kingsoft Japan on 28 March 2014, and will remain in force for 10 years from 28 March 2014. More details regarding the KJ Share Option Scheme are set out in note 20 to the financial statements.

Share Award Scheme

Share Award Scheme

The Share Award Scheme was adopted by the Board on 31 March 2008 (the “Adoption Date”). Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of five years commencing on the Adoption Date. On 25 November 2010, the Board approved to extend the term of the Share Award Scheme until 30 March 2017, for which the Company released an announcement on 1 December 2010. During the six months ended 30 June 2014, the Company granted 415,000 awarded shares.

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

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

More details regarding the Share Award Scheme are set out in note 20 to the financial statements.

Share Award Scheme adopted by Cheetah Mobile

On 26 May 2011 (the “Cheetah Mobile Adoption Date”), the directors of Cheetah Mobile, a subsidiary of the Company, approved and adopted a share award scheme (the “Cheetah Mobile Share Award Scheme”).

Unless early terminated by the directors of Cheetah Mobile, the Cheetah Mobile Share Award Scheme shall be valid and effective for a term of ten years commencing on the Cheetah Mobile Adoption Date. During the six months ended 30 June 2014, 12,032,500 shares were granted under the Cheetah Mobile Share Award Scheme.

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

Pursuant to the terms of the Cheetah Mobile Share Award Scheme, the board of Cheetah Mobile may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of

OTHER INFORMATION (continued)

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

More details regarding the Cheetah Mobile Share Award Scheme are set out in note 20 to the financial statements.

Share Award Scheme adopted by Kingsoft Office Software Holdings Limited ("KOS")

On 3 December 2012 (the "KOS Adoption Date"), the directors of KOS, a subsidiary of the Company, approved and adopted a share award scheme (the "KOS Share Award Scheme"), for the purpose of providing incentives and rewards to eligible participants, in which selected employees of KOS and its subsidiaries ("KOS Group") are entitled to participate. Unless early terminated by the directors of KOS, the KOS Share Award Scheme shall be valid and effective for a term of ten years commencing on the KOS Adoption Date. The directors of KOS will not grant any award of shares which would result in the total number of shares (but not counting any which have lapsed or have been forfeited) being greater than 50,000,000 shares, as at the date of such grant. During the six months ended 30 June 2014, 4,500,000 shares were granted under the KOS Share Award Scheme.

More details regarding the KOS Share Award Scheme are set out in note 20 to the financial statements.

Share Award Scheme adopted by KC Holdings

On 22 February 2013 (the "KC Adoption Date"), the directors of KC Holdings approved and adopted a share award scheme (the "KC Share Award Scheme") for the purpose of providing incentives and rewards to eligible participants, in which selected employees of KC Holdings Group are entitled to participate. Unless early terminated by the directors of KC Holdings, the KC Share Award Scheme shall be valid and effective for a term of ten years commencing on the KC Adoption Date. The directors of KC Holdings will not grant any award of shares which would result in the total number of shares (but not counting any which have lapsed or have been forfeited) being greater than 48,000,000 shares, as at the date of such grant. During the six months ended 30 June 2014, no shares were granted under KC Share Award Scheme.

More details regarding the KC Share Award Scheme are set out in note 20 to the financial statements.

Share Award Scheme adopted by JC Holdings

On 11 April 2013 (the "JC Adoption Date"), the directors of JC Holdings approved and adopted the JC Share Award Scheme, in which selected employees of JC Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of JC Holdings, the JC Share Award Scheme shall be valid and effective for a term of ten years commencing on the JC Adoption Date. The directors of JC Holdings will not grant any award of shares which would result in the total number of shares (but not counting any which have lapsed or have been forfeited) being greater than 500,000 shares, as at the date of such grant. During the six months ended 30 June 2014, no shares were granted under JC Share Award Scheme.

More details regarding the JC Share Award Scheme are set out in note 20 to the financial statements.

OTHER INFORMATION (continued)

Substantial Shareholders

As at 30 June 2014, as far as the Directors are aware of, the following, other than the directors or chief executive of the Company, had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of

Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued capital of the Company:

Long position in the shares in the Company

NAME OF SUBSTANTIAL SHAREHOLDER	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL	NATURE OF SHARES HELD
Color Link Management Limited (Note 1)	Beneficial owner	174,818,191	14.77	Long position
Tencent Holdings Limited (Note 2)	Interest of controlled corporation	149,082,572	12.60	Long position
Topclick Holdings Limited (Note 3)	Beneficial owner	108,032,566	9.13	Long position
Credit Suisse Trust Limited (Note 3)	Trustee	108,032,566	9.13	Long position
Kau Management Limited (Note 3)	Interest of controlled corporation	108,032,566	9.13	Long position
The Kau's Family Trust (Note 3)	Interest of a controlled corporation	108,032,566	9.13	Long position
Morgan Stanley	Interest of a controlled corporation	82,474,865	6.97	Long position
JPMorgan Chase & Co.		65,762,924	5.56	Short position
	beneficial owner	28,901,046	2.44	Long position
	Investment manager	1,002,469	0.08	Long position
	Custodian corporation/ approved lending agent	34,782,851	2.94	Long position
	beneficial owner	19,908,903	1.68	Short position
	Investment manager	7,700	0.0006	Short position

Notes:

- Mr. Jun LEI is deemed to be interested in Color Link Management Limited's interest in the Company pursuant to Part XV of the SFO because Color Link Management Limited is wholly owned by Mr. Jun LEI.
- These shares are held by TCH Saffron Limited, which is in turn, held by Tencent Holdings Limited.
- These shares are held by Topclick Holdings Limited, a BVI company wholly owned by Kau Management Limited which is

in turn, held by Credit Suisse Trust Limited as the trustee of The Kau's Family Trust. The Kau's Family Trust is a discretionary trust established by Mr. Pak Kwan KAU as settlor and Credit Suisse Trust Limited as trustee in January 2012. The beneficiaries of The Kau's Family Trust include Mr. Pak Kwan KAU and his family members. Mr. Pak Kwan KAU is deemed to be interested in the 108,032,566 shares held by Topclick Holdings Limited pursuant to Part XV of the SFO.

OTHER INFORMATION (continued)

Save as disclosed above, the Directors confirm that they are not aware of any other person who has beneficial interests or short positions in any of the shares or underlying shares in the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of the shares carrying the right to vote in all circumstances at general meetings of the Company.

Employee and Remuneration Policies

As at 30 June 2014, the Group had 4,561 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. 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 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.

OTHER INFORMATION (continued)

Corporate Governance Code

The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in the 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.

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

INDEPENDENT REVIEW REPORT ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



To the board of directors of Kingsoft Corporation Limited

(Continued into the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 24 to 72, which comprises the condensed consolidated statement of financial position of Kingsoft Corporation Limited (the "Company") and its subsidiaries as at 30 June 2014 and the related condensed consolidated statements of profit or loss and comprehensive income for the three-month and six-month then ended, condensed consolidated statements of changes in equity and cash flows for the six-month then ended and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

19 August 2014

INTERIM 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	4	750,506	496,528	1,426,131	953,387
Cost of revenue		(116,285)	(66,044)	(222,898)	(127,625)
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	20	(57,118)	(19,478)	(77,755)	(29,576)
Other income and gains	4	1,101	5,209	3,001	20,424
Other expenses		1,539	(5,093)	1,322	(15,203)
Gain on disposal of a subsidiary	23	—	—	—	47,452
Gain on disposal of investment in a joint venture classified as held for sale	11	—	—	116,845	—
Fair value (loss)/gain on financial instruments at fair value through profit or loss		(112)	249	(217)	249
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	11	(953)	(164)	(953)	990
Associates	12	(630)	(294)	(3,769)	(559)
PROFIT BEFORE TAX	5	161,231	185,861	439,055	420,714
Income tax expense	6	(36,030)	(15,796)	(59,368)	(39,502)
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
		125,201	170,065	379,687	381,212
		RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7				
Basic		0.10	0.13	0.31	0.30
Diluted		0.10	0.12	0.30	0.29

INTERIM 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:				
Changes 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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	NOTES	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
NON-CURRENT ASSETS			
Property, plant and equipment	8	405,051	385,067
Lease prepayments	9	283,236	42,260
Goodwill	26	78,627	53,994
Other intangible assets	10	130,437	60,104
Investments in joint ventures	11	24,047	—
Investments in associates	12	34,394	34,852
Available-for-sale investments	13	782,745	56,723
Other financial assets	14	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	11	124,225	—
Total non-current assets		1,955,486	729,081
CURRENT ASSETS			
Inventories		3,520	3,528
Trade receivables	15	238,589	185,161
Prepayments, deposits and other receivables		240,263	144,966
Due from related parties	28	128,553	142,285
Available-for-sale investment	13	37,811	55,780
Pledged deposit	16	19,739	19,588
Cash and cash equivalents	16	7,178,193	4,481,188
Investment in a joint venture classified as held for sale	11	7,846,668	5,032,496
		—	42,756
Total current assets		7,846,668	5,075,252
CURRENT LIABILITIES			
Trade payables	17	94,792	32,463
Interest-bearing bank loans	18	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
Total current liabilities		1,074,778	788,594
NET CURRENT ASSETS			
		6,771,890	4,286,658
TOTAL ASSETS LESS CURRENT LIABILITIES			
		8,727,376	5,015,739
NON-CURRENT LIABILITIES			
Deferred revenue		34,253	31,533
Deferred tax liabilities		27,222	30,545
Liability component of convertible bonds	21	2,796,396	1,037,587
Liability component of redeemable convertible preferred shares	22	83,390	77,982
Other liabilities		4,518	7,401
Total non-current liabilities		2,945,779	1,185,048
Net assets		5,781,597	3,830,691

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2014

	NOTES	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
EQUITY			
Equity attributable to owners of the parent			
Issued capital	19	4,727	4,718
Share premium account	19	220,423	259,665
Shares held for share award scheme	19	(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	21	74,505	8,500
Equity component of redeemable convertible preferred shares	22	10,015	10,015
Foreign currency translation reserve		(78,651)	(89,277)
Retained earnings		2,653,362	2,278,468
Proposed final dividend	25	—	109,387
		4,572,543	3,380,221
Non-controlling interests		1,209,054	450,470
Total equity		5,781,597	3,830,691

HongJiang ZHANG

Director

Yuk Keung NG

Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

ATTRIBUTABLE TO OWNERS OF THE PARENT

	EQUITY COMPONENT OF												NON-CONTROLLING INTERESTS	TOTAL EQUITY
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	SHARES HELD FOR SHARE AWARD SCHEME	STATUTORY RESERVES	EMPLOYEE SHARE-BASED RESERVE	CAPITAL RESERVE	EQUITY COMPONENT OF CONVERTIBLE BONDS	REDEEMABLE PREFERRED SHARES	FOREIGN CURRENCY RESERVE	RETAINED EARNINGS	PROPOSED FINAL DIVIDENDS	TOTAL		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(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	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 dividends 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	4,727	220,423	(40,504)	173,228	194,697	1,360,741	74,505	10,015	(78,651)	2,653,362	—	4,572,543	1,209,054	5,781,597

ATTRIBUTABLE TO OWNERS OF THE PARENT

	SHARES HELD					FOREIGN CURRENCY			PROPOSED		NON-CONTROLLING		TOTAL EQUITY
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	FOR SHARE AWARD SCHEME	STATUTORY RESERVES	EMPLOYEE SHARE-BASED RESERVE	CAPITAL RESERVE	TRANSLATION RESERVE	RETAINED EARNINGS	FINAL DIVIDEND	TOTAL	INTERESTS		
	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)
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 loss 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	4,710	363,536	(55,662)	156,462	148,826	398,786	(78,604)	1,965,657	—	2,903,711	293,698	3,197,409	

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		439,055	420,714
Adjustments for:			
Loss on disposal of items of property, plant and equipment		—	54
Depreciation of property, plant and equipment	5	37,303	32,627
Amortisation of lease prepayments	5	1,024	471
Amortisation of other intangible assets	5	24,746	14,094
Finance costs	5	34,063	3,828
Interest income		(67,557)	(49,006)
Fair value loss/(gain) on financial instruments at fair value through profit or loss		217	(249)
Gain on disposal of a subsidiary	23	—	(47,452)
Gain on disposal of items of intangible assets		—	(3,600)
Gain on disposal of investment in a joint venture classified as held for sale	11	(116,845)	—
Share-based compensation costs		77,755	27,810
Write-down of inventories		—	709
(Reversal)/Impairment of trade and other receivables	5	(1,322)	10,769
Share of loss/(profit) of joint ventures	11	953	(990)
Share of losses of associates	12	3,769	559
		433,161	410,338
Increase in trade receivables		(52,311)	(35,048)
(Increase)/decrease in prepayments, deposits and other receivables		(69,971)	6,400
Increase in loan receivables		(671)	(1,847)
Decrease in inventories		212	7,333
Increase/(decrease) in trade payables		25,671	(3,517)
Increase/(decrease) in deferred revenue		38,615	(7,199)
(Decrease)/Increase in other payables and accruals		(2,261)	4,650
Income tax paid		(47,555)	(26,934)
Net cash flows from operating activities		324,890	354,176

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		53,857	21,236
Proceeds from disposal of items of property, plant and equipment		291	244
Purchase of lease prepayments		(117,000)	—
Purchases of items of property, plant and equipment		(53,827)	(28,583)
Purchases of software		(19,257)	(839)
Addition of capitalised software costs		—	(9,121)
Increase in time deposits with original maturity of over three months when acquired		(2,269,443)	(113,650)
Acquisition of a business		(4,922)	(64,433)
Investment in a joint venture		(25,000)	(6,500)
Investments in associates		(2,910)	(31,005)
Purchase of available-for-sale investments		(587,752)	—
Acquisition of a subsidiary		(22,700)	—
Disposal of a subsidiary		—	79,058
Repayment from loans to related parties		26,238	16,116
Net cash flows used in investing activities		(3,022,425)	(137,477)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of convertible bonds		1,806,333	—
Proceeds from initial public offering and private placement of Cheetah Mobile		1,369,391	—
Investment from non-controlling interests		123,311	377,870
Proceeds from exercise of share options		9,795	9,731
Dividends paid to owners of the parent		(158,177)	(102,430)
Dividends paid to non-controlling interests		(36,937)	(19,596)
Repayment of bank loans		—	(103,558)
New bank loans		—	184,015
Interest paid		(16,816)	(3,538)
Net cash flows from financing activities		3,096,900	342,494
NET INCREASE IN CASH AND CASH EQUIVALENTS		399,365	559,193
Cash and cash equivalents at beginning of period		2,677,248	696,499
Effect of foreign exchange rate changes, net		28,347	(13,331)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		3,104,960	1,242,361
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	16	955,390	739,435
Time deposits with original maturity of three months or less when acquired	16	2,149,570	502,926
CASH AND CASH EQUIVALENTS		3,104,960	1,242,361

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of Kingsoft Corporation Limited (the “Company”) and its subsidiaries (collectively, the “Group”) were approved and authorised for issue in accordance with a resolution of the board of directors of the Company on 19 August 2014.

The Company was incorporated under the Companies Act of the British Virgin Islands on 20 March 1998. On 15 November 2005, the Company was redomiciled to Cayman Islands under the Company Law (2004 revision) of the Cayman Islands. The Company’s shares have been listed on 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 application, 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.

2. BASIS OF PREPARATION AND 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.

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 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. The nature and the impact of each new standard or amendment is described below:

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

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

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

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. The Group early adopted these disclosure requirements in the annual consolidated financial statements for the year ended 31 December 2013.

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements. The adoption of IFRIC 21 has no impact on the consolidated financial statements of the Group.

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 software 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 marketing services.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, fair value gain or loss on financial instruments at fair value through profit or loss, administrative expenses, share-based compensation costs, share of profits or 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.

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	12,051	2,611	33,602	48,264
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				439,055

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 instruments 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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. OPERATING SEGMENTS (continued)

Geographical information

(a) Revenue from external customers:

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	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

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

(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
Total	958,881	576,277

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and the royalties derived from licensing agreements during the period.

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

	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)
<i>Revenue</i>				
Software and related services	95,322	90,052	188,156	159,638
Online marketing services	274,723	133,618	493,372	247,666
Online game services	303,798	230,233	592,279	469,171
Internet value-added services	58,314	10,583	114,161	14,978
Royalties	15,590	25,328	33,255	53,056
Others	2,759	6,714	4,908	8,878
	750,506	496,528	1,426,131	953,387
<i>Other income and gains</i>				
Government grants	674	956	1,430	12,521
Others	427	4,253	1,571	7,903
	1,101	5,209	3,001	20,424

5. 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	300,104	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)	4,050	(1,322)	10,769

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INCOME TAX EXPENSE

The major components of income tax expense are:

	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)
Current income tax	30,559	13,879	49,530	40,156
Deferred income tax	5,471	1,917	9,838	(654)
Income tax expense	36,030	15,796	59,368	39,502

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

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,163,375,769 (six months ended 30 June 2013: 1,149,910,622) in issue during the period.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2014 RMB'000 (UNAUDITED)	2013 RMB'000 (UNAUDITED)	2014 RMB'000 (UNAUDITED)	2013 RMB'000 (UNAUDITED)
<i>Earnings</i>				
Profit attributable to ordinary equity holders of the parent	118,121	145,255	364,358	341,169
(Decrease)/increase in earnings adjusted for the convertible bonds, the share option schemes and the award share schemes adopted by the Group's subsidiaries	(344)	(1,583)	18,278	(3,443)
Adjusted profit attributable to ordinary equity holders	117,777	143,672	382,636	337,726

	NUMBER OF SHARES			
	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2014 (UNAUDITED)	2013 (UNAUDITED)	2014 (UNAUDITED)	2013 (UNAUDITED)
<i>Shares</i>				
Weighted average number of ordinary shares in issue less shares held for the award share scheme	1,164,197,448	1,152,885,008	1,163,375,769	1,149,910,622
Effect of dilution — weighted average number of ordinary shares:				
Share options	14,302,048	16,267,624	14,602,185	17,578,736
Awarded shares	8,513,373	11,872,273	9,440,617	12,946,244
Convertible bonds	—	—	80,064,713	—
	1,187,012,869	1,181,024,905	1,267,483,284	1,180,435,602

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. PROPERTY, PLANT AND EQUIPMENT

	LEASEHOLD LAND AND BUILDINGS RMB'000	ELECTRONIC EQUIPMENT RMB'000	OFFICE EQUIPMENT AND FIXTURES RMB'000	MOTOR VEHICLES RMB'000	LEASEHOLD IMPROVEMENTS RMB'000	CONSTRUCTION IN PROGRESS RMB'000	TOTAL RMB'000
30 June 2014 (Unaudited)							
At 1 January 2014:							
Cost	256,539	252,824	123,512	4,320	15,751	40,229	693,175
Accumulated depreciation	(19,254)	(170,784)	(108,383)	(1,783)	(7,904)	—	(308,108)
Net carrying amount	237,285	82,040	15,129	2,537	7,847	40,229	385,067
At 1 January 2014, net of accumulated depreciation	237,285	82,040	15,129	2,537	7,847	40,229	385,067
Additions	—	51,395	1,771	95	2,871	498	56,630
Acquisition from business combination (note 26)	—	817	—	—	—	—	817
Disposals	—	(162)	(117)	—	—	—	(279)
Depreciation provided during the period	(2,110)	(23,939)	(8,600)	(358)	(2,296)	—	(37,303)
Exchange realignment	—	56	—	—	63	—	119
At 30 June 2014, net of accumulated depreciation	235,175	110,207	8,183	2,274	8,485	40,727	405,051
At 30 June 2014:							
Cost	256,539	304,864	125,034	4,415	18,727	40,727	750,306
Accumulated depreciation	(21,364)	(194,657)	(116,851)	(2,141)	(10,242)	—	(345,255)
Net carrying amount	235,175	110,207	8,183	2,274	8,485	40,727	405,051
31 December 2013 (Audited)							
At 1 January 2013:							
Cost	256,539	201,295	118,850	4,422	8,978	38,286	628,370
Accumulated depreciation	(15,125)	(149,325)	(85,792)	(1,730)	(5,185)	—	(257,157)
Net carrying amount	241,414	51,970	33,058	2,692	3,793	38,286	371,213
At 1 January 2013, net of accumulated depreciation	241,414	51,970	33,058	2,692	3,793	38,286	371,213
Additions	—	69,615	4,757	642	7,056	1,943	84,013
Government grants received	—	(1,380)	—	—	—	—	(1,380)
Disposals	—	(3,202)	(69)	(161)	(80)	—	(3,512)
Depreciation provided during the year	(4,129)	(34,801)	(22,617)	(636)	(2,780)	—	(64,963)
Exchange realignment	—	(162)	—	—	(142)	—	(304)
At 31 December 2013, net of accumulated depreciation	237,285	82,040	15,129	2,537	7,847	40,229	385,067
At 31 December 2013:							
Cost	256,539	252,824	123,512	4,320	15,751	40,229	693,175
Accumulated depreciation	(19,254)	(170,784)	(108,383)	(1,783)	(7,904)	—	(308,108)
Net carrying amount	237,285	82,040	15,129	2,537	7,847	40,229	385,067

The Group's leasehold land included in property, plant and equipment is situated in Mainland China and is held under a medium term lease of 50 years.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. LEASE PREPAYMENTS

	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
Carrying amount at 1 January	42,260	43,201
Additions	242,000	—
Amortisation during the period/year	(1,024)	(941)
Carrying amount at 30 June/31 December	283,236	42,260
At 30 June/31 December:		
Cost	288,206	46,206
Accumulated amortisation	(4,970)	(3,946)
Net carrying amount	283,236	42,260

The Group's lease prepayments represent prepaid land lease payments. The leasehold land is situated in Mainland China and is held under a medium term lease.

10. OTHER INTANGIBLE ASSETS

	PURCHASED SOFTWARE RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	CAPITALISED TELEVISION PROGRAM PRODUCTION COSTS RMB'000	OTHERS RMB'000	TOTAL RMB'000
30 June 2014 (Unaudited)					
At 1 January 2014:					
Cost	38,400	100,911	19,865	28,678	187,854
Accumulated amortisation and impairment	(15,293)	(83,150)	(19,865)	(9,442)	(127,750)
Net carrying amount	23,107	17,761	—	19,236	60,104
Cost at 1 January 2014, net of accumulated amortisation and impairment	23,107	17,761	—	19,236	60,104
Addition	92,832	—	—	—	92,832
Acquisition from business combination (note 26)	2,100	—	—	—	2,100
Amortisation provided during the period	(9,822)	(6,807)	—	(8,117)	(24,746)
Disposals	(11)	—	—	—	(11)
Exchange realignment	101	—	—	57	158
At 30 June 2014, net of accumulated amortisation and impairment	108,307	10,954	—	11,176	130,437
At 30 June 2014:					
Cost	133,477	100,911	19,865	28,735	282,988
Accumulated amortisation and impairment	(25,170)	(89,957)	(19,865)	(17,559)	(152,551)
Net carrying amount	108,307	10,954	—	11,176	130,437

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. OTHER INTANGIBLE ASSETS (continued)

	PURCHASED SOFTWARE RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	CAPITALISED TELEVISION PROGRAM PRODUCTION COSTS RMB'000	OTHERS RMB'000	TOTAL RMB'000
31 December 2013 (Audited)					
At 1 January 2013:					
Cost	65,750	91,544	19,865	4,721	181,880
Accumulated amortisation and impairment	(39,430)	(68,363)	(19,865)	(961)	(128,619)
Net carrying amount	26,320	23,181	—	3,760	53,261
Cost at 1 January 2013, net of accumulated amortisation and impairment	26,320	23,181	—	3,760	53,261
Addition	8,138	9,367	—	—	17,505
Acquisition from business combinations	—	—	—	23,957	23,957
Amortisation provided during the year	(9,700)	(14,787)	—	(8,481)	(32,968)
Disposals	(1,339)	—	—	—	(1,339)
Exchange realignment	(312)	—	—	—	(312)
At 31 December 2013, net of accumulated amortisation and impairment	23,107	17,761	—	19,236	60,104
At 31 December 2013:					
Cost	38,400	100,911	19,865	28,678	187,854
Accumulated amortisation and impairment	(15,293)	(83,150)	(19,865)	(9,442)	(127,750)
Net carrying amount	23,107	17,761	—	19,236	60,104

During the six months ended 30 June 2014, capitalised software costs were related to development expenditure on application software products.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. INVESTMENTS IN JOINT VENTURES

	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
Share of net assets	24,047	—

Particulars of the joint ventures are as follows:

NAME	PLACE OF REGISTRATION/ INCORPORATION AND BUSINESS	NOMINAL VALUE OF REGISTERED CAPITAL/ISSUED ORDINARY SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Beijing Kingsoft Lianking Technology Corporation Limited	PRC	RMB8,000,600	40	Research and development of games
Beijing Moxiu Technology Corporation Limited ("Beijing Moxiu")*	PRC	RMB2,020,314	13.40	Technology development and advertising design
Shanghai Westhouse Quwan Network Corporation Limited ("Shanghai Quwan")	PRC	RMB2,000,000	39	Research and development of games

* Beijing Moxiu is newly acquired during the six months ended 30 June 2014 by a non-wholly owned subsidiary of the Group and is accounted for as a joint venture as the Group has joint control over the financial and operating activities of Beijing Moxiu, according to the Article of Association of Beijing Moxiu.

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

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	30 JUNE 2014 RMB'000 (UNAUDITED)	30 JUNE 2013 RMB'000 (UNAUDITED)	30 JUNE 2014 RMB'000 (UNAUDITED)	30 JUNE 2013 RMB'000 (UNAUDITED)
Share of the joint ventures' (loss)/profit for the period	(953)	(164)	(953)	990
Share of the joint ventures' total comprehensive (loss)/income	(953)	(164)	(953)	990
Aggregate carrying amount of the Group's investments in the joint ventures	24,047	30,410	24,047	30,410

As at 31 December 2013, the Company held 29.28% equity interest in Sky Profit Limited ("Sky Profit"), which was classified as an investment in a joint venture held for sale as the Group decided to dispose of the investment in the first quarter of 2014. On 25 February 2014, the Group completed the disposal of its equity interest in Sky Profit, and recognised gain on disposal of RMB117 million. According to the share purchase agreement, the consideration for the disposal is to be settled within 4 years, and the current and non-current portion of the consideration of RMB38 million and RMB124 million were recorded in other receivables and other long term receivable, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN ASSOCIATES

	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
Share of net assets	34,394	34,852

Particulars of the associates are as follows:

NAME	PLACE OF REGISTRATION/ INCORPORATION AND BUSINESS	NOMINAL VALUE OF REGISTERED CAPITAL/ISSUED ORDINARY SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Guangzhou Tuotu Computer Technology Corporation Limited ("Guangzhou Tuotu")***	PRC	RMB100,000	19.9	Research and development of computer and network related technology; provision of network service; design and publishing of advertisements
Zhuhai Kingsoft Kuaikuai Technology Corporation Limited ("Zhuhai Kuaikuai")*	PRC	RMB5,600,000	62.5	Research and development of computer and network related technology; provision of network service; design and publishing of advertisements
Zhigu Holdings Limited	Cayman	USD1,081,250	23.08	Research and development of technology; provision of technology service
Beijing Weilaihongtu Education Technology Corporation Limited ("Weilaihongtu")**	PRC	RMB2,077,000	22.22	On-line education of foreign languages
Beijing Shangyao Technology Corporation Limited**/**	PRC	RMB1,000,000	16.13	Development of PC based online games
Wuhan Antian Internet Security Technology Co., Ltd. ***	PRC	RMB2,000,000	18.97	Research and development of mobile security software
Beijing Kingsoft Security System Management Technology Co., Ltd. ***	PRC	RMB12,000,000	18.97	Research and development of cloud security technology; provision of cloud technology service

* Zhuhai Kuaikuai is accounted for as an associate as the Group has no control but has significant influence over the financial and operating policies of Zhuhai Kuaikuai.

** Associates were newly set up during the six months ended 30 June 2014.

*** Although the Group holds less than 20% equity interests in these entities, the Group treated them as associates because the Group is able to exercise significant influence on the investees through its representatives on the investees' respective board of directors.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN ASSOCIATES (continued)

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

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	30 JUNE 2014 RMB'000 (UNAUDITED)	30 JUNE 2013 RMB'000 (UNAUDITED)	30 JUNE 2014 RMB'000 (UNAUDITED)	30 JUNE 2013 RMB'000 (UNAUDITED)
Share of the associates' loss for the period	(630)	(294)	(3,769)	(559)
Share of the associates' total comprehensive loss	(923)	(294)	(4,062)	(559)
Aggregate carrying amount of the Group's investments in the associates	34,394	30,446	34,394	30,446

13. AVAILABLE-FOR-SALE INVESTMENTS

	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
Available-for-sale investment, at fair value — current		
Listed equity investments in United States	37,811	55,780
Available-for-sale investments, at fair value — non-current		
Unlisted equity investments	50,000	50,000
Listed equity investments in United States	695,166	—
Available-for-sale investments, at cost — non-current		
Unlisted equity investments	37,579	6,723
	782,745	56,723
	820,556	112,503

Gain in respect of the Group's available-for-sale investments at fair value recognised in other comprehensive income for the six months ended 30 June 2014 was RMB122,701,000 (for the six months ended 30 June 2013: nil).

On 3 April 2014, King Venture Holdings Limited ("King Venture"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Xunlei Limited ("Xunlei") to subscribe for 31,939,676 Series E Preferred Shares of Xunlei for a total consideration of USD90 million (equivalent to RMB557,655,000). On 27 June 2014, upon completion of the initial public offering of Xunlei on NASDAQ, all the Series E Preferred Shares held by King Venture were converted into ordinary shares, representing 10.01% of the total issued ordinary shares of Xunlei. As at 30 June 2014, the investments in Xunlei was re-measured at fair value of RMB695,166,000, with the changes in fair value of RMB137,511,000 recognised in other comprehensive income for the six months ended 30 June 2014.

As at 30 June 2014, the unlisted equity investments with a carrying amount of RMB37,579,000 (31 December 2013: RMB6,723,000) were stated at cost less impairment. The directors are of the opinion that the fair value of these investments cannot be reliably measured. The Group has no intention to dispose of these investments in the near future.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. OTHER FINANCIAL ASSET

	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
Unlisted debt investment	6,910	5,903
Ordinary share subscription option	21,173	21,796
	28,083	27,699

The unlisted debt investment is an investment in a debt security, which bears interest at 6% per annum with maturity of two years from acquisition in July 2013. The unlisted debt investment was, upon initial recognition, classified as a financial asset at fair value through profit or loss.

The ordinary share subscription option (the "Option") was granted by an online game service provider in Vietnam (the "Grantor") to a subsidiary of the Group on 1 August 2010, whereby the subsidiary or any of its designated subsidiaries can subscribe from the Grantor at a predetermined exercise price a maximum of 1,859,251 ordinary shares of the Grantor, issued as fully-paid subject to adjustment. The Option is exercisable in instalments over a six-year period with certain accelerating vesting conditions. The Option was, upon initial recognition, classified as a financial asset at fair value through profit or loss.

15. TRADE RECEIVABLES

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

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

	30 JUNE 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
	238,589	185,161

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. CASH AND CASH EQUIVALENTS AND PLEDGE DEPOSIT

	NOTES	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
Cash and bank balances	(a)	955,390	559,028
Time deposits with original maturity of three months or less when acquired	(a)	2,149,570	2,118,220
		3,104,960	2,677,248
Time deposits with original maturity of over three months when acquired	(a)	4,092,972	1,823,528
Less: Pledged time deposit for a bank loan (note 18)	(a)	(19,739)	(19,588)
Cash and cash equivalents		7,178,193	4,481,188
Denominated in RMB	(b)	3,550,278	3,373,801
Denominated in USD		1,865,440	541,950
Denominated in HKD		1,718,674	541,710
Denominated in JPY		43,566	23,306
Denominated in MYR		96	327
Denominated in other currencies		139	94
		7,178,193	4,481,188

- (a) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and a year depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents as at 30 June 2014 and 31 December 2013 approximated to their fair values.
- (b) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. 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
	94,792	32,463

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

18. INTEREST-BEARING BANK LOANS

	EFFECTIVE INTEREST RATE	MATURITY	PRINCIPAL AMOUNT RMB'000
30 June 2014 (Unaudited)			
Current Bank loan — secured	HIBOR plus 0.75% per annum	2014	15,876
31 December 2013 (Audited)			
Current Bank loan — secured	HIBOR plus 0.75% per annum	2014	15,724

As at 30 June 2014, the interest-bearing bank loan represented a drawdown of HKD20,000,000 (equivalent to RMB15,876,000) (31 December 2013: HKD20,000,000, equivalent to RMB15,724,000), which was secured by the Group's time deposit of RMB19,739,000 (31 December 2013: RMB19,588,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. ISSUED CAPITAL, SHARE PREMIUM ACCOUNT AND SHARES HELD FOR SHARE AWARD SCHEME

The movement of the Company's issued capital is as follows:

	NUMBER OF SHARES IN ISSUE (UNAUDITED)	ISSUED SHARE CAPITAL RMB'000 (UNAUDITED)	SHARE PREMIUM ACCOUNT RMB'000 (UNAUDITED)	SHARES HELD FOR SHARE AWARD SCHEME RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
At 1 January 2014	1,159,444,361*	4,718	259,665	(53,890)	210,493
Exercise of share options	3,013,200	9	13,060	—	13,069
Approved and paid final dividend in respect of the previous year	—	—	(1,336)	—	(1,336)
Distribution in specie	—	—	(50,966)	—	(50,966)
Vested awarded shares transferred to employees	3,233,967	—	—	13,386	13,386
At 30 June 2014	1,165,691,528*	4,727	220,423	(40,504)	184,646
At 1 January 2013	1,145,132,426	4,690	347,965	(82,127)	270,528
Exercise of share options	6,583,500	20	14,190	—	14,210
Approved and paid final dividend in respect of the previous year	—	—	1,381	—	1,381
Vested awarded shares transferred to employees	5,143,735	—	—	26,465	26,465
At 30 June 2013	1,156,859,661	4,710	363,536	(55,662)	312,584

* Excluding 17,955,305 shares (31 December 2013: 21,189,272 shares) held by the Share Award Scheme Trust as at 30 June 2014.

Share options

Details of the Company's share option schemes and the share options issued under these schemes are included in note 20 to the financial statement.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. 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 NUMBER OF SHARES OPTIONS (UNAUDITED)	2013 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at 1 January	7,974,600	16,826,800
Exercised during the period	(1,413,200)	(6,583,500)
Forfeited during the period	—	(10,000)
Outstanding at 30 June	6,561,400	10,233,300
Exercisable at 30 June	6,561,400	10,233,300

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 NUMBER OF SHARES OPTIONS (UNAUDITED)	2013 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at 1 January	10,500,000	10,500,000
Exercised during the period	(1,600,000)	—
Outstanding at 30 June	8,900,000	10,500,000
Exercisable at 30 June	2,000,000	1,500,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

Kingsoft Japan Inc. ("Kingsoft Japan") Share Options

On 2 November 2006, the shareholders of Kingsoft Japan, a subsidiary of the Company, approved to grant share options to employees in exchange for Kingsoft Japan's ordinary shares. The maximum number of Kingsoft Japan's ordinary shares in respect of which options may be granted is 1,000 in aggregate. Options are exercisable conditional upon a successful initial public offering of Kingsoft Japan. Options granted will be expired in ten years.

The outstanding number of share options granted in Kingsoft Japan at 30 June 2014 is 1,000 (30 June 2013: 1,000). There is no movement of outstanding share options during the six months ended 30 June 2014 and 2013.

2014 Kingsoft Japan Share Option Scheme

On 2 January 2014, the shareholders of the Company approved the 2014 Kingsoft Japan Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, which was approved and adopted by the shareholders of Kingsoft Japan on 28 March 2014. The maximum number of share options under 2014 Kingsoft Japan Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 7,837 shares (representing 7.85% of the shares in issue at the adoption date). The 2014 Kingsoft Japan Share Option Scheme shall be valid and effective for a term of ten years from 28 March 2014.

During the period ended 30 June 2014, no option was granted.

Kingsoft Cloud Holdings Limited ("KC Holdings") Share Option Scheme

On 27 February 2013, the shareholders of the Company and KC Holdings, a subsidiary of the Company, approved and adopted the KC Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of KC Holdings and its subsidiaries are entitled to participate. The maximum number of share options under KC Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 94,750,000 shares (representing 10% of the shares in issue). The KC Holdings Share Option Scheme will remain in force for 10 years from 27 February 2013.

The following table illustrates the number of and movements in the KC Holdings Share Option Schemes for the six months ended 30 June 2014 and 2013.

	2014 NUMBER OF SHARE OPTIONS (UNAUDITED)	2013 NUMBER OF SHARE OPTIONS (UNAUDITED)
Outstanding at 1 January	46,300,000	—
Granted during the period	32,000,000	48,700,000
Forfeited during the period	(3,450,000)	(20,600,000)
Outstanding at 30 June	74,850,000	28,100,000
Exercisable at 30 June	—	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

Jingcai Holdings Limited ("JC Holdings") Share Option Scheme

On 27 February 2013, the shareholders of the Company and JC Holdings, a subsidiary of the Company, approved and adopted the JC Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of JC Holdings and its subsidiaries are entitled to participate. The maximum number of share options under JC Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 1,000,000 shares (representing 10% of the shares in issue). The JC Holdings Share Option Scheme will remain in force for 10 years from 27 February 2013.

The following table illustrates the number of and movements in the JC Holdings Share Option Schemes for the six months ended 30 June 2014 and 2013.

	2014 NUMBER OF SHARES OPTIONS (UNAUDITED)	2013 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at 1 January	780,000	—
Granted during the period	—	815,000
Forfeited during the period	(30,000)	(5,000)
Outstanding at 30 June	750,000	810,000
Exercisable at 30 June	—	—

Westhouse Holdings Limited ("Westhouse Holdings") Share Option Scheme

On 27 June 2013, the shareholders of the Company and Westhouse Holdings, a subsidiary of the Company, approved and adopted the Westhouse Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Westhouse Holdings and its subsidiaries are entitled to participate. The maximum number of share options under Westhouse Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 80,000,000 shares (representing 10% of the shares in issue). The Westhouse Share Option Scheme shall be valid and effective for a term of ten years from 27 June 2013. During the period ended 30 June 2013, no options were granted.

The following table illustrates the numbers of and movements in the Westhouse Share Option Scheme during the six months ended 30 June 2014.

	2014 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at 1 January	6,625,000
Granted during the period	610,000
Forfeited during the period	(80,000)
Outstanding at 30 June	7,155,000
Exercisable at 30 June	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

Cheetah Mobile Share Option Scheme

On 2 January 2014, the shareholders of the Company and Cheetah Mobile, a subsidiary of the Company, approved and adopted the Cheetah Mobile Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Cheetah Mobile and its subsidiaries are entitled to participate. The maximum number of share options under Cheetah Mobile Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 64,497,718 shares (representing 6.44% of the shares in issue at the adoption date). The Cheetah Mobile Share Option Scheme shall be valid and effective for a term of ten years from 2 January 2014.

On 1 January 2014, 21 March 2014, and 8 April 2014, 14,300,000, 31,736,131 and 7,335,000 share options, respectively, were granted to a number of employees of Cheetah Mobile and its subsidiaries.

(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 NUMBER OF AWARDED SHARES (UNAUDITED)	2013 NUMBER OF AWARDED SHARES (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	9,715,568	13,360,935
Exercisable at 30 June	31,000	370,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. SHARE-BASED COMPENSATION COSTS (continued)

(b) Awarded Shares (continued)

Share Award Scheme adopted by Cheetah Mobile

On 26 May 2011, the directors of Cheetah Mobile, a subsidiary of the Company, approved and adopted a share award scheme, in which selected employees of Cheetah Mobile and its subsidiaries have been awarded the awarded shares through their continued employment with the Group. Unless early terminated by the directors of Cheetah Mobile, the Cheetah Mobile Share Award Scheme shall be valid and effective for a term of ten years from 26 May 2011. The directors of Cheetah Mobile will not grant any award of shares which would result in the total number of shares which are subject of awards granted by the board of directors of Cheetah Mobile under the Cheetah Mobile Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 100,000,000 shares, as at the date of such grant.

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

	2014 NUMBER OF AWARDED SHARES (UNAUDITED)	2013 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	87,772,500	74,927,500
Awarded during the period	12,032,500	8,775,000
Forfeited during the period	(1,265,000)	(1,415,000)
Outstanding at 30 June	98,540,000	82,287,500
Exercisable at 30 June	52,850,000	—

Share Award Scheme adopted by Kingsoft Office Software Holdings Limited (“KOS Holdings”)

On 3 December 2012, the directors of KOS Holdings, a subsidiary of the Company, approved and adopted the share award scheme, in which selected employees of KOS Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of KOS Holdings, the KOS Share Award Scheme shall be valid and effective for a term of ten years from 3 December 2012. The directors of KOS Holdings will not grant any award of shares which would result in the total number of shares (but not counting any which have lapsed or have been forfeited) being greater than 50,000,000 shares, as at the date of such grant.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. SHARE-BASED COMPENSATION COSTS (continued)

(b) Awarded Shares (continued)

Share Award Scheme adopted by Kingsoft Office Software Holdings Limited ("KOS Holdings") (continued)

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

	2014 NUMBER OF AWARDED SHARES (UNAUDITED)	2013 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	29,050,000	30,000,000
Awarded during the period	4,500,000	300,000
Forfeited during the period	(500,000)	(550,000)
Outstanding at 30 June	33,050,000	29,750,000
Exercisable at 30 June	—	—

Share Award Scheme adopted by KC Holdings

On 22 February 2013, the directors of KC Holdings approved and adopted the share award scheme, in which selected employees of KC Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of KC Holdings, the KC Share Award Scheme shall be valid and effective for a term of ten years from 22 February 2013. The directors of KC Holdings will not grant any award of shares which would result in the total number of shares (but not counting any which have lapsed or have been forfeited) being greater than 48,000,000 shares, as at the date of such grant.

The outstanding number of KC Awarded Shares at 30 June 2014 is 25,000,000 (30 June 2013: 25,000,000). There is no movement of the KC Awarded Shares during the six months ended 30 June 2014.

Share Award Scheme adopted by JC Holdings

On 11 April 2013, the directors of JC Holdings approved and adopted the JC Share Award Scheme, in which selected employees of JC Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of JC Holdings, the JC Share Award Scheme shall be valid and effective for a term of ten years from 11 April 2013. The directors of JC Holdings will not grant any awarded shares which would result in the total number of shares (but not counting any which have lapsed or have been forfeited) being greater than 500,000 shares, as at the date of such grant.

The outstanding number of JC Awarded Shares at 30 June 2014 is 450,000 (30 June 2013: 450,000). There is no movement of the JC Awarded Shares during the six months ended 30 June 2014 and 2013.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. 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. 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.

The movements of the liability component and the equity component of the 2013 Convertible Bonds for the period are set out below:

	LIABILITY COMPONENT RMB'000 (UNAUDITED)	EQUITY COMPONENT RMB'000 (UNAUDITED)
At 1 January 2014	1,037,587	8,500
Exchange realignment	10,030	—
Interest expenses	2,923	—
At 30 June 2014	1,050,540	8,500

- (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. 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. CONVERTIBLE BONDS (continued)

(b) (continued)

On initial recognition, the 2014 Convertible Bonds split into the liability and equity components, and the movement in the liability and equity components were as follows:

	2014 RMB'000
Nominal value of the 2014 Convertible Bonds issued during the period	1,845,544
Less: Transaction costs	(39,672)
Net proceeds from the issue of 2014 Convertible Bonds	1,805,872
Equity component at the issuance date	(66,005)
Liability component at the issuance date	1,739,867
Exchange realignment	1,536
Interest expenses	4,453
Liability component at 30 June 2014	1,745,856

22. REDEEMABLE CONVERTIBLE PREFERRED SHARES

On 9 April 2013, the Group's non-wholly owned subsidiary, Kingsoft Cloud Holdings Limited ("KC Holdings"), issued 188,636,000 and 80,844,000 series A redeemable convertible preferred shares with par value of USD0.001 each to a third party investor and the Company, respectively, at a price of USD0.0742 per share for an aggregate consideration of USD20,000,000 (equivalent to approximately RMB125,096,000).

According to the agreement dated 9 April 2013 and supplemental agreement dated 20 August 2013, if KC Holdings fails to consummate a qualified public offering prior to 10 April 2018, at the option of the holder of the series A redeemable convertible preferred shares, KC Holdings shall redeem all of the outstanding preferred shares held by the requesting holder, at the price for each series A redeemable convertible preferred share equal to the greater of (i) and (ii) below, plus accumulated and declared but unpaid dividends on the preferred share:

- (i) the fair market value of the series A redeemable convertible preferred share; and
- (ii) the series A redeemable convertible preferred shares issue price plus an 8% internal rate of return, compounded annually.

The redemption right shall be terminated upon the closing of a qualified public offering.

The series A redeemable convertible preferred shares can be converted into fully-paid ordinary shares of KC Holdings based on the then conversion price at any time after original issuance. The initial conversion ratio for series A redeemable convertible preferred shares to ordinary shares shall be 1:1, subject to adjustments.

Based on the terms of the article of association of KC Holdings, the series A redeemable convertible preferred shares were initially designated as a financial liability at fair value through profit or loss upon initial recognition. The fair value loss from the date of issuance to 19 August 2013 was approximately RMB3,717,000.

Pursuant to the supplemental agreement dated 20 August 2013 that revised certain terms of the original agreement, the series A redeemable convertible preferred shares are split and accounted for as the liability component and equity component. The liability component is stated at amortised cost at an effective interest rate of 12.5% per annum. The equity component is measured at the residual amount.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. REDEEMABLE CONVERTIBLE PREFERRED SHARES (continued)

The movements of the liability component and the equity component of the series A redeemable convertible preferred shares for the period are set out below:

	LIABILITY COMPONENT RMB'000 (UNAUDITED)	EQUITY COMPONENT RMB'000 (UNAUDITED)
At 1 January 2014	77,982	10,015
Exchange realignment	593	—
Interest charge	4,815	—
At 30 June 2014	83,390	10,015

23. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

On 5 February 2013, the Group completed the disposal of its 80% equity interest of Chengdu Baiming Real Estate Co., Ltd. ("Chengdu Baiming") and reclassified the remaining 20% equity interest as an available-for-sale investment.

The results of disposal of Chengdu Baiming for the period are presented below:

	2013 RMB'000
Net assets disposed of:	
Cash and cash equivalents	118,394
Lease prepayment	81,872
Prepayments, deposit and other receivables	375
Other payables and accruals	(641)
	200,000
Fair value of remaining equity interest	(50,000)
Related disposal expenses	2,548
Gain on disposal of a subsidiary	47,452
	200,000
Satisfied by:	
Cash	200,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2013 RMB'000
Cash consideration	200,000
Cash and cash equivalents disposed of	(118,394)
Cash outflow of disposal expenses	(2,548)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>79,058</u>

24. CAPITAL RESERVE

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

On 8 May 2014, Cheetah Mobile completed its spin-off and initial public offering ("IPO") of 12,000,000 American depositary shares ("ADSs") on the New York Stock Exchange, with an over-allotment of 1,800,000 additional ADSs to the underwriters. Each ADS represents ten Cheetah Mobile's Class A ordinary shares with par value of USD0.0000025 per share. The total IPO proceeds was RMB1,146,807,000. Cheetah Mobile also issued Class A ordinary shares of 7,142,857 shares, 14,285,714 shares, and 14,285,714 shares to the Company, Xiaomi Ventures Limited ("Xiaomi") and Baidu Holdings Limited ("Baidu"), respectively, in accordance with the private placement agreements. The total proceeds from the private placement was RMB307,785,000. Upon the closing of the offerings and placements, the equity interest of Cheetah Mobile held by the Company decreased from 60.19% to 52.55%, and the aggregate voting rights of the Company over Cheetah Mobile decreased from 60.19% to 59.32%. The difference between the amount of the change in non-controlling interests and the fair value of the IPO and placement proceeds of RMB631,302,000 was recorded in the consolidated capital reserve.

25. 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 RMB110,723,000.

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).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. DIVIDENDS (continued)

Distribution in specie

In accordance with the requirements of Practice Note 15 ("PN15") 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 depository shares /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%.

26. BUSINESS COMBINATION

Jiangduoduo Business

On 13 March 2014, the Group, through a subsidiary, Suzhou Jiangduoduo Technology Co., Ltd., signed a purchase agreement with a third party, Suzhou Leying Technology Co., Ltd., to acquire its lottery business ("Jiangduoduo Business") for a contract amount of RMB54,000,000 of which RMB49,700,000 was the initial purchase consideration and RMB4,000,000 was the employee's compensation for future services and RMB300,000 was the employee compensation-non-compete agreement. The acquisition is accounted for as a business combination and the acquisition date is 1 April 2014.

The fair values of the identifiable assets of the Jiangduoduo Business as at the acquisition date were as follows:

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000 (UNAUDITED)
<hr/>	
Intangible assets:	
Technology	1,700
User base	400
Property, plant and equipment	817
Deferred tax liabilities	(525)
Goodwill arising on acquisition	24,271
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Total consideration, satisfied by cash	26,663
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Analysis of cash flow on acquisition:	
Cash paid	22,700
Contingent consideration payable (note 29)	3,963
Net outflow of cash and cash equivalent included in cash flows used in investing activities	22,700
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. COMMITMENTS

Operating lease commitments — Group as lessee

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

At 30 June 2014, the Group had total future minimum lease payments under non-cancelled operating leases falling due as follows:

	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
Within one year	81,766	46,203
After one year but not more than five years	11,605	16,691
	93,371	62,894

As at 30 June 2014, the calculation of lease payment of some electronic equipment was based on the actual number of users of the relevant servers. The rental expense under these operating leases was RMB26,179,000 for the six months period ended 30 June 2014. As future lease payments for these arrangements are based on the actual number of users and thus cannot be reasonably estimated, they are not included in the minimum lease payments shown above.

Capital commitments

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

	NOTE	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
Contracted, but not provided for:			
Purchase of electronic equipment		125	167
Development of land and buildings	(a)	920,535	921,033
Acquisition of new businesses	32(a)(b)	262,109	—
Investment in a joint venture		—	2,000
Acquisition of intangible assets		4,307	6,097
Total		1,187,076	929,297

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. COMMITMENTS (continued)

- (a) The capital commitment for the development of land and buildings at 30 June 2014 represented the commitment to invest in an aggregate amount of RMB920,535,000 in the development of a piece of land in Zhuhai.

Provision of loan facility

On 18 April 2013, the subsidiary of Cheetah Mobile entered into a two-year loan facility ending on 17 April 2015 with a shareholder of an associate, pursuant to which, the subsidiary granted a loan facility of RMB16,000,000 at an interest rate with reference to the market rate with 10% discount. Such loan facility shall be secured by the equity interest in the associate held by the shareholder to the maximum of 40% equity interests in the associate. As at 30 June 2014, RMB4,000,000 of the loan facility was being utilised and 10% of the equity interests in the associate were pledged to the Group accordingly.

On 13 March 2013, a subsidiary of Cheetah Mobile entered into a loan facility of RMB10,000,000 at an interest rate with reference to the market rate with 10% discount to an associate to provide financial support to the associate should it be required for its operations.

28. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2014 RMB'000 (UNAUDITED)	2013 RMB'000 (UNAUDITED)	2014 RMB'000 (UNAUDITED)	2013 RMB'000 (UNAUDITED)
Equity contribution from a company whose parent has a significant influence on the Company	(i)	—	290,367	—	290,367
Equity contribution from a company controlled by a director of the Company	(ii)	123,114	—	246,166	—
Provision of services to a company whose parent has a significant influence on the Company	(iii)	11,200	29,151	16,732	57,082
Provision of services to a company controlled by a director of the Company	(iv)	10,578	1,504	15,916	2,390
Purchases of products from a company controlled by a director of the Company	(iv)	2,498	704	4,650	1,613
Interest income from non-controlling shareholders of subsidiaries	(v)	620	823	1,320	1,757
Purchase of new shares from a company controlled by a director of the Company	(vi)	—	30,600	—	30,600

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. RELATED PARTY TRANSACTIONS (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period: (continued)

- (i) On 24 June 2013, Cheetah Mobile issued 110,240,964 series B preferred shares (representing 9.00% of the enlarged capital of Cheetah Mobile) to a company whose parent has a significant influence on the Company, at a subscription price of USD0.4262 per share for an aggregate consideration of USD46,980,000 (equivalent to RMB290,367,000).
- (ii) On 14 February 2014, Westhouse Holdings issued 40,000,000 ordinary shares (representing 4.71% of the enlarged capital of Westhouse Holdings) to a company controlled by a director of the Company, at a subscription price of USD0.5 per share for an aggregate consideration of USD20 million (equivalent to RMB123,052,000).

On 8 May 2014, Cheetah Mobile issued to a company controlled by a director of the Company 14,285,714 Class A ordinary shares with total purchase price of USD20 million (equivalent to RMB123,114,000).

- (iii) In 2012 and 2013, the Group entered into framework agreements with a company whose parent has a significant influence on the Company. Pursuant to the framework agreements, the Group provides various forms of promotion services to this related company and its controlled affiliates through the Group's internet platforms. The price is based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting the similar transactions. The Group received in total approximately RMB16,732,000 and RMB57,082,000 for the six months ended 30 June 2014 and 2013 from the related company and its affiliates. For the three months ended 30 June 2014 and 2013, the aforementioned revenue was approximately RMB11,200,000 and RMB29,151,000.
- (iv) In 2013, the Group entered into various agreements with a company controlled by a director of the Company. Pursuant to the agreements, the Group provided cloud storage services, online advertising services and joint operations of online games to this related company and its affiliates at the prevailing fair market price in the same industry for similar transactions and the Group purchased smart phones and phone accessories from this related company at markets price. For the six months ended 30 June 2014 and 2013, the Group provided cloud services and online marketing services of approximately RMB15,916,000 and RMB2,390,000 to an affiliate of the related company and purchased smart phones and phone accessories of approximately RMB4,650,000 and RMB1,613,000 from the affiliate of the related company. For the three months ended 30 June 2014 and 2013, the Group provided services to an affiliate of the related company of approximately RMB10,578,000 and RMB1,504,000 and purchased approximately RMB2,498,000 and RMB704,000.
- (v) The interest income from non-controlling shareholders of subsidiaries was approximately RMB1,320,000 and RMB1,757,000 for the six months ended 30 June 2014 and 2013, respectively. For the three months ended 30 June 2014 and 2013, the aforementioned interest income was approximately RMB620,000 and RMB823,000.
- (vi) In March 2013, the Company purchased new shares issued by a company controlled by a director of the Company at an aggregate consideration of USD4,990,000 (equivalent to RMB30,600,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties:

The Group had the following outstanding balances with related parties as at the end of the reporting period:

	NOTES	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
Due from related parties:			
Loans to non-controlling shareholders of Westhouse Holdings	(i)	88,659	108,213
Loans to non-controlling shareholders of KOS Holdings	(ii)	28,226	27,659
Loan to Shanghai Quwan	(iii)	11,668	6,413
		128,553	142,285
Receivables from a company controlled by a director of the Company included in trade receivables			
		7,948	995
Receivables from a company whose parent has a significant influence on the Company included in trade receivables			
		14,776	4,484
		151,277	147,764

- (i) On 8 April 2011, Westhouse Holdings issued 160,000,000 ordinary shares (representing 20% of enlarged capital of Westhouse Holdings) to a company owned by some founding employees including a director of the Company, at a subscription price of HKD1.1834 per share for an aggregate consideration of approximately HKD189,344,000 (equivalent to RMB150,301,000). Part of the consideration amounting to HKD151,475,000 (equivalent to RMB120,241,000) was funded by a loan advanced from KES Holdings, the parent of Westhouse Holdings, which bears interest at a rate of Hong Kong Interbank Offered Rate plus 1.3% for initial term and Hong Kong Bank Offered Loan Rate for the succeeding terms, and is secured by 128,000,000 shares of Westhouse Holdings held by the company owned by some founding employees. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied. The outstanding balance of this loan included unpaid principal and interest receivable of RMB87,639,000 and RMB1,020,000, respectively as of 30 June 2014.
- (ii) On 21 May 2012, KOS Holdings issued 200,000,000 ordinary shares (representing 21.05% of the enlarged capital of KOS Holdings) to a company owned by some founding employees of KOS Holdings, including a director of some subsidiaries of KOS Holdings, at a subscription price of USD0.03 per share for an aggregate consideration of USD6,000,000 (equivalent to RMB36,917,000). Part of the consideration amounting to USD4,500,000 (equivalent to RMB27,688,000) was funded by a loan advanced from the Company, the parent of KOS Holdings, which bears interest at a rate of Hong Kong Interbank Offered Rate plus 1.3%, and is secured by 200,000,000 shares of KOS Holdings held by a company owned by some founding employees. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied. The outstanding balance of this loan included unpaid principle and interest receivable of RMB27,625,000 and RMB601,000, respectively as of 30 June 2014.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties: (continued)

(iii) Loan to Shanghai Quwan was provided by the Company to Shanghai Quwan to support its normal operating activities. In accordance with the loan agreement signed in May 2013, the Company provided the loans with the maximal principal of RMB8 million, interest free and maturity of 2 years. As at 30 June 2014, the Company has provided loans with more than RMB8 million, management of the Company is in negotiation with Shanghai Quwan to sign a new loan agreement.

(c) Compensation of key management personnel of the Group (including directors' remuneration):

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2014 RMB'000 (UNAUDITED)	2013 RMB'000 (UNAUDITED)	2014 RMB'000 (UNAUDITED)	2013 RMB'000 (UNAUDITED)
Salaries, allowances, and benefits in kind	3,504	3,740	6,551	6,768
Pension scheme contributions	77	86	164	172
Share-based compensation costs	2,638	11,872	5,317	13,644
Total compensation paid to key management personnel	6,219	15,698	12,032	20,584

29. FINANCIAL INSTRUMENTS BY CATEGORY

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

30 June 2014

Financial assets	LOANS AND RECEIVABLES RMB'000 (UNAUDITED)	AVAILABLE- FOR-SALE INVESTMENTS RMB'000 (UNAUDITED)	DESIGNATED AS FINANCIAL ASSET AT FAIR VALUE THROUGH	TOTAL RMB'000 (UNAUDITED)
			PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000 (UNAUDITED)	
Other financial assets	—	—	28,083	28,083
Available-for-sale investments	—	820,556	—	820,556
Loan receivables	13,265	—	—	13,265
Trade receivables	238,589	—	—	238,589
Due from related parties	128,553	—	—	128,553
Other long term receivables	124,225	—	—	124,225
Financial assets included in prepayments, deposits and other receivables	228,429	—	—	228,429
Pledged deposit	19,739	—	—	19,739
Cash and cash equivalents	7,178,193	—	—	7,178,193
Total	7,930,993	820,556	28,083	8,779,632

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

30 June 2014

Financial liabilities	DESIGNATED AS FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000 (UNAUDITED)	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
Trade payables	—	94,792	94,792
Financial liabilities included in other liabilities	8,021	657,982	666,003
Interest-bearing bank loans	—	15,876	15,876
Liability component of redeemable convertible preferred shares	—	83,390	83,390
Liability component of convertible bonds	—	2,796,396	2,796,396
Total	8,021	3,648,436	3,656,457

31 December 2013

FINANCIAL ASSETS	LOANS AND RECEIVABLES RMB'000 (AUDITED)	AVAILABLE- FOR-SALE INVESTMENTS RMB'000 (AUDITED)	DESIGNATED AS FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000 (AUDITED)	TOTAL RMB'000 (AUDITED)
Other financial asset	—	—	27,699	27,699
Available-for-sale investments	—	112,503	—	112,503
Loan receivables	15,976	—	—	15,976
Trade receivables	185,161	—	—	185,161
Due from related parties	142,285	—	—	142,285
Financial assets included in prepayments, deposits and other receivables	125,733	—	—	125,733
Pledged deposit	19,588	—	—	19,588
Cash and cash equivalents	4,481,188	—	—	4,481,188
Total	4,969,931	112,503	27,699	5,110,133

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

31 December 2013

FINANCIAL LIABILITIES	DESIGNATED AS FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000 (AUDITED)	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000 (AUDITED)	TOTAL RMB'000 (AUDITED)
Trade payables	—	32,463	32,463
Financial liabilities included in other liabilities	11,974	476,431	488,405
Interest-bearing bank loans	—	15,724	15,724
Liability component of redeemable convertible preferred shares	—	77,982	77,982
Liability component of convertible bonds	—	1,037,587	1,037,587
Total	11,974	1,640,187	1,652,161

Contingent consideration

As part of the total consideration to acquire Jiangduoduo Business, 50% of the consideration was determined to be contingent, based on the performance of the Jiangduoduo Business. There will be two batches of cash payments to the original owner of Jiangduoduo Business, each 25% of the consideration:

- a) Contingent I: RMB13.5 million, if the revenue and net profit for the period from 1 April 2014 to 1 April 2015 under US generally accepted accounting principles of the Jiangduoduo Business reach RMB100 million and RMB30 million, respectively;
- b) Contingent II: RMB13.5 million, if the net profit for the period from 1 April 2015 to 1 April 2016 under US generally accepted accounting principles of the Jiangduoduo Business could reach RMB62 million.

If Jiangduoduo Business does not meet the above performance requirement, the contingent consideration will be adjusted as:

$$\text{Cash Consideration} = 13,500,000 * (\text{Actual Performance/Agreed Performance})$$

Significant unobservable valuation inputs are provided below:

	ASSUMED COMPLETION OF AGREED PERFORMANCE	ASSUMED PROBABILITY	DISCOUNT RATE
Contingent I	26%	85%	11%
Contingent II	7%	85%	11%

The fair value of the contingent consideration is RMB3,963,000, which is determined using the discounted cash flow (DCF) method.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	CARRYING AMOUNTS		FAIR VALUES	
	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)	30 JUNE 2014 RMB'000 (UNAUDITED)	31 DECEMBER 2013 RMB'000 (AUDITED)
Financial assets				
Loan receivables	13,265	15,976	13,210	15,842
Available-for-sale investments	782,977	105,780	782,977	105,780
Other financial assets	28,083	27,699	28,083	27,699
Other long-term receivables	124,225	—	124,225	—
	948,550	149,455	948,495	149,321
Financial liabilities				
Liability component of redeemable convertible preferred shares	83,390	77,982	83,390	77,982
Liability component of convertible bonds	2,796,396	1,037,587	2,796,396	1,037,587
Other liabilities	8,021	11,974	8,021	11,974
Interest-bearing bank loans	15,876	15,724	15,876	15,724
	2,903,683	1,143,267	2,903,683	1,143,267

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, other financial liabilities included in other payables and accruals and amounts due from related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of loan receivable and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2014 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds and liability component of redeemable convertible preferred shares are estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond and similar redeemable convertible preferred shares with consideration of the Group's own non-performance risk.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2014

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Available-for-sale investments	732,977	—	50,000	782,977
Other financial assets	—	—	28,083	28,083
	732,977	—	78,083	811,060

As at 31 December 2013

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Available-for-sale investments	55,780	—	50,000	105,780
Other financial assets	—	—	27,699	27,699
	55,780	—	77,699	133,479

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

	RMB'000
Available-for-sale investments and other financial asset:	
At 1 January 2013 (Audited)	27,822
Purchased	46,148
Total gain recognised in profit or loss	3,974
Total loss recognised in other comprehensive income	(245)
At 31 December 2013 (Audited)	77,699
Total gain recognised in profit or loss	384
Total gain/(loss) recognised in other comprehensive income	—
At 30 June 2014 (Unaudited)	78,083

Liabilities measured at fair value:

As at 30 June 2014

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Other liability	—	—	8,021	8,021

As at 31 December 2013

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Other liability	—	—	11,974	11,974

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

	RMB'000
Other financial liabilities at fair value through profit or loss:	
At 1 January 2013 (Audited)	—
Purchased	11,167
Total gain recognised in profit or loss	807
At 31 December 2013 (Audited)	11,974
Settlements	(4,923)
Total gain recognised in profit or loss	859
Total gain recognised in other comprehensive income	111
At 30 June 2014 (Unaudited)	8,021

During the six months ended 30 June 2014, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (for the six months ended 30 June 2013: nil).

Assets for which fair values are disclosed:

As at 30 June 2014

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Loan receivables	—	13,210	—	13,210

As at 31 December 2013

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Loan receivables	—	15,842	—	15,842

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Liabilities for which fair values are disclosed:

As at 30 June 2014

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Liability component of redeemable convertible preferred shares	—	—	83,390	83,390
Liability component of convertible bonds	—	—	2,796,396	2,796,396
Interest-bearing bank loans	—	15,876	—	15,876
	—	15,876	2,879,786	2,895,662

As at 31 December 2013

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Liability component of redeemable convertible preferred shares	—	—	77,982	77,982
Liability component of convertible bonds	—	—	1,037,587	1,037,587
Interest-bearing bank loans	—	15,724	—	15,724
	—	15,724	1,115,569	1,131,293

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. CONTINGENT LIABILITIES

At 30 June 2014, the Group had no significant contingent liabilities (31 December 2013: nil).

32. 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, of which USD26.0 million (equivalent to RMB159,973,000) will be paid by cash. 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 business acquisition has been completed in July 2014, however, the initial accounting for the business combination is incomplete at the time when the financial statements were authorised for issue, as the valuation of the fair values of the identified net assets acquired was not completed.
- (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 (equivalent to RMB102,136,000). 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 Beijing Moxiu 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 Beijing Moxiu.

33. COMPARATIVE AMOUNT

Certain comparative amount in the foot notes have been reclassified to conform with the current period's presentation and accounting treatment.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 August 2014.