



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

KINGSOFT CORPORATION LIMITED

2016 INTERIM REPORT



獵豹清理大師



獵豹瀏覽器



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Kingsoft Corporation Limited

Interim Report 2016 | KINGSOFT CORPORATION LIMITED

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CORPORATE INFORMATION

Legal Name of the Company

Kingsoft Corporation Limited

Stock Code

03888

Date of Listing

9 October 2007

Principal Place of Business

Kingsoft Tower

No. 33 Xiaoying West Road

Haidian District

Beijing 100085

PRC

Principal Place of Business in Hong Kong

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Hong Kong

Registered Office

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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

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Audit Committee

Ms. Wenjie WU (Chairman)

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Remuneration Committee

Mr. Shun Tak WONG (Chairman)

Mr. Jun LEI

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Nomination Committee

Mr. Shun Tak WONG (Chairman)

Mr. Chi Ping LAU

Ms. Wenjie WU

Board Secretary/Company Secretary

Mr. Yuk Keung NG

Authorised Representatives

Mr. HongJiang ZHANG

Mr. Yuk Keung NG

CORPORATE INFORMATION (continued)

Principal Share Registrar and Transfer Office

Appleby Trust (Cayman) Ltd.
Clifton House
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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
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Auditors

Ernst & Young
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Central
Hong Kong

Legal Advisers on Hong Kong law

Baker & McKenzie
14th Floor, Hutchison House
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Central
Hong Kong

Principal Bankers

China Citic Bank Corporation Limited
China Merchants Bank Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking Corporation Limited
Bank of Beijing Corporation Limited
Standard Chartered Bank Limited
Bank of Tokyo-Mitsubishi UFJ (China) Limited
Shanghai Pudong Development Bank Corporation Limited
Bank of Communications Corporation Limited
Hang Seng Bank Limited
China Guangfa Bank Corporation Limited
BNP Paribas (China) Limited
Bank of East Asia Limited
JP Morgan Chase Bank N.A.
China Minsheng Bank Corporation Limited

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OPERATIONAL HIGHLIGHTS

FOR THE THREE MONTHS ENDED

	30 JUNE 2016	31 MARCH 2016	31 DECEMBER 2015	30 SEPTEMBER 2015	30 JUNE 2015	31 MARCH 2015	31 DECEMBER 2014	30 SEPTEMBER 2014
ONLINE GAMES*								
ADPCU	909,591	543,836	542,384	562,354	607,571	672,779	661,002	617,717
APA	4,822,356	2,960,358	2,919,683	3,301,297	3,438,493	3,069,052	2,717,443	2,374,699

	IN JUNE 2016	IN MARCH 2016	IN DECEMBER 2015	IN SEPTEMBER 2015	IN JUNE 2015
Cheetah Mobile					
MAU (Million)	623	651	635	567	494
% of Mobile MAU from Overseas Markets	79%	79%	79%	74%	71%
Mobile Users Installations (Million)	3,099	2,762	2,341	1,942	1,596

* Starting from April 2016 onwards, we will stop disclosing the monthly ARPU. Considering our major mobile games are exclusively operated by third parties, but most of our PC games and a few of our mobile games are operated by ourselves, the different accounting treatments of these games make the ARPU calculation not directly comparable and do not truly reflect the revenue generated by each paying user.

FINANCIAL HIGHLIGHTS

	FOR THE THREE MONTHS ENDED		
	30 JUNE 2016	31 MARCH 2016	30 JUNE 2015
	RMB'000	RMB'000	RMB'000
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
REVENUE			
Online game	476,794	456,870	298,065
Cheetah Mobile	1,014,072	1,085,128	861,285
Cloud services, office software and others	274,170	209,541	122,890
	1,765,036	1,751,539	1,282,240
Cost of revenue	(559,959)	(470,233)	(306,892)
GROSS PROFIT	1,205,077	1,281,306	975,348
Research and development costs, net of government grants	(419,649)	(405,862)	(325,211)
Selling and distribution expenses	(480,538)	(492,788)	(396,267)
Administrative expenses	(147,549)	(136,829)	(116,526)
Share-based compensation costs	(102,919)	(114,023)	(60,096)
Other income	54,062	18,307	25,465
Other expenses	(22,731)	(8,604)	(11,998)
OPERATING PROFIT	85,753	141,507	90,715
Other (losses)/gains, net	(959,639)	26,995	21,597
Finance income	37,810	46,173	45,715
Finance costs	(27,170)	(21,767)	(18,396)
Share of profits and losses of:			
Joint ventures	3,941	(3,296)	(6,530)
Associates	(19,791)	(12,878)	(6,048)
(LOSS)/PROFIT BEFORE TAX	(879,096)	176,734	127,053
Income tax expense	(34,315)	(48,797)	(33,668)
(LOSS)/PROFIT FOR THE PERIOD	(913,411)	127,937	93,385
Attributable to:			
Owners of the parent	(807,554)	133,803	93,972
Non-controlling interests	(105,857)	(5,866)	(587)
	(913,411)	127,937	93,385
	RMB	RMB	RMB
	(UNAUDITED)	(Unaudited)	(Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	(0.63)	0.10	0.07
Diluted	(0.63)	0.10	0.06

FINANCIAL HIGHLIGHTS (continued)

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)
REVENUE		
Online game	933,664	622,957
Cheetah Mobile	2,099,200	1,553,009
Cloud services, office software and others	483,711	215,634
	3,516,575	2,391,600
Cost of revenue	(1,030,192)	(530,616)
GROSS PROFIT	2,486,383	1,860,984
Research and development costs, net of government grants	(825,511)	(619,533)
Selling and distribution expenses	(973,326)	(686,239)
Administrative expenses	(284,378)	(217,687)
Share-based compensation costs	(216,942)	(117,979)
Other income	72,369	28,630
Other expenses	(31,335)	(21,128)
OPERATING PROFIT	227,260	227,048
Other (losses)/gains, net	(932,644)	5,838
Finance income	83,983	98,091
Finance costs	(48,937)	(38,658)
Share of profits and losses of:		
Joint ventures	645	(12,502)
Associates	(32,669)	(8,714)
(LOSS)/PROFIT BEFORE TAX	(702,362)	271,103
Income tax expense	(83,112)	(61,287)
(LOSS)/PROFIT FOR THE PERIOD	(785,474)	209,816
Attributable to:		
Owners of the parent	(673,751)	208,508
Non-controlling interests	(111,723)	1,308
	(785,474)	209,816
	RMB (UNAUDITED)	RMB (Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	(0.52)	0.17
Diluted	(0.52)	0.16

BUSINESS REVIEW AND OUTLOOK

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

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

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

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

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

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

BUSINESS REVIEW AND OUTLOOK (continued)

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Revenue

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

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

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

over-year. The exceptional quarter-over-quarter and year-over-year increases were due to rapid growing community of players stimulated by the launch of the first JX Online mobile game.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

Cost of Revenue and Gross Profit

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

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

R&D Costs, net of Government Grants

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Share-based Compensation Costs

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

Other Income

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Operating Profit before Share-based Compensation Costs

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

Other (Losses)/Gains, Net

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

Income Tax Expense

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

(Loss)/Profit Attributable to Owners of the Parent

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

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

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

We believe the loss or profit attributable to owners of the parent before share-based compensation costs will enhance investors' overall understanding of the Group's operating performance. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our profit or any other operating performance measure that is calculated in accordance with IFRSs. In addition, our loss or profit attributable to owners of the parent before share-based compensation costs may not be comparable to similarly titled measures utilized by other companies.

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

First Half of 2016 Compared to First Half of 2015

Revenue

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

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

Cost of Revenue and Gross Profit

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

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

R&D Costs, net of Government Grants

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Share-based Compensation Costs

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

Other Income

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

Operating Profit before Share-based Compensation Costs

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

Other (Losses)/Gains, net

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Income Tax Expense

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

(Loss)/Profit Attributable to Owners of the Parent

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

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

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

Liquidity and Financial Resource

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

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

Foreign Currency Risk Management

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

As at 30 June 2016, RMB4,253.7 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Deferred Revenue

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

Net Cash Generated from Operating Activities

Cash generated from our operating activities reflects our profit for the six months period, as the case may be, as adjusted for non-cash items, such as depreciation, amortization of capitalized software costs, and share-based compensation costs, as well as the effect of changes in certain items of statement of financial position, such as deferred revenue, other payables and accruals.

Net cash generated by operating activities was RMB444.2 million and RMB362.3 million for the six months ended 30 June 2016 and 30 June 2015, respectively.

Capital Expenditures

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

OTHER INFORMATION

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

Below are the changes of directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules (as amended from time to time) since the date of the Company's 2015 annual report:

NAME OF DIRECTOR	DETAILS OF CHANGES
Mr. Yuk Keung NG	Mr. NG is a fellow member of the Institute of Chartered Accountants in England and Wales. He also step down as an independent non-executive director and the chairman of the audit committee from Beijing Capital Land (Stock Code: 2868) in April 2016.
Mr. Jun LEI	Mr. LEI ceased to serve as the chairman of YY Inc. (NASDAQ: YY).

Directors' Interests in Securities

As at 30 June 2016, the interests and short positions of the Directors and the chief executive of the Company and their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of the SFO which (a) were required to be notified to the Company and the Stock

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

Interest in the shares and underlying shares of the Company:

Name of director	Capacity	Number of shares interested	% of issued share capital (Note 1)	Nature of Shares interested
Jun LEI	Interest of controlled corporation	210,116,248	16.13	Long position
	Other	142,714,003	10.96	Long position
	Total	352,830,251 (Note 2)	27.09	Long position
Pak Kwan KAU	Interest of controlled corporation	108,032,566 (Note 3)	8.29	Long position
HongJiang ZHANG	Beneficial owner	5,666,044	0.43	Long position
Yuk Keung NG	Beneficial owner	2,600,000	0.20	Long position
Tao ZOU	Beneficial owner	409,307	0.03	Long position

Notes:

- % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 30 June 2016, which was 1,302,648,787.
- Among these 352,830,251 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a British Virgin Islands company owned as to 100% by Mr. Jun LEI; (ii) 35,298,057 shares was held by a wholly-owned subsidiary of Xiaomi Corporation, a company controlled by Mr. Jun LEI under the SFO; and (iii) 142,714,003 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.

- 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.

OTHER INFORMATION (continued)

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

Cheetah Mobile (Note 1)

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL IN CLASS (NOTE 2)	NATURE OF SHARES INTERESTED
Jun LEI	Interest of controlled corporation	17,660,294 (Note 3)	4.33	Long position
David Yuen Kwan TANG	Beneficial owner	140,000	0.03	Long position
Yuk Keung NG	Beneficial owner	1,200	0.00	Long position

Notes:

- Cheetah Mobile is a non-wholly owned subsidiary of the Company listed on the NYSE.
- % of issued share capital in class was calculated on basis of the issued Class A Cheetah Shares of Cheetah Mobile as at 30 June 2016, which was 407,539,058.
- Among the 17,660,294 shares, (i) 3,374,580 shares are held by Go Corporate Limited, a British Virgin Islands company owned as to 100% by Mr. Jun LEI; and (ii) 14,285,714 shares are held by Xiaomi Corporation, a company controlled by Mr. Jun LEI under the SFO.

Kingsoft Cloud (Note1)

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL IN CLASS (NOTE 2)	NATURE OF SHARES INTERESTED
HongJiang ZHANG (Note 3)	Interest of controlled corporation	47,437,500	5.36	Long position

Notes:

- Kingsoft Cloud is a non-wholly owned subsidiary of the Company.
 - % of issued share capital in class was calculated on basis of the total issued ordinary shares of Kingsoft Cloud as at 30 June 2016, which was 884,962,976.
 - As at 30 June 2016, Mr. HongJiang ZHANG held 100% of the voting power of Cloud Expert Limited, which in turn is deemed to have an interest in approximately 5.36% of the Kingsoft Cloud 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 2016.

OTHER INFORMATION (continued)

Share Option Schemes

Pre-IPO Share Option Schemes

The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme, which were approved by resolutions in writing of all the shareholders on 30 June 2004 and 22 January 2007, respectively, before its initial public offering. Options granted under the 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 share option agreement. Share options were granted for periods of up to ten years.

The 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 the Pre-IPO Share Option Schemes during the six months ended 30 June 2016.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS				DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US\$ PER SHARE
	AT 1 JANUARY 2016	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT 30 JUNE 2016		
Other employees						
In aggregate	4,596,100	169,500	—	4,426,600	1 February 2007 (Note 1)	0.2400
	26,000	—	—	26,000	1 August 2007 (Note 1)	0.4616
	4,622,100	169,500	—	4,452,600		

Notes:

- These options were granted under the 2007 Pre-IPO Share Option 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 following share options were outstanding under the 2011 Share Option Scheme during the six months ended 30 June 2016.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS					DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK\$ PER SHARE
	AT 1 JANUARY 2016	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT 30 JUNE 2016		
Executive directors							
HongJiang ZHANG	3,500,000	—	—	—	3,500,000	20 December 2011	2.89
Yuk Keung NG	2,400,000	—	—	—	2,400,000	20 July 2012	3.28
	5,900,000	—	—	—	5,900,000		

2006–2007 Kingsoft Japan Share Option Scheme

On 2 November 2006 and 31 July 2007, the shareholders of Kingsoft Japan, approved and adopted the 2006–2007 Kingsoft Japan Share Option Scheme for the purpose of enhancing the operational efficiency of Kingsoft Japan and providing additional incentives for its employees and other related persons. Options are exercisable conditional upon a successful initial public offering of Kingsoft Japan. The 2006–2007 Kingsoft Japan Share Option Scheme will remain in force for 10 years from the date on which the scheme is deemed to take effect. On 17 July 2014, directors of Kingsoft Japan approved to split all outstanding shares of Kingsoft Japan in the proportion of 1:100. As such, the number of shares subject to the options under the 2006–2007 Kingsoft Japan Share Option Scheme was adjusted in the proportion of 1:100. More details regarding the 2006–2007 Kingsoft Japan Share Option Scheme are set out in note 21 to the financial statements.

Kingsoft Cloud Share Option Scheme

On 27 February 2013, the shareholders of the Company and Kingsoft Cloud, approved and adopted the Kingsoft Cloud Share Option Scheme for the purpose of providing

incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud and its subsidiaries are entitled to participate. The Kingsoft Cloud Share Option Scheme will remain in force for 10 years from 27 February 2013. The Kingsoft Cloud Share Option Scheme was amended and refreshed on 27 June 2013 and 20 May 2015. More details regarding the Kingsoft Cloud Share Option Scheme are set out in note 21 to the financial statements.

Seasun Holdings Share Option Scheme

On 27 June 2013, the shareholders of the Company and Seasun Holdings, approved and adopted the Seasun Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Seasun Holdings, its subsidiaries or its invested entities are entitled to participate. The Seasun Holdings Share Option Scheme will remain in force for 10 years from 27 June 2013. More details regarding the Seasun Holdings Share Option Scheme are set out in note 21 to the financial statements.

OTHER INFORMATION (continued)

Cheetah Mobile Equity Incentive Scheme

On 2 January 2014, the shareholders of the Company and Cheetah Mobile approved and adopted the Cheetah Mobile Equity Incentive Scheme for the purpose of aiding Cheetah Mobile and its 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 options of Cheetah Mobile. 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 21 to the financial statements.

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 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 its invested entities. The 2014 Kingsoft Japan Share Option Scheme was approved and adopted by shareholders of Kingsoft Japan on 28 March 2014, and will remain in force for 10 years commencing on 28 March 2014. On 17 July 2014, directors of Kingsoft Japan approved to split all outstanding shares of Kingsoft Japan in the proportion of 1:100. As such, the number of shares subject to the options under the 2014 Kingsoft Japan Share Option Scheme was adjusted in the proportion of 1:100. More details regarding the 2014 Kingsoft Japan Share Option Scheme are set out in note 21 to the financial statements.

Share Award Scheme

Share Award Scheme

The Share Award Scheme was adopted by the Board on 31 March 2008. Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of five years commencing on 31 March 2008. 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.

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 21 to the financial statements.

2011 Cheetah Mobile Share Award Scheme

On 26 May 2011, the directors of Cheetah Mobile, approved and adopted the 2011 Cheetah Mobile Share Award Scheme.

Unless early terminated by the directors of Cheetah Mobile, the 2011 Cheetah Mobile Share Award Scheme shall be valid and effective for a term of ten years commencing on 26 May 2011.

The purpose of the 2011 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 Group and to attract suitable personnel for further development of Cheetah Mobile Group.

OTHER INFORMATION (continued)

Pursuant to the terms of the 2011 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 eligibility of each employee determined by the board of Cheetah Mobile from time to time) select an employee for participation in the 2011 Cheetah Mobile Share Award Scheme and determine the number of the awarded shares of Cheetah Mobile. The directors of Cheetah Mobile will not grant any award of shares which would result in the total number of shares grant under the 2011 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 2011 Cheetah Mobile Share Award Scheme are set out in note 21 to the financial statements.

Kingsoft Cloud Share Award Scheme

On 22 February 2013, the directors of Kingsoft Cloud approved and adopted the Kingsoft Cloud Share Award Scheme, for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud Group are entitled to participate. Unless early terminated by the directors of Kingsoft Cloud, the Kingsoft Cloud Share Award Scheme shall be valid and effective for a term of ten years commencing on 22 February 2013. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 9 January 2015 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 50,000,000 shares, as at the date of such grant. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 3 March 2016 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 68,364,500 shares, as at the date of such grant. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 8 June 2016 to refresh the limit of the scheme. Pursuant to the amended Kingsoft

Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 69,925,476 shares, as at the date of such grant.

More details regarding the Kingsoft Cloud Share Award Scheme are set out in note 21 to the financial statements.

2014 Cheetah Mobile Share Award Scheme

On 24 April 2014, the shareholders of Cheetah Mobile approved and adopted the 2014 Cheetah Mobile Share Award Scheme to promote the success and enhance the value of Cheetah Mobile by providing the members of the board, employees, and consultants with an incentive for outstanding performance to generate superior returns to the shareholders and to further provide flexibility to Cheetah Mobile in its ability to motivate, attract, and retain the services of such individuals. Under the 2014 Cheetah Mobile Share Award Scheme, the maximum aggregate number of shares, which may be issued pursuant to all awards granted, shall be equal to 122,545,665 Class A Cheetah Shares. Unless early terminated by the board or the compensation committee of the board of Cheetah Mobile, the 2014 Cheetah Mobile Share Award Scheme shall be valid and effective for a term of ten years commencing on 24 April 2014.

More details regarding the 2014 Cheetah Mobile Share Award Scheme are set out in note 21 to the financial statements.

OTHER INFORMATION (continued)

Substantial Shareholders

As at 30 June 2016, as far as the Directors are aware of, the following, other than the directors or chief executive of the Company, had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to

be kept by the Company under section 336 of the SFO, or who were, directly or indirectly, interested in 5% or more of the issued capital of the Company:

Interest in the shares and underlying shares of the Company

NAME OF SUBSTANTIAL SHAREHOLDER	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL (NOTE 1)	NATURE OF SHARES HELD
Color Link Management Limited (Note 2)	Beneficial owner	174,818,191	13.42	Long position
Topclick Holdings Limited (Note 3)	Beneficial owner	108,032,566	8.29	Long position
Tencent Holdings Limited (Note 4)	Interest of controlled corporation	106,784,515	8.20	Long position
Morgan Stanley	Interest of controlled corporation	85,692,377	6.58	Long position
		74,678,723	5.73	Short 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 2016, which was 1,302,648,787.
2. Mr. Jun LEI is deemed to be interested in Color Link Management Limited's interest in the Company pursuant to Part XV of the SFO because Color Link Management Limited is wholly owned by Mr. Jun LEI.
3. These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Kau Management Limited. Kau Management Limited is a company owned by a discretionary trust, the trustee of which is Credit Suisse Trust Limited and the beneficiaries of which include Mr. Pak Kwan KAU and his family members. As such, Mr. Pak Kwan KAU is deemed to be interested in these shares under the SFO. In addition, Mr. Jun LEI is also deemed to be interested in these shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares.

4. These shares are held by TCH Saffron Limited, a wholly-owned subsidiary of Tencent Holdings Limited. As such, Tencent Holdings Limited, MIH TC Holdings Limited and Naspers Limited, its beneficial owners, are deemed to be interested in TCH Saffron Limited's interests in the Company pursuant to Part XV of the SFO.

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

OTHER INFORMATION (continued)

Employee and Remuneration Policies

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

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

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

None of the Company and its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the six months ended 30 June 2016.

Review by Audit Committee

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

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

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2016.

OTHER INFORMATION (continued)

Corporate Governance Code

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

The code provision A.6.7 of the CG Code is regarding non-executive directors' attendance at general meetings and the code provision E.1.2 of the CG Code is regarding chairman's attendance at annual general meeting. Non-executive Directors Mr. Jun LEI (Chairman of the Board) and Mr. Chi Ping LAU and Independent non-executive Director Mr. Shun Tak WONG did not attend the annual general meeting held on 20 May 2016 due to pre-arranged engagements. The code provision C.1.2 of the CG Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive directors overseeing the daily operation of the Group and the effective communication between the executive directors, the management and the non-executive directors (including the independent non-executive directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

Appreciation

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

By Order of the Board

Kingsoft Corporation Limited

Jun Lei

Chairman

Hong Kong, 19 August 2016

INDEPENDENT REVIEW REPORT ON INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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To the board of directors of Kingsoft Corporation Limited

(Continued into the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim financial information set out on pages 24 to 93, which comprises the condensed consolidated statement of financial position of Kingsoft Corporation Limited (the "Company") and its subsidiaries as at 30 June 2016 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 accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Certified Public Accountants
Hong Kong

19 August 2016

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three and six months ended 30 June 2016

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)
Revenue	4	1,765,036	1,282,240	3,516,575	2,391,600
Cost of revenue		(559,959)	(306,892)	(1,030,192)	(530,616)
Gross profit		1,205,077	975,348	2,486,383	1,860,984
Research and development costs, net of government grants		(419,649)	(325,211)	(825,511)	(619,533)
Selling and distribution expenses		(480,538)	(396,267)	(973,326)	(686,239)
Administrative expenses		(147,549)	(116,526)	(284,378)	(217,687)
Share-based compensation costs	21	(102,919)	(60,096)	(216,942)	(117,979)
Other income	4	54,062	25,465	72,369	28,630
Other expenses		(22,731)	(11,998)	(31,335)	(21,128)
Other (losses)/gains, net	5	(959,639)	21,597	(932,644)	5,838
Finance income		37,810	45,715	83,983	98,091
Finance costs		(27,170)	(18,396)	(48,937)	(38,658)
Share of profits and losses:					
Joint ventures	12	3,941	(6,530)	645	(12,502)
Associates	13	(19,791)	(6,048)	(32,669)	(8,714)
(LOSS)/PROFIT BEFORE TAX	6	(879,096)	127,053	(702,362)	271,103
Income tax expense	7	(34,315)	(33,668)	(83,112)	(61,287)
(LOSS)/PROFIT FOR THE PERIOD		(913,411)	93,385	(785,474)	209,816
Attributable to:					
Owners of the parent		(807,554)	93,972	(673,751)	208,508
Non-controlling interests		(105,857)	(587)	(111,723)	1,308
		(913,411)	93,385	(785,474)	209,816
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8				
Basic		(0.63)	0.07	(0.52)	0.17
Diluted		(0.63)	0.06	(0.52)	0.16

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2016

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	NOTES	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
NON-CURRENT ASSETS			
Property, plant and equipment	9	1,107,419	966,079
Prepaid land lease payments	10	270,216	272,386
Goodwill		962,120	619,037
Other intangible assets	11	298,245	246,839
Investments in joint ventures	12	73,778	74,291
Investments in associates	13	408,211	250,009
Available-for-sale investments	14	1,488,312	2,226,302
Other financial assets	15	33,868	26,294
Loan receivables		9,596	12,971
Deferred tax assets		56,543	55,304
Other non-currents assets		30,283	93,318
Total non-current assets		4,738,591	4,842,830
CURRENT ASSETS			
Inventories		7,583	5,371
Trade receivables	16	1,119,181	966,000
Prepayments, deposits and other receivables		973,272	837,398
Available-for-sale investment	14	88,000	50,000
Other financial asset	15	849	—
Restricted cash	17	90,510	130,187
Pledged deposits	17	66,312	46,657
Cash and bank deposits	17	8,581,242	8,606,434
Total current assets		10,926,949	10,642,047
CURRENT LIABILITIES			
Trade payables	18	315,088	185,417
Other payables and accruals		1,818,234	1,808,689
Interest-bearing bank loans	19	342,988	147,029
Deferred revenue		563,031	425,964
Income tax payable		122,140	137,416
Total current liabilities		3,161,481	2,704,515
NET CURRENT ASSETS		7,765,468	7,937,532
TOTAL ASSETS LESS CURRENT LIABILITIES		12,504,059	12,780,362
NON-CURRENT LIABILITIES			
Other liabilities		37,384	72,105
Deferred revenue		27,620	24,141
Deferred tax liabilities		100,696	62,540
Interest-bearing bank loans	19	65,969	10,523
Liability component of convertible bonds	22	2,767,831	2,699,698
Liability component of redeemable convertible preferred shares	23	281,175	—
Total non-current liabilities		3,280,675	2,869,007
Net assets		9,223,384	9,911,355

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2016

	NOTES	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
EQUITY			
Equity attributable to owners of the parent			
Issued capital	20	5,092	5,092
Share premium account	20	2,365,057	2,474,663
Treasury shares	20	(31,409)	(34,766)
Equity component of convertible bonds	22	72,295	72,295
Other reserves		4,911,152	5,353,356
		7,322,187	7,870,640
Non-controlling interests		1,901,197	2,040,715
Total equity		9,223,384	9,911,355

HongJiang ZHANG
Director

Yuk Keung NG
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	ATTRIBUTABLE TO OWNERS OF THE PARENT													
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	EQUITY COMPONENT OF CONVERTIBLE			SHARE-BASED COMPENSATION		OTHER CAPITAL RESERVE	AVAILABLE-FOR-SALE INVESTMENT RESERVE	FOREIGN CURRENCY RESERVE	RETAINED PROFITS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
			TREASURY SHARES	BONDS (NOTE 22)	STATUTORY RESERVES	RESERVE (NOTE 21)	REVALUATION RESERVE							
	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 2016	5,092	2,474,663	(34,766)	72,295	197,881 [#]	375,240 [#]	1,276,487 [#]	(7,511) [#]	106,151 [#]	3,405,108 [#]	7,870,640	2,040,715	9,911,355	
Loss for the period	—	—	—	—	—	—	—	—	—	(673,751)	(673,751)	(111,723)	(785,474)	
Other comprehensive income for the period:														
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	48,398	—	—	48,398	422	48,820	
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	91,795	—	91,795	25,350	117,145	
Disposal of an associate	—	—	—	—	—	—	—	—	129	—	129	—	129	
Total comprehensive income for the period	—	—	—	—	—	—	—	48,398	91,924	(673,751)	(533,429)	(85,951)	(619,380)	
Approved and paid final dividend in respect of the previous year (note 25)	—	(110,111)	—	—	—	—	—	—	—	—	(110,111)	—	(110,111)	
Disposal of a subsidiary (note 27)	—	—	—	—	—	—	—	—	—	—	—	3,393	3,393	
Share-based compensation costs	—	—	—	—	—	117,947	—	—	—	—	117,947	98,900	216,847	
Exercise of share options	—	505	—	—	—	(236)	—	—	—	—	269	—	269	
Vested awarded shares transferred to employees	—	—	3,357	—	—	(63,196)	78,444	—	—	—	18,605	—	18,605	
Shares of reserves of an associate	—	—	—	—	—	—	124	—	—	—	124	132	256	
Subsidiaries' business combination under common control	—	—	—	—	—	—	—	—	1,242	(1,901)	(659)	659	—	
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(41,199)	—	—	—	(41,199)	(156,651)	(197,850)	
At 30 June 2016	5,092	2,365,057	(31,409)	72,295	197,881 [#]	429,755 [#]	1,313,856 [#]	40,887 [#]	199,317 [#]	2,729,456 [#]	7,322,187	1,901,197	9,223,384	

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

	ATTRIBUTABLE TO OWNERS OF THE PARENT													
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	EQUITY COMPONENT OF CONVERTIBLE			SHARE-BASED COMPENSATION		OTHER CAPITAL RESERVE	AVAILABLE-FOR-SALE INVESTMENT RESERVE	FOREIGN CURRENCY RESERVE	RETAINED PROFITS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
			TREASURY SHARES	BONDS (NOTE 22)	STATUTORY RESERVES	RESERVE (NOTE 21)	REVALUATION RESERVE							
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
AT 1 JANUARY 2015	4,730	219,207	(83,964)	74,505	185,513	231,360	1,192,967	(211,898)	(94,797)	3,043,752	4,561,375	1,555,169	6,116,544	
Profit for the period	—	—	—	—	—	—	—	—	—	208,508	208,508	1,308	209,816	
Other comprehensive income(loss) for the period:														
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	373,052	—	—	373,052	6,290	379,342	
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(1,675)	—	(1,675)	(469)	(2,144)	
Share of other comprehensive income of associates	—	—	—	—	—	—	3,404	—	—	—	3,404	—	3,404	
Total comprehensive income for the period	—	—	—	—	—	—	3,404	373,052	(1,675)	208,508	583,289	7,129	590,418	
Approved and paid final dividend in respect of the previous year	—	(121,521)	—	—	—	—	—	—	—	—	(121,521)	—	(121,521)	
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(18,860)	(18,860)	
Issue of new shares	308	2,145,716	—	—	—	—	—	—	—	—	2,146,024	—	2,146,024	
Acquisition of a subsidiary (note 26)	—	—	—	—	—	—	—	—	—	—	—	62,223	62,223	
Share-based compensation costs	—	—	—	—	—	82,512	—	—	—	—	82,512	35,649	118,161	
Exercise of share options	2	1,525	—	—	—	(10,079)	12,760	—	—	—	4,208	—	4,208	
Vested awarded shares transferred to employees	—	—	3,565	—	—	(38,296)	34,731	—	—	—	—	—	—	
Conversion of convertible bonds	62	267,809	—	(2,117)	—	—	—	—	—	—	265,754	—	265,754	
Share repurchased for cancellation	(13)	(45,150)	45,163	—	—	—	—	—	—	—	—	—	—	
Changes in the ownership of interest in subsidiaries	—	—	—	—	—	—	82,830	—	—	—	82,830	239,477	322,307	
At 30 June 2015	5,089	2,467,586	(35,236)	72,388	185,513	265,497	1,326,692	161,154	(96,472)	3,252,260	7,604,471	1,880,787	9,485,258	

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(702,362)	271,103
Adjustments for:			
Loss on disposal of property, plant and equipment	5	48,929	—
Loss on disposal of other intangible assets	6	829	5,699
Depreciation of property, plant and equipment	6	144,210	80,476
Amortisation of prepaid land lease payments	6	2,170	2,170
Amortisation of other intangible assets	6	67,282	67,355
Impairment of other intangible assets	6	2,350	10,534
Finance costs	6	48,937	38,658
Finance income		(83,983)	(98,091)
Fair value loss on financial instruments at fair value through profit or loss	5	13,905	557
Share-based compensation costs		216,942	117,979
Impairment of trade and other receivables	6	26,061	2,091
Share of (profits)/losses of joint ventures	12	(645)	12,502
Share of losses of associates	13	32,669	8,714
Foreign exchange loss/(gain)	5	12,303	(10,591)
Impairment losses of available-for-sale investments	5	914,541	27,534
Loss on disposal of a financial asset	5	—	6,323
Gain on previously held equity investment remeasured at acquisition-date fair value	5	—	(15,030)
Gain on partial disposal of an associate	5	—	(13,000)
Gain on deemed disposal of associates	5	(29,747)	(13,798)
Gain on disposal of an associate	5	(25,169)	—
Impairment loss of investments in joint ventures	5	9,908	—
Impairment loss of investment in an associate	5	1,545	—
Gain on disposal of a subsidiary	5	(13,571)	—
Dividend income from an available-for-sale investment	5	—	(700)
Impairment loss of goodwill	5	—	12,867
		687,104	513,352
Increase in trade receivables		(172,529)	(288,978)
Increase in prepayments, deposits and other receivables		(134,450)	(15,476)
Decrease in loan receivables		1,484	1,787
Increase in inventories		(1,673)	(5,792)
Increase in other long term receivable		(9,110)	(2,967)
Increase in trade payables		111,674	48,408
Increase in deferred revenue		146,735	45,745
(Decrease)/increase in other payables and accruals		(108,109)	62,500
Cash used in operation		(165,978)	(154,773)
Interest received		22,525	32,353
Income tax paid		(99,446)	(28,672)
Net cash flows from operating activities		444,205	362,260

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		29,172	21,337
Purchases of property, plant and equipment		(302,047)	(267,402)
Purchases of other intangible assets		(31,184)	(38,314)
(Increase)/decrease in time deposits with original maturity of over three months when acquired		(1,238,644)	452,621
Investment in joint ventures		(8,500)	(44,000)
Investments in associates		(170,840)	(96,325)
Settlement of contingent considerations of business combinations		(8,759)	(6,886)
Purchase of available-for-sale investments		(115,012)	(1,305,011)
Purchase of other financial assets		(20,143)	(53,303)
Disposal of other financial asset, net of interest received		—	65,726
Acquisition of businesses, net of cash acquired	26	(377,607)	(88,246)
Release of restricted cash for acquisition of a business	17	73,725	—
Restricted cash for acquisition of business	17	(32,895)	(122,192)
Disposal of a subsidiary, net of cash disposed of	27	(6,316)	—
Proceeds from disposal of a joint venture investment classified as held for sale		123,543	25,544
Dividend income from an available-for-sale investment	5	—	700
Proceeds from disposal of an associate		49,019	5,200
(Increase)/decrease in other loans		(3,880)	6,000
Net cash flows used in investing activities		(2,040,368)	(1,444,551)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares		—	2,146,024
Investments from non-controlling interests		326,084	242,270
Proceeds from exercise of share options		269	4,208
Vested awarded shares transferred to employees		18,605	—
Purchase of shares of an subsidiary from non-controlling interests		(203,288)	(11,205)
Dividends paid to owners of the parent		(110,111)	(121,521)
Dividends paid to non-controlling interests		—	(11,606)
Drawdown of bank loans, net of pledged deposits		225,461	78,854
Payment of financial lease		(7,018)	—
Repayment of a bank loan		(17,180)	—
Release of a pledged deposit		20,812	—
Interest paid		(24,126)	(26,612)
Net cash flows from financing activities		229,508	2,300,412
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(1,366,655)	1,218,121
Cash and cash equivalents at beginning of the period		6,629,275	3,193,934
Effect of foreign exchange rate changes, net		102,819	7,715
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
		5,365,439	4,419,770
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	1,307,599	1,099,277
Deposits with original maturity of less than three month when acquired	17	4,057,840	3,320,493
CASH AND CASH EQUIVALENTS			
		5,365,439	4,419,770

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Kingsoft Corporation Limited (the "Company") was incorporated under the Companies Act of the British Virgin Islands on 20 March 1998. On 15 November 2005, the Company was redomiciled to the Cayman Islands under the Company Law (2004 revision) of the Cayman Islands. The registered office of the Company is located at Clifton House, 75 Fort Street, George Town, Grand Cayman, Cayman Islands. The Company's shares have been listed on the Stock Exchange of Hong Kong Limited since 9 October 2007.

The Company and its subsidiaries (together, the "Group") were 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
- provision of cloud storage and cloud computation services, research, development and distribution of office application software, provision of dictionary services across devices, and provision of online marketing services.

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

2.1. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

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

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on 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:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income ("OCI"). The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Amendments to IAS 1 Disclosure Initiative (continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

Annual Improvements 2012–2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SEGMENT INFORMATION

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SEGMENT INFORMATION (continued)

	ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED)	INFORMATION SECURITY AND INTERNET SERVICES RMB'000 (UNAUDITED)	CLOUD SERVICES, OFFICE SOFTWARE AND OTHERS RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
<i>For the six months ended 30 June 2016</i>				
SEGMENT REVENUE:				
Sales to external customers	933,664	2,099,200	483,711	3,516,575
Intersegments sales	937	—	61,957	62,894
	934,601	2,099,200	545,668	3,579,469
<i>Reconciliation:</i>				
Elimination of intersegments sales				(62,894)
Revenue				3,516,575
Segment results	476,449	296,971	(83,957)	689,463
<i>Reconciliation:</i>				
Elimination of intersegments results				(1,917)
Administrative expenses				(284,378)
Share-based compensation costs				(216,942)
Other income				72,369
Other expenses				(31,335)
Other losses, net				(932,644)
Finance income				83,983
Finance costs				(48,937)
Share of profits and losses of:				
Joint ventures				645
Associates				(32,669)
Loss before tax				(702,362)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SEGMENT INFORMATION (continued)

	ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED)	INFORMATION SECURITY AND INTERNET SERVICES RMB'000 (UNAUDITED)	CLOUD SERVICES, OFFICE SOFTWARE AND OTHERS RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
<i>For the six months ended 30 June 2015 (Restated)</i>				
SEGMENT REVENUE:				
Sales to external customers	622,957	1,553,009	215,634	2,391,600
Intersegments sales	4,727	—	57,132	61,859
	627,684	1,553,009	272,766	2,453,459
<i>Reconciliation:</i>				
Elimination of intersegments sales				(61,859)
Revenue				2,391,600
Segment results	245,851	360,368	(50,747)	555,472
<i>Reconciliation:</i>				
Elimination of intersegments results				(260)
Administrative expenses				(217,687)
Share-based compensation costs				(117,979)
Other income				28,630
Other expenses				(21,128)
Other gains, net				5,838
Finance income				98,091
Finance costs				(38,658)
Share of losses of:				
Joint ventures				(12,502)
Associates				(8,714)
Profit before tax				271,103

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers:

	FOR THE SIX MONTHS ENDED 30 JUNE	
	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)
Mainland China	2,290,275	1,620,521
Hong Kong	623,455	647,868
Singapore	442,685	—
Other countries	160,160	123,211
Total	3,516,575	2,391,600

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

(b) Non-current assets:

	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
	China	2,087,240
Singapore	201,588	—
France	703,820	305,988
Other countries	138,096	269,384
Total	3,130,744	2,433,460

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 AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; rental income received and receivable; and the royalties derived from licensing agreements during the period.

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

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)
<i>Revenue</i>				
Cloud services and software	237,130	73,905	425,576	223,966
Online marketing services	974,337	807,114	1,980,851	1,347,696
Game services	492,904	329,194	985,847	674,308
Internet value-added services	47,674	59,441	94,716	117,685
Royalties	11,148	11,063	26,325	24,757
Others	1,843	1,523	3,260	3,188
	1,765,036	1,282,240	3,516,575	2,391,600
<i>Other income</i>				
Government grants	47,864	24,894	63,867	25,376
Others	6,198	571	8,502	3,254
	54,062	25,465	72,369	28,630

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. OTHER (LOSSES)/GAINS, NET

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)
Gain on previously held equity investment remeasured at acquisition-date fair value		—	15,030	—	15,030
Gain on partial disposal of an associate		—	—	—	13,000
Gain on disposal of an associate		—	—	25,169	—
Gain on deemed disposal of an associate		28,719	13,798	29,747	13,798
Gain on disposal of a subsidiary	27	13,571	—	13,571	—
Loss on disposal of a financial asset		—	(6,323)	—	(6,323)
Loss on disposal of property, plant and equipment		(48,929)	—	(48,929)	—
Dividend income from an available-for-sale investment		—	700	—	700
Impairment loss of available-for-sale investments	14	(914,541)	—	(914,541)	(27,534)
Impairment loss of investments in an associate		(1,545)	—	(1,545)	—
Impairment loss of investments in joint ventures		(9,908)	—	(9,908)	—
Impairment loss of goodwill		—	(12,867)	—	(12,867)
Foreign exchange (loss)/gain		(13,764)	8,926	(12,303)	10,591
Fair value (loss)/gain on financial instruments at fair value through profit or loss		(13,242)	2,333	(13,905)	(557)
		(959,639)	21,597	(932,644)	5,838

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. (LOSS)/PROFIT BEFORE TAX

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

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)
Employee benefit expenses	690,919	441,574	1,266,535	854,004
Depreciation of property, plant and equipment	74,242	44,562	144,210	80,476
Amortisation of prepaid land lease payments	1,085	1,085	2,170	2,170
Amortisation of other intangible assets	34,486	39,819	67,282	67,355
Interest on bank loans, convertible bonds, redeemable convertible preferred shares and finance leases	27,170	18,396	48,937	38,658
Impairment of trade and other receivables*	21,151	3,251	26,061	2,091
Impairment of goodwill	—	12,867	—	12,867
Impairment of other intangible assets*	—	3,666	2,350	10,534
Loss on disposal of other intangible assets*	829	—	829	5,699

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

7. INCOME TAX EXPENSE

The major components of income tax expense are as follows:

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)
Current income tax	34,332	39,023	84,170	70,122
Deferred income tax	(17)	(5,355)	(1,058)	(8,835)
Income tax expense	34,315	33,668	83,112	61,287

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The calculation of the basic earnings per share amount is based on the profit/loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,288,345,473 (six months ended 30 June 2015: 1,255,294,457) in issue during the period.

The calculation of diluted earnings per share amount is based on the profit/loss 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 into ordinary shares.

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

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)
<i>Earnings</i>				
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	(807,554)	93,972	(673,751)	208,508
Decrease in earnings adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries	—	(1,324)	—	(1,608)
	(807,554)	92,648	(673,751)	206,900

	NUMBER OF SHARES FOR THE THREE MONTHS ENDED 30 JUNE		NUMBER OF SHARES FOR THE SIX MONTHS ENDED 30 JUNE	
	2016 (UNAUDITED)	2015 (UNAUDITED)	2016 (UNAUDITED)	2015 (UNAUDITED)
<i>Shares</i>				
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the period, used in the basic earnings per share calculation	1,288,672,593	1,277,254,369	1,288,345,473	1,255,294,457
Effect of dilution — weighted average number of ordinary shares:				
Share options	—	4,848,681	—	9,965,602
Awarded shares	—	3,123,152	—	6,475,756
	1,288,672,593	1,285,226,202	1,288,345,473	1,271,735,815

For the three and six months ended 30 June 2016, both the convertible bonds issued in 2014 and in 2013 had anti-dilutive effect on the basic earnings per share and were ignored in the calculation of diluted earnings per share. Therefore, no impact of the convertible bonds issued in 2014 and in 2013 was adjusted on the calculation of the diluted earnings per share during the three and six months ended 30 June 2016 (three and six months ended 30 June 2015: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. PROPERTY, PLANT AND EQUIPMENT

	BUILDINGS RMB'000	ELECTRONIC EQUIPMENT RMB'000	OFFICE EQUIPMENT AND FIXTURES RMB'000	MOTOR VEHICLES RMB'000	LEASEHOLD IMPROVEMENTS RMB'000	CONSTRUCTION IN PROGRESS RMB'000	TOTAL RMB'000
30 June 2016 (Unaudited)							
At 31 December 2015 and 1 January 2016:							
Cost	256,539	897,508	149,092	5,879	65,936	142,386	1,517,340
Accumulated depreciation	(28,387)	(389,923)	(121,685)	(3,135)	(8,131)	—	(551,261)
Net carrying amount	228,152	507,585	27,407	2,744	57,805	142,386	966,079
At 1 January 2016, net of accumulated depreciation	228,152	507,585	27,407	2,744	57,805	142,386	966,079
Additions	—	262,608	4,209	1,420	1,765	67,045	337,047
Acquisition from business combination (note 26)	—	366	35	—	119	—	520
Disposal of a subsidiary (note 27)	—	(668)	(403)	—	(95)	—	(1,166)
Disposal	—	(52,067)	(114)	—	—	—	(52,181)
Depreciation provided during the period	(2,341)	(130,229)	(4,060)	(590)	(6,990)	—	(144,210)
Exchange realignment	—	900	388	23	19	—	1,330
At 30 June 2016, net of accumulated depreciation	225,811	588,495	27,462	3,597	52,623	209,431	1,107,419
At 30 June 2016:							
Cost	256,539	1,066,313	153,378	7,346	67,830	209,431	1,760,837
Accumulated depreciation	(30,728)	(477,818)	(125,916)	(3,749)	(15,207)	—	(653,418)
Net carrying amount	225,811	588,495	27,462	3,597	52,623	209,431	1,107,419
31 December 2015 (Audited)							
At 1 January 2015:							
Cost	256,539	502,680	129,109	4,901	20,433	59,341	973,003
Accumulated depreciation	(23,705)	(232,614)	(117,565)	(2,473)	(13,009)	—	(389,366)
Net carrying amount	232,834	270,066	11,544	2,428	7,424	59,341	583,637
At 1 January 2015, net of accumulated depreciation	232,834	270,066	11,544	2,428	7,424	59,341	583,637
Additions	—	406,261	22,066	1,860	54,588	83,045	567,820
Acquisition from business combination	—	3,477	—	—	—	—	3,477
Disposal	—	(691)	(1,012)	(206)	(254)	—	(2,163)
Depreciation provided during the year	(4,682)	(172,402)	(5,331)	(1,380)	(3,969)	—	(187,764)
Exchange realignment	—	874	140	42	16	—	1,072
At 31 December 2015, net of accumulated depreciation	228,152	507,585	27,407	2,744	57,805	142,386	966,079
At 31 December 2015:							
Cost	256,539	897,508	149,092	5,879	65,936	142,386	1,517,340
Accumulated depreciation	(28,387)	(389,923)	(121,685)	(3,135)	(8,131)	—	(551,261)
Net carrying amount	228,152	507,585	27,407	2,744	57,805	142,386	966,079

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. PREPAID LAND LEASE PAYMENTS

	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
Carrying amount at 1 January	276,726	281,066
Amortisation during the period/year	(2,170)	(4,340)
Carrying amount at 30 June/31 December	274,556	276,726
Current portion included in prepayments, deposits and other receivables	(4,340)	(4,340)
Non-current portion	270,216	272,386

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. OTHER INTANGIBLE ASSETS

	PURCHASED SOFTWARE RMB'000	LICENSE RIGHTS FOR GAMES RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	USER BASE RMB'000	OTHERS RMB'000	TOTAL RMB'000
30 June 2016 (Unaudited)						
At 1 January 2016:						
Cost	300,938	80,813	27,229	114,196	24,005	547,181
Accumulated amortisation and impairment	(139,918)	(63,417)	(27,229)	(63,589)	(6,189)	(300,342)
Net carrying amount	161,020	17,396	—	50,607	17,816	246,839
Cost at 1 January 2016, net of accumulated amortisation and impairment	161,020	17,396	—	50,607	17,816	246,839
Addition	22,265	1,200	—	5,697	2,022	31,184
Acquisition from business combination (note 26)	9,663	—	—	—	77,669	87,332
Amortisation provided during the period	(37,312)	(3,267)	—	(19,488)	(7,215)	(67,282)
Disposals	—	(829)	—	—	—	(829)
Impairment during the period	—	(2,350)	—	—	—	(2,350)
Exchange realignment	208	837	—	780	1,526	3,351
At 30 June 2016, net of accumulated amortisation and impairment	155,844	12,987	—	37,596	91,818	298,245
At 30 June 2016:						
Cost	330,515	80,080	27,229	121,888	106,163	665,875
Accumulated amortisation and impairment	(174,671)	(67,093)	(27,229)	(84,292)	(14,345)	(367,630)
Net carrying amount	155,844	12,987	—	37,596	91,818	298,245

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. OTHER INTANGIBLE ASSETS (continued)

	PURCHASED SOFTWARE RMB'000	LICENCE RIGHTS FOR GAMES RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	USER BASE RMB'000	OTHERS RMB'000	TOTAL RMB'000
31 December 2015 (Audited)						
At 1 January 2015:						
Cost	137,713	67,668	27,229	93,534	16,737	342,881
Accumulated amortisation and impairment	(68,570)	(23,467)	(23,082)	(27,733)	(2,604)	(145,456)
Net carrying amount	69,143	44,201	4,147	65,801	14,133	197,425
Cost at 1 January 2015, net of accumulated amortisation and impairment	69,143	44,201	4,147	65,801	14,133	197,425
Additions	55,550	17,556	—	—	1,260	74,366
Acquisition from business combination	94,845	—	—	14,710	6,000	115,555
Amortisation provided during the year	(74,806)	(19,452)	(4,147)	(33,080)	(2,634)	(134,119)
Impairment during the year	(213)	(24,248)	—	—	(789)	(25,250)
Disposals	(1,348)	(2,084)	—	—	(158)	(3,590)
Exchange realignment	17,849	1,423	—	3,176	4	22,452
At 31 December 2015	161,020	17,396	—	50,607	17,816	246,839
At 31 December 2015:						
Cost	300,938	80,813	27,229	114,196	24,005	547,181
Accumulated amortisation and impairment	(139,918)	(63,417)	(27,229)	(63,589)	(6,189)	(300,342)
Net carrying amount	161,020	17,396	—	50,607	17,816	246,839

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN JOINT VENTURES

	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
Share of net assets	51,633	42,238
Goodwill on acquisition	33,478	33,478
	85,111	75,716
Provision for impairment	(11,333)	(1,425)
	73,778	74,291

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 2016 RMB'000 (UNAUDITED)	30 JUNE 2015 RMB'000 (UNAUDITED)	30 JUNE 2016 RMB'000 (UNAUDITED)	30 JUNE 2015 RMB'000 (UNAUDITED)
Share of the joint ventures' profits and losses for the period	3,941	(6,530)	645	(12,502)
Share of the joint ventures' total comprehensive income/(loss)	3,941	(6,530)	645	(12,502)
Aggregate carrying amount of the Group's investments in the joint ventures	73,778	81,192	73,778	81,192

The Group has discontinued the recognition of its share of losses of two joint ventures because the share of losses of these joint ventures exceeded the Group's interests in the joint ventures and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of these joint ventures for the six months ended 30 June 2016 and cumulatively were RMB3,521,000 (six months ended 30 June 2015: RMB99,000) and RMB10,542,000 (31 December 2015: RMB7,021,000), respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. INVESTMENTS IN ASSOCIATES

	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
Share of net assets	351,707	220,327
Goodwill on acquisition	59,901	31,534
	411,608	251,861
Provision for impairment	(3,397)	(1,852)
	408,211	250,009

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 2016 RMB'000 (UNAUDITED)	30 JUNE 2015 RMB'000 (UNAUDITED)	30 JUNE 2016 RMB'000 (UNAUDITED)	30 JUNE 2015 RMB'000 (UNAUDITED)
Share of the associates' loss for the period	(19,791)	(6,048)	(32,669)	(8,714)
Share of the associates' total comprehensive loss	(19,791)	(2,644)	(32,669)	(5,310)
Aggregate carrying amount of the Group's investments in the associates	408,211	230,141	408,211	230,141

- (i) The Group has discontinued the recognition of its share of losses of two associates, because the share of losses of these associates exceeded the Group's interest in these associates and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of these associates for the six months ended 30 June 2016 and cumulatively were nil (six months ended 30 June 2015: RMB747,200) and RMB1,268,000 (31 December 2015: RMB1,268,000), respectively.
- (ii) On 26 February 2016, the Company entered into the share purchase agreement with Xiaomi Corporation and other shareholders of Zhigu Holdings Limited ("Zhigu"), an associate of the Company, pursuant to which, the Company agreed to sell and Xiaomi Corporation agreed to purchase all the shares held by the Company in Zhigu at a consideration of US\$7.5 million (equivalent to RMB49,019,000). Upon the closing of the transaction, a gain of RMB25,169,000, which included a reclassification from other comprehensive loss of RMB129,000, has been recognised in the statement of profit or loss during the six months ended 30 June 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. AVAILABLE-FOR-SALE INVESTMENTS

	NOTES	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
Listed equity investments in United States, at fair value	(i)	955,811	1,726,438
Unlisted equity investments, at fair value	(i)	168,731	—
Unlisted equity investments, at cost	(ii)	451,770	549,864
		1,576,312	2,276,302
Current portion		(88,000)	(50,000)
Non-current portion		1,488,312	2,226,302

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.

During the six months ended 30 June 2016, the gross loss in respect of the Group's available-for-sale investments at fair value recognised in other comprehensive income amounted to RMB856,221,000 (six months ended 30 June 2015: gain RMB353,451,000), of which loss of RMB914,541,000 (six months ended 30 June 2015: loss RMB25,891,000) was reclassified from other comprehensive income to profit or loss during the period.

Notes:

- (i) During the six months ended 30 June 2016, certain of the Group's available-for-sale equity shares were individually determined to be impaired on the basis that there was a "significant" or "prolonged" decline in the fair value of the equity investments.

Impairment losses of RMB914,541,000 (six months ended 30 June 2015: RMB27,534,000), which included a reclassification from other comprehensive income of RMB914,541,000 (six months ended 30 June 2015: RMB25,891,000), has been recognised in the condensed consolidated statement of profit or loss during the six months ended 30 June 2016.

- (ii) As at 30 June 2016, the unlisted equity investments with a carrying amount of RMB451,770,000 (31 December 2015: RMB549,864,000) were stated at cost less impairment, because the range of reasonable fair value estimates is so significant that the directors are of the opinion that the fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future. During the six months ended 30 June 2016, no impairment loss was recognised in the condensed consolidated statement of profit or loss (six months ended 30 June 2015: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. OTHER FINANCIAL ASSETS

	NOTES	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
Ordinary share subscription option	(i)	14,521	12,073
Redemption rights	(ii)	19,347	—
Call options		849	14,221
		34,717	26,294
Current portion		(849)	—
Non-current portion		33,868	26,294

Notes:

- (i) The ordinary share subscription option (the "VNG Option") represents rights to subscribe for an aggregate of 1,032,917 ordinary shares of VNG Corporation ("VNG"), an independent third party in Vietnam, which can be exercised from time to time at the Group's full discretion on or before 31 December 2020. The Group has no intention to dispose of or exercise these options in the near future.
- (ii) These redemption rights represent the Group's rights to redeem certain investments under certain circumstance in accordance with investment agreements.

16. 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 twelve 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 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
0–30 days	745,455	618,235
31–60 days	128,238	114,974
61–90 days	70,627	71,687
91–365 days	142,763	116,429
Over one year	32,098	44,675
	1,119,181	966,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. CASH AND BANK DEPOSITS, PLEDGED DEPOSITS AND RESTRICTED CASH

	NOTES	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
Cash and bank balances	(i)	1,307,599	1,553,088
Non-pledged time deposits with original maturity of less than three months when acquired	(i)	2,849,897	4,317,593
Principle protected structure deposits with original maturity of less than three months when acquired		1,207,943	758,594
		5,365,439	6,629,275
Non-pledged time deposits with original maturity of over three months when acquired	(i)	1,269,422	356,939
Principle protected structure deposits with original maturity of over three months when acquired		1,946,381	1,620,220
Cash and bank deposits		8,581,242	8,606,434
Pledged time deposits for bank loans	(i), 19	66,312	46,657
Restricted cash	(iii)	90,510	130,187
		8,738,064	8,783,278
Denominated in RMB	(ii)	4,327,494	4,125,340
Denominated in US\$		4,222,962	4,345,561
Denominated in HK\$		126,061	287,160
Denominated in JPY		26,429	18,725
Denominated in other currencies		35,118	6,492
		8,738,064	8,783,278

Notes:

- (i) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of one day to and a year depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.
- (ii) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.
- (iii) As at 30 June 2016, restricted cash of RMB90,510,000 (31 December 2015: RMB130,187,000) was not a part of cash and cash equivalents, which are not available for the Group's use. The restricted cash represents the escrow amounts and its related interest income held in an escrow accounts by the Group, which shall be available for the payment of the consideration payables to the sellers in accordance with the terms of the share purchase agreements to acquire MobPartner S.A.S ("Mobpartner") and News Republic SAS ("News Republic").

In April 2016, restricted cash of RMB73,725,000 in respect of acquisition of Mobpartner was released and paid to the original shareholders of Mobpartner in accordance with the terms of the share purchase agreement.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. TRADE PAYABLES

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

	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
0–30 days	105,433	138,561
31–60 days	121,320	10,806
61–90 days	19,084	4,968
91–365 days	51,232	22,779
Over one year	18,019	8,303
	315,088	185,417

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

19. INTEREST-BEARING BANK LOANS

	NOTES	EFFECTIVE INTEREST RATE	MATURITY	PRINCIPAL AMOUNT RMB'000
At 30 June 2016 (Unaudited)				
Current				
Bank loan — secured	(i)	2.07%–2.13% per annum	2016	331,560
Current portion of long term bank loans — unsecured		1.98%–2.92% per annum	2016–2017	11,428
				342,988
Non-current				
Bank loan — unsecured		1.98%–2.92% per annum	2017–2021	65,969
				408,957

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. INTEREST-BEARING BANK LOANS (continued)

	NOTE	EFFECTIVE INTEREST RATE	MATURITY	PRINCIPAL AMOUNT RMB'000
At 31 December 2015 (Audited)				
Current				
Bank loans — secured	(i)	0.94%–2.07% per annum	2016	146,628
Current portion of long term bank loans — unsecured		1.98%–2.92% per annum	2016	401
				147,029
Non-current				
Bank loans — unsecured		1.98%–2.92% per annum	2017–2021	10,523
				157,552

Note:

- (i) The Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB66,312,000 (31 December 2015: RMB46,657,000).
- (ii) As at 30 June 2016, interest-bearing bank loans of the Group amounting to nil, RMB397,872,000 and RMB11,085,000 were denominated in HK\$, US\$ and Euro, respectively (31 December 2015: RMB16,756,000, RMB129,872,000 and RMB10,924,000, respectively).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. SHARE CAPITAL

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)	TREASURY SHARES RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
At 1 January 2016	1,287,800,449*	5,092	2,474,663	(34,766)	2,444,989
Exercise of share options	169,500	—	505	—	505
Approved and paid final dividend in respect of the previous year	—	—	(110,111)	—	(110,111)
Vested awarded shares transferred to employees	1,412,400	—	—	3,357	3,357
At 30 June 2016	1,289,382,349*	5,092	2,365,057	(31,409)	2,338,740
At 1 January 2015	1,164,641,188	4,730	219,207	(83,964)	139,973
Exercise of share options	548,850	2	1,525	—	1,527
Issue of new shares	100,000,000	308	2,145,716	—	2,146,024
Conversion of convertible bonds	20,145,951	62	267,809	—	267,871
Approved and paid final dividend in respect of the previous year	—	—	(121,521)	—	(121,521)
Share repurchased for cancellation	—	(13)	(45,150)	45,163	—
Vested awarded shares transferred to employees	1,515,467	—	—	3,565	3,565
At 30 June 2015	1,286,851,456	5,089	2,467,586	(35,236)	2,437,439

* Excluding 13,266,438 shares (31 December 2015: 14,678,838 shares) held by the Share Award Scheme Trust as at 30 June 2016.

Share options

Details of the Company's share option schemes and the share options issued under these schemes are included in note 21 to the financial statement.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SHARE-BASED COMPENSATION COSTS

Share option schemes

(a) The Company's 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 ("2004 Scheme") and January 2007 ("2007 Scheme"), respectively. The Pre-IPO Share Option Schemes were terminated on 3 September 2007.

The following table illustrates the number of and movements in the Company's share options of Pre-IPO Share Option Schemes for the six months ended 30 June 2016 and 2015.

	2016 NUMBER OF SHARES OPTIONS (UNAUDITED)	2015 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at 1 January	4,622,100	5,365,740
Exercised during the period	(169,500)	(548,850)
Outstanding at 30 June	4,452,600	4,816,890
Exercisable at 30 June	4,452,600	4,816,890

(b) The Company's 2011 Share Option Scheme

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

The following table illustrates the number of and movements in the Company's share options of 2011 Share Option Schemes for the six months ended 30 June 2016 and 2015.

	2016 NUMBER OF SHARES OPTIONS (UNAUDITED)	2015 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at 1 January	5,900,000	8,900,000
Forfeited during the period	—	(3,000,000)
Outstanding at 30 June	5,900,000	5,900,000
Exercisable at 30 June	4,700,000	4,100,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(c) 2006–2007 Kingsoft Japan Share Option Scheme

On 2 November 2006 and 31 July 2007, the shareholders of Kingsoft Japan 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 1,710 in aggregate. Options are exercisable conditional upon a successful initial public offering of Kingsoft Japan. Options granted will expire in ten years. On 17 July 2014, directors of Kingsoft Japan approved to split all outstanding shares of Kingsoft Japan in the proportion of 1:100. As such, the number of shares subject to the options under the 2006–2007 Kingsoft Japan Share Option Scheme was adjusted in the proportion of 1:100.

The outstanding number of share options granted in Kingsoft Japan at 30 June 2016 was 77,500. There was no movement of outstanding share options during the six months ended 30 June 2016 and 2015.

(d) 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 ordinary shares under the 2014 Kingsoft Japan Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 2,837 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. On 17 July 2014, directors of Kingsoft Japan approved to split all outstanding shares of Kingsoft Japan in the proportion of 1:100. As such, the number of shares subject to the options under the 2014 Kingsoft Japan Share Option Scheme was adjusted in the proportion of 1:100.

The outstanding number of share options granted in Kingsoft Japan at 30 June 2016 was 94,700. There was no movement of outstanding share options during the six months ended 30 June 2016 and 2015.

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(e) Kingsoft Cloud Holdings Limited (“Kingsoft Cloud”) Share Option Scheme (continued)

The following table illustrates the number of and movements in the Kingsoft Cloud Share Option Schemes for the six months ended 30 June 2016 and 2015.

	2016 NUMBER OF SHARE OPTIONS (UNAUDITED)	2015 NUMBER OF SHARE OPTIONS (UNAUDITED)
Outstanding at 1 January	95,850,000	75,250,000
Granted during the period	78,400,000	49,950,000
Forfeited during the period	(6,910,000)	(4,400,000)
Outstanding at 30 June	167,340,000	120,800,000
Exercisable at 30 June	14,320,000	—

(f) Seasun Holdings Limited (“Seasun Holdings”) Share Option Scheme

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

The following table illustrates the numbers of and movements in the Seasun Share Option Scheme during the six months ended 30 June 2016 and 2015.

	2016 NUMBER OF SHARES OPTIONS (UNAUDITED)	2015 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at 1 January	15,665,000	7,255,000
Granted during the period	2,100,000	515,000
Forfeited during the period	(1,260,000)	—
Outstanding at 30 June	16,505,000	7,770,000
Exercisable at 30 June	—	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(g) Cheetah Mobile Equity Incentive Scheme

On 2 January 2014, Cheetah Mobile adopted an equity incentive scheme (the "Cheetah Mobile Equity Incentive Scheme"). The Cheetah Mobile equity incentive scheme provides for the grant of ordinary shares, restricted shares, share options and share appreciation rights to the employees, directors or non-employee consultants of Cheetah Mobile. The maximum number of the Cheetah Mobile's ordinary shares which may be issued under the Cheetah Mobile equity incentive scheme is 64,497,718. The Cheetah Mobile equity incentive scheme is valid and effective for a term of ten years commencing from its adoption. Except for service conditions, there were no other vesting conditions for all the awards under Cheetah Mobile equity incentive scheme.

The following restricted shares with an option feature outstanding under the Cheetah Mobile Equity Incentive Scheme during the six months ended 30 June 2016 and 2015.

	2016 NUMBER OF RESTRICTED SHARES (UNAUDITED)	2015 NUMBER OF RESTRICTED SHARES (UNAUDITED)
Outstanding at 1 January	61,320,331	55,292,131
Granted during the period	—	1,995,000
Vesting during the period	(6,333,980)	(1,637,950)
Forfeited during the period	(1,554,000)	(1,789,000)
Outstanding at 30 June	53,432,351	53,860,181
Exercisable at 30 June	14,841,472	11,166,626

Share Award Schemes

(a) Share Award Scheme adopted by the Company

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 trust of the Share Award Scheme during the six months ended 30 June 2016 and 2015.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

The following table illustrates the number of and movements in the Share Award Scheme during the six months ended 30 June 2016 and 2015.

	2016 NUMBER OF AWARDED SHARES (UNAUDITED)	2015 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	6,109,601	11,597,068
Awarded during the period	30,000	285,000
Forfeited during the period	(611,700)	(3,521,000)
Vested and transferred during the period	(1,412,400)	(1,515,467)
Outstanding at 30 June	4,115,501	6,845,601
Exercisable at 30 June	11,100	31,000

(b) 2011 Cheetah Mobile Share Award Scheme adopted by Cheetah Mobile

On 26 May 2011, the directors of the Company and Cheetah Mobile approved and adopted a share award scheme, in which selected employees of Cheetah Mobile and its subsidiaries are entitled to participate. Unless early terminated by the directors of Cheetah Mobile, the 2011 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 awarded shares which would result in the total number of shares (but not counting those 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 2016 and 2015.

	2016 NUMBER OF AWARDED SHARES (UNAUDITED)	2015 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	22,202,973	38,398,753
Awarded during the period	1,374,000	5,004,530
Vested and transferred during the period	(9,422,334)	(17,687,246)
Forfeited during the period	(2,070,783)	(955,000)
Outstanding at 30 June	12,083,856	24,761,037
Exercisable at 30 June	—	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

(c) 2014 Cheetah Mobile Share Award Scheme adopted by Cheetah Mobile

On 24 April 2014, the shareholders of Cheetah Mobile approved and adopt a share award scheme (the “2014 Cheetah Mobile Share Award Scheme”), in which selected employees of Cheetah Mobile and its subsidiaries are entitled to participate. Unless early terminated by the board or the compensation committee of the board of Cheetah Mobile, the 2014 Cheetah Mobile Share Award Scheme shall be valid and effective for a term of ten years commencing from 24 April 2014. The maximum aggregate number of shares, which may be issued pursuant to all awards granted, shall be equal to 122,545,665 Class A ordinary shares.

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

	2016 NUMBER OF AWARDED SHARES (UNAUDITED)	2015 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	19,797,900	—
Awarded during the period	25,902,490	—
Forfeited during the period	(2,426,280)	—
Vested and transferred during the period	(926,980)	—
Outstanding at 30 June	42,347,130	—
Exercisable at 30 June	407,020	—

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

On 3 December 2012, the directors of the Company and KOS Holdings 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. On 27 November 2014, the shareholders of the Company and KOS Holdings approved to amend certain existing provisions of the KOS Share Award Scheme. Pursuant to the amendment, the board of KOS Holdings shall not grant any award share which would result in the total number of shares which are the subject of awards granted by the board under the KOS Share Award Scheme (but not counting any shares which have lapsed or have been revoked or forfeited) being greater than 54,000,000 shares, as at the date of such grant.

In November 2015, pursuant to shareholders resolution, board resolution and a series of agreements, all the outstanding awarded shares under KOS Share Award Scheme were replaced by the restricted shares of Beijing Kingsoft Office Software Co., Ltd. (“Beijing Kingsoft Office”), held through certain limited partnerships. The limited partnerships were set up for the purpose of holding the shares of Beijing Kingsoft Office, which is a similar arrangement for the benefit of employees as the KOS Share Award Scheme Trust.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

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

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

	2016 NUMBER OF AWARDED SHARES (UNAUDITED)	2015 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at 1 January	41,582,000	25,000,000
Awarded during the period	1,560,976	16,350,000
Forfeited during the period	—	(15,000,000)
Outstanding at 30 June	43,142,976	26,350,000
Exercisable at 30 June	—	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. SHARE-BASED COMPENSATION COSTS (continued)

Other Restricted Share Schemes

In addition to the awarded shares granted under the above disclosed share awarded schemes, the restricted shares of below subsidiaries were granted to eligible persons or their controlled companies for their employment or consultant service with the Group.

(a) Restricted shares granted by Cheetah Mobile

The following table illustrates the number of and movements in the restricted shares granted by Cheetah Mobile during the six months ended 30 June 2016 and 2015.

	2016 NUMBER OF RESTRICTED SHARES (UNAUDITED)	2015 NUMBER OF RESTRICTED SHARES (UNAUDITED)
Outstanding at 1 January	3,690,667	—
Granted during the period	105,000	3,644,210
Vested and transferred during the period	(574,035)	—
Forfeited during the period	(181,125)	—
Outstanding at 30 June	3,040,507	3,644,210
Exercisable at 30 June	—	—

(b) Restricted shares granted by Beijing Kingsoft Office

Pursuant to Shareholders resolution, board resolution and a series of agreements in 2015, all the outstanding awarded shares under KOS Share Award Scheme were replaced by the restricted shares of Beijing Kingsoft Office, held through certain limited partnerships. The limited partnerships were set up for the purpose of holding the shares of Beijing Kingsoft Office, which is a similar arrangement for the benefit of employees as the KOS Share Award Scheme Trust.

(c) Restricted shares granted by Kingsoft Cloud

The following table illustrates the number of and movements in the restricted shares granted by Kingsoft Cloud during the six months ended 30 June 2016 and 2015.

	2016 NUMBER OF RESTRICTED SHARES (UNAUDITED)	2015 NUMBER OF RESTRICTED SHARES (UNAUDITED)
Outstanding at 1 January	41,437,500	—
Granted during the period	—	55,037,500
Outstanding at 30 June	41,437,500	55,037,500
Exercisable at 30 June	—	—

(d) Restricted shares granted by Moxiu Technology (Beijing) Co., Ltd. ("Moxiu Technology")

Moxiu Technology, also has its equity incentive awards granted to its employees.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. CONVERTIBLE BONDS

	Notes	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
Liability component			
2013 Convertible Bonds	(i)	844,020	824,881
2014 Convertible Bonds	(ii)	1,923,811	1,874,817
		2,767,831	2,699,698
Equity component			
2013 Convertible Bonds	(i)	6,290	6,290
2014 Convertible Bonds	(ii)	66,005	66,005
		72,295	72,295

Notes:

- (i) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK\$1,356,000,000 which bear interest at a rate of 3% per annum payable semi-annually (the "2013 Convertible Bonds"). The 2013 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$16.9363 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2013 Convertible Bonds at principal amount together with interest accrued by giving the bondholders not less than 30 days' prior notice. On the maturity date, any 2013 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

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

In accordance with the respective terms and conditions of the 2013 Convertible Bonds, the payment of the 2014 final dividend, together with the distribution in specie of ADS of Cheetah Mobile in May 2014 and the payment of a final dividend of HK\$0.12 per share for the financial year of 2013, resulted in an adjustment to the respective conversion prices of each of the 2013 Convertible Bonds. Considering the 2014 final dividend has been approved by the shareholders at the annual general meeting, and the adjustment became effective on 2 June 2015, the respective conversion price of the 2013 Convertible Bonds was adjusted to HK\$16.70 per share.

In accordance with the respective terms and conditions of the 2013 Convertible Bonds, the payment of the 2015 final dividend, together with the issue of 100,000,000 additional Shares on 11 June 2015, resulted in a further adjustment to the respective conversion prices of each of the 2013 Convertible Bonds. Considering the 2015 final dividend has been approved by the shareholders at the annual general meeting, and the adjustment became effective on 2 June 2016, the respective conversion price of the 2013 Convertible Bonds was adjusted to HK\$16.46 per share.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. CONVERTIBLE BONDS (continued)

(i) (continued)

No shares were allotted and issued by the Company to the relevant holders of the bonds upon the conversion of 2013 Convertible Bonds for the six months ended 30 June 2016 (six months ended 30 June 2015: 20,145,951 shares). The aggregate principal amount of the 2013 Convertible Bonds remaining outstanding as at 30 June 2016 is HK\$1,000 million.

The movements of the liability component and the equity component of the 2013 Convertible Bonds for the six months ended 30 June 2016 and 2015 are set out below:

	LIABILITY COMPONENT RMB'000 (UNAUDITED)	EQUITY COMPONENT RMB'000 (UNAUDITED)
At 1 January 2016	824,881	6,290
Interest expenses	2,477	—
Exchange realignment	16,662	—
At 30 June 2016	844,020	6,290
	LIABILITY COMPONENT RMB'000 (UNAUDITED)	EQUITY COMPONENT RMB'000 (UNAUDITED)
At 1 January 2015	1,047,132	8,500
Conversion to ordinary shares	(263,665)	(2,117)
Interest expenses	2,722	—
Exchange realignment	(501)	—
At 30 June 2015	785,688	6,383

Assuming full conversion of the 2013 Convertible Bonds at the price of HK\$16.46 per share and no further issue of shares, the 2013 Convertible Bonds will be convertible into approximately 60,753,341 shares of the Company as at 30 June 2016.

(ii) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HK\$2,327,000,000 which bear interest at a rate of 1.25% per annum payable semi-annually (the "2014 Convertible Bonds"). The 2014 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 22 May 2014 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$43.89 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2014 Convertible Bonds at the principal amount together with the interest accrued by giving the bondholders not less than 30 days' prior notice. On the maturity date, any 2014 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. CONVERTIBLE BONDS (continued)

(ii) (continued)

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

There was no conversion or redemption of the 2014 Convertible Bonds during the six months ended 30 June 2016 and 2015.

The movements of the liability component and the equity component of the 2014 Convertible Bonds for the six months ended 30 June 2016 and 2015 are set out below:

	LIABILITY COMPONENT RMB'000 (UNAUDITED)	EQUITY COMPONENT RMB'000 (UNAUDITED)
At 1 January 2016	1,874,817	66,005
Interest expenses	11,062	—
Exchange realignment	37,932	—
At 30 June 2016	1,923,811	66,005
	LIABILITY COMPONENT RMB'000 (UNAUDITED)	EQUITY COMPONENT RMB'000 (UNAUDITED)
At 1 January 2015	1,745,190	66,005
Interest expenses	10,060	—
Exchange realignment	(551)	—
At 30 June 2015	1,754,699	66,005

Assuming full conversion of the 2014 Convertible Bonds at the price of HK\$42.67 per share and no further issue of shares, the 2014 Convertible Bonds will be convertible into approximately 54,534,802 shares of the Company as at 30 June 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. REDEEMABLE CONVERTIBLE PREFERRED SHARES ISSUED BY A SUBSIDIARY

On 5 February and 6 May 2016, Kingsoft Cloud issued 102,292,296 and 83,372,896 series C redeemable convertible preferred shares with par value US\$0.001 each to certain investors and the Company, respectively, at a price of US\$0.58655 per share for an aggregate consideration of US\$108.90 million (equivalent to RMB710,307,000).

According to the articles of association of Kingsoft Cloud amended and restated on 10 March 2016 and 16 May 2016, if Kingsoft Cloud fails to consummate a qualified public offering prior to the fifth anniversary of the closing of the issue of series C redeemable convertible preferred shares, at the option of the holder of the series C redeemable convertible preferred shares, Kingsoft Cloud shall redeem all of the outstanding preferred shares held by the requesting holder, at the price for each series C redeemable convertible preferred share equal to the applicable series C redeemable convertible preferred shares issue price and a return at a pre-determined compound rate. The redemption rights shall be terminated upon the closing of a qualified public offering.

The series C redeemable convertible preferred shares may be converted at any time at the option of the holder thereof into such number of the ordinary shares of Kingsoft Cloud as may be obtained by dividing the applicable issue price by the applicable conversion price. The initial conversion price shall be equal to the issue price, resulting in an initial conversion ratio of 1:1, subject to adjustments from time to time.

Based on the terms of the articles of association of Kingsoft Cloud, the series C redeemable convertible preferred shares are split and accounted for as follows: (i) financial liability stated at amortised cost for the redemption rights; (ii) financial liability measured at fair value with changes through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity.

During the six month ended 30 June 2016, a loss of RMB195,000 resulting from the changes in fair value of conversion rights was recognised through profit or loss. The movements of the series C redeemable convertible preferred shares for the period are set out below:

	LIABILITY COMPONENTS RMB'000 (UNAUDITED)	EQUITY COMPONENT RMB'000 (UNAUDITED)
Upon issuance	313,482	5,438
Interest expenses	1,202	—
Fair value changes	195	—
Exchange realignment	5,334	—
At 30 June 2016	320,213	5,438

As at 30 June 2016, the current portion of liability components of series C redeemable convertible preferred shares amounting to RMB39,038,000 was recorded in other payables and accruals.

24. OTHER CAPITAL RESERVE

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. DIVIDENDS

Final dividend

A final dividend of HK\$0.10 per ordinary share for 2015 proposed by the Board was approved by the shareholders on 20 May 2016. The actual 2015 final dividend paid was RMB110,111,000.

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

26. BUSINESS COMBINATIONS

Nanjing Qianyi Shixun Information Technology Co., Ltd. ("Qianyi")

On 16 November 2015, the Group through one of its subsidiaries entered into a share transfer agreement with Qianyi, a company engaged in development, research and provision of the digital video coding in cloud, and its founders, to acquire 80% of equity interest of Qianyi at an aggregate cash consideration of RMB10,000,000.

On 12 January 2016, the Group entered into a share transfer agreement with a third party to purchase another 20% equity interest of Qianyi at an aggregate cash consideration of RMB15,000,000.

The acquisition was accounted for as a business combination and the acquisition date was 31 March 2016.

The fair values of the identifiable assets and liabilities of Qianyi as at the acquisition date were as follows:

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
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Intangible assets:	
Software	4,400
Non-compete agreement	5,300
Property, plant and equipment	186
Cash and cash equivalents	7,957
Other receivables	968
Prepayments and other current assets	1,024
Deferred tax liabilities	(2,208)
<hr/>	
Total identified net assets at fair value	17,627
Goodwill arising on acquisition	7,373
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	25,000
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Satisfied by:	
Cash	21,000
Other payables	4,000
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Total consideration	25,000
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No transaction costs were incurred in this acquisition.

The fair value of the other receivables as at the date of acquisition amounted to RMB968,000. The gross contractual amount of other receivables was RMB968,000.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BUSINESS COMBINATIONS (continued)

Qianyi (continued)

An analysis of cash flows in respect of the acquisition of Qianyi is as follows:

	RMB'000
Cash consideration	(21,000)
Cash and cash equivalents	7,957
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Net outflow of cash and cash equivalents included in cash flows used in investing activities	(13,043)

Since the acquisition, Qianyi contributed nil to the Group's turnover and RMB187,000 loss to the consolidated loss for the period.

Had the combination taken place at the beginning of the period, the revenue of the Group and the loss of the Group for the period would have been RMB3,516,575,000 and RMB785,601,000, respectively.

News Republic

On 22 May 2016, the Group through one of its subsidiaries entered into a stock purchase agreement with the original shareholders of News Republic to acquire 100% equity interest of News Republic at a total consideration of US\$56,401,000 (equivalent to RMB371,059,000). The total consideration consists of (i) cash of US\$47,591,000 (equivalent to RMB313,098,000), which is subject to adjustment of estimated net cash and working capital on the acquisition date; (ii) cash consideration of US\$5,000,000 (equivalent to RMB32,895,000) to be paid on the twelve month anniversary of the acquisition; and (iii) cash contingent consideration to be paid over a two-year period upon the fulfillment of certain performance-based requirements to News Republic.

The acquisition was accounted for as a business combination and the acquisition date was 8 June 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BUSINESS COMBINATIONS (continued)

News Republic (continued)

The fair values of the identifiable assets and liabilities of News Republic as at the acquisition date were as follows:

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
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Intangible assets:	
Software	5,263
Supplier relationship	42,763
Non-compete agreement	6,579
Trademark	23,027
Property, plant and equipment	334
Cash and cash equivalents	22,259
Accounts receivables	5,171
Other receivables	1,743
Prepayments and other current assets	1,135
Deferred tax liabilities	(25,875)
Accounts payable	(18,127)
Accrued expenses and other liabilities	(15,215)
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Total identified net assets at fair value	49,057
Goodwill arising on acquisition	322,002
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	371,059
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Satisfied by:	
Cash	313,098
Other payables	32,895
Contingent consideration	25,066
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Total consideration	371,059
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BUSINESS COMBINATIONS (continued)

News Republic (continued)

The fair value of the account receivables and other receivables as at the date of acquisition amounted to RMB5,171,000 and RMB1,743,000, respectively. The gross contractual amount of account receivables was RMB14,511,000 and RMB1,743,000, respectively.

The Group incurred transaction costs of RMB8,784,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the condensed consolidated statement of profit or loss.

An analysis of cash flows in respect of the acquisition of News Republic is as follows:

	RMB'000
Cash consideration	(313,098)
Cash and cash equivalents	22,259
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(290,839)

Pursuant to the share purchase agreement, contingent consideration is payable according to the new publisher rights acquisition rate and existing publisher retention rate of News Republic. There will be two batches of cash payments to the original shareholders of News Republic.

The initial amount of the contingent consideration recognised was US\$3,810,000 (equivalent of RMB25,066,000) which was determined using the discounted cash flow model and is under Level 3 fair value measurement at the acquisition date.

Significant unobservable valuation inputs for the fair value measurement of contingent consideration are as follows:

	ASSUMED COMPLETION OF AGREED NEW PUBLISHER DAILY ARTICLE VOLUME	ASSUMED COMPLETION OF AGREED EXISTING PUBLISHER RETENTION RATE	DISCOUNT RATE
First contingent consideration	56%	74%	10.9%
Second contingent consideration	78%	90%	10.9%

Since the acquisition, News Republic contributed RMB1,537,000 to the Group's turnover and RMB4,993,000 loss to the consolidated loss for the period.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the period would have been RMB3,522,146,000 and RMB811,453,000, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BUSINESS COMBINATIONS (continued)

MobPartner

On 25 March 2015, the Group through a wholly-owned subsidiary of Cheetah Mobile entered into a share purchase agreement with the original shareholders of MobPartner to acquire 100% equity interest of MobPartner, a global mobile advertising company, at a total consideration of US\$51,150,000 (equivalent to RMB314,237,000). The total consideration consists of (i) cash of US\$44,556,000 (equivalent to RMB273,726,000); (ii) Cheetah Mobile's ordinary shares of US\$3,794,000 (equivalent to RMB23,309,000) representing 2,173,039 class A ordinary shares; and (iii) cash contingent consideration to be paid over a two-year period upon the fulfillment of certain performance-based requirements by MobPartner, which was estimated and recognised as a financial liability at fair value of US\$2,800,000 (equivalent to RMB17,202,000) at the acquisition date.

The acquisition was accounted for as a business combination and the acquisition date was 1 April 2015.

The fair values of the identifiable assets and liabilities of MobPartner as at the acquisition date were as follows:

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Trademark	13,515
Software	67,579
User base	6,266
Property, plant and equipment	1,207
Other non-current assets	465
Cash and cash equivalents	60,150
Accounts receivable	37,308
Prepayments and other current assets	1,091
Deferred tax liabilities	(29,117)
Accounts payable	(41,774)
Accrued expenses and other current liabilities	(7,007)
Income tax payable	(626)
Interest-bearing bank loans	(10,028)
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Total identified net assets at fair value	99,029
Goodwill arising on acquisition	215,208
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	314,237
Satisfied by:	
Cash	150,128
Other current and non-current payables	123,598
Contingent consideration	17,202
Cheetah Mobile's ordinary shares	23,309
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Total consideration	314,237

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BUSINESS COMBINATIONS (continued)

MobPartner (continued)

The fair value of the account receivables as at the date of acquisition amounted to RMB37,308,000. The gross contractual amount of account receivables was RMB37,308,000.

The Group incurred transaction costs of RMB7,022,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the condensed consolidated statement of profit or loss.

An analysis of cash flows in respect of the acquisition of MobPartner is as follows:

	RMB'000
Cash consideration	(150,128)
Cash and cash equivalents	60,150
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(89,978)

Pursuant to the share purchase agreement, contingent consideration is payable according to the performance of MobPartner. In November 2015, the Group entered into an agreement with the original shareholders of MobPartner, pursuant to which, the contingent consideration liability was extinguished by a fixed payable amounting to US\$1,500,000 (equivalent to RMB9,740,000).

Moxiu Technology

As at 31 December 2014, the Group through its non-wholly-owned subsidiary, Cheetah Mobile Technology Limited ("Cheetah Mobile Technology"), held a total of 50.5% equity interest in Moxiu Technology, which was accounted for as an investment in a joint venture.

On 25 May 2015, Cheetah Mobile Technology entered into a capital contribution agreement with Moxiu Technology and its other existing shareholders, pursuant to which, Moxiu Technology increased its registered capital by RMB67,344 and Cheetah Mobile Technology subscribed for all such additional registered capital at a consideration of RMB25,000,000 in cash, representing a premium of RMB24,932,656. Upon completion of the capital injection, the Group holds 52.1% of the equity interest in Moxiu Technology. The total consideration for all the investments in Moxiu Technology consists of (i) cash of RMB25,000,000; and (ii) the fair value of the equity interest in Moxiu Technology previously held by the Group immediately before the acquisition of RMB63,488,000. As a result of the remeasurement of the equity interest in Moxiu Technology from its carrying amount immediately before the acquisition of RMB48,458,000 to its fair value of RMB63,488,000, a gain of RMB15,030,000 was recognised in the condensed consolidated statement of profit or loss during the six months ended 30 June 2015.

The acquisition was accounted for as a business combination achieved in stages and the acquisition date was 28 May 2015.

The Group has elected to measure the non-controlling interest in Moxiu Technology at the fair value at the acquisition date.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BUSINESS COMBINATIONS (continued)

Moxiu Technology (continued)

The fair values of the identifiable assets and liabilities of Moxiu Technology as at the acquisition date were as follows:

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Trademark	6,000
Software	10,620
User base	430
Property, plant and equipment	2,270
Other non-current assets	645
Cash and cash equivalents	26,732
Accounts receivable	1,043
Prepayment and other current assets	766
Deferred tax liabilities	(1,895)
Accounts payable	(259)
Accrued expenses and other current liabilities	(7,361)
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Total identified net assets at fair value	38,991
Goodwill arising on acquisition	111,720
Non-controlling interest	(62,223)
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	88,488
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Satisfied by:	
Cash	25,000
Previously held equity interest remeasured at acquisition-date fair value	63,488
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Total consideration	88,488
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No transaction costs were incurred in this acquisition.

The fair value of the account receivables as at the date of acquisition amounted to RMB1,043,000. The gross contractual amount of account receivables was RMB1,043,000.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BUSINESS COMBINATIONS (continued)

Moxiu Technology (continued)

An analysis of cash flows in respect of the acquisition of Moxiu Technology is as follows:

	RMB'000
Cash consideration	(25,000)
Cash and cash equivalents	26,732
Net inflow of cash and cash equivalents included in cash flows used in investing activities	1,732

TSF Launcher Business

On 29 July 2015, the Group through a subsidiary signed a purchase agreement with a third party, Shenzhen Haibao Technology Co., Ltd., to acquire a mobile game application ("TSF Business") at a total consideration of RMB18,000,000, of which RMB5,400,000 was the cash consideration and RMB12,600,000 was the employee's compensation for their future services over a four-year period.

The acquisition was accounted for as a business combination and the acquisition date was 17 September 2015.

The fair values of the identifiable assets and liabilities of TSF Business as at the acquisition date were as follows:

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Software	1,000
User base	360
Deferred tax liabilities	(198)
Total identified net assets at fair value	1,162
Goodwill arising on acquisition	4,238
	5,400
Satisfied by:	
Cash	5,400
Total consideration	5,400

No transaction costs were incurred in this acquisition.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BUSINESS COMBINATIONS (continued)

TSF Launcher Business (continued)

An analysis of cash flows in respect of the acquisition of TSF Business is as follows:

	RMB'000
Cash consideration	(5,400)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(5,400)

QuickPic Business

On 22 September 2015, the Group through a subsidiary signed a purchase agreement with Q-Supreme Information Technologies Limited to acquire a mobile phone application ("QuickPic Business") at a total consideration of US\$7,600,000 (equivalent to RMB48,346,000). The total consideration consists of (i) cash consideration of US\$4,080,000 (equivalent to RMB25,954,000); (ii) cash compensation of US\$2,720,000 (equivalent to RMB17,303,000), which is payable over a three-year period for employee's future services; and (iii) Cheetah Mobile's ordinary shares of US\$800,000 (equivalent to RMB5,089,000), which is subject to a four-year vesting schedule. As of 30 June 2016, 375,780 Cheetah Mobile's ordinary shares have been granted to the employees.

The acquisition was accounted for as a business combination and the acquisition date was 22 September 2015.

The fair values of the identifiable assets and liabilities of the QuickPic Business as at the acquisition date were as follows:

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Software	1,272
User base	7,634
Total identified net assets at fair value	8,906
Goodwill arising on acquisition	17,048
	25,954
Satisfied by:	
Cash	25,954
Total consideration	25,954

No transaction costs were incurred in this acquisition.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BUSINESS COMBINATIONS (continued)

QuickPic Business (continued)

An analysis of cash flows in respect of the acquisition of QuickPic Business is as follows:

	RMB'000
Cash consideration	(25,954)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(25,954)

SmartShowTM Business

On 4 December 2015, the Group through a subsidiary entered into an intellectual property licence agreement with a third party, Shanghai PowerMo Information Tech. Co., Ltd. ("PowerMo") to acquire a series of intangible assets (including patents, technology) (collectively known as "SmartShowTM Business"). Pursuant to the agreement, Beijing Kingsoft Cheetah was entitled to: (i) an unexclusive right to use SmartShowTM Business at a consideration of US\$1,000,000 in cash (equivalent to RMB6,414,000); (ii) an option to accept six employees from PowerMo; and (iii) a call option to obtain future proceeds generated from existing contracts signed by PowerMo at a consideration of US\$2,000,000 (equivalent to RMB12,828,000) in cash. Management exercised the call option in February 2016.

The acquisition was accounted for as a business combination and the acquisition date was 8 December 2015.

The fair values of the identifiable assets and liabilities of SmartShowTM Business as at the acquisition date were as follows:

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Software	5,300
Other current assets	220
Total identified net assets at fair value	5,520
Goodwill arising on acquisition	894
	6,414
Satisfied by:	
Cash	6,414
Total consideration	6,414

No transaction costs were incurred in this acquisition.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. BUSINESS COMBINATIONS (continued)

SmartShow™ Business (continued)

An analysis of cash flows in respect of the acquisition of SmartShow™ Business is as follows:

	RMB'000
Cash consideration	(6,414)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(6,414)

27. DISPOSAL OF A SUBSIDIARY

On 31 May 2016, the Group through one of its subsidiaries entered into a share transfer agreement with Suzhou Jiangduoduo Technology Co., Ltd. ("Jiangduoduo"), a company engaged in the lottery business, and three third parties. Pursuant to the agreement, the Group agreed to dispose of 65% equity interests in Jiangduoduo at an aggregate cash consideration of RMB26,325,000, whose fair value is nil, and continues to hold 15% equity interests of Jiangduoduo. Upon the completion of disposal, the Group lost control of Jiangduoduo and accounted for the remaining portion of equity interests as an available-for-sale investment.

The details of the net assets disposed of are as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	1,166
Other non-current assets	1,104
Prepayments	1,509
Cash and bank balance	6,316
Trade payable	(130)
Other payables and accruals	(20,740)
Deferred revenue	(6,189)
Non-controlling interests	3,393
	(13,571)
Gain on disposal of a subsidiary	13,571
Total consideration	—

An analysis of cash flows in respect of the disposal of Jiangduoduo is as follows:

	RMB'000
Cash and bank balance disposed of	(6,316)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(6,316)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 30 June 2016, the Group had total future minimum lease payments under non-cancelled operating leases falling due as follows:

	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
Within one year	214,770	181,048
After one year but not more than five years	243,250	250,103
After five years	—	1,830
	458,020	432,981

As at 30 June 2016, the calculation of lease payment of some electronic equipment was based on the actual usage of the relevant servers. The rental expense under these operating leases was RMB367,808,000 for the six months period ended 30 June 2016 (six months ended 30 June 2015: RMB156,891,000). As future lease payments for these arrangements are based on the actual number of users and thus cannot be reasonably estimated, they are not included in the minimum lease payments shown above.

29. CAPITAL COMMITMENTS

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

	NOTE	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
Contracted, but not provided for:			
Development of land and buildings	(a)	757,715	820,199
Acquisition of a business		6,000	—
Acquisition of a subsidiary		—	27,000
Acquisition of intangible assets		—	2,222
		763,715	849,421

- (a) The capital commitment for the development of land and buildings at 30 June 2016 represented the commitment to invest in an aggregate amount of RMB757,715,000 (31 December 2015: RMB820,199,000) in the development of a piece of land in Zhuhai.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. RELATED PARTY TRANSACTIONS

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

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)
Equity contribution from a company controlled by a director of the Company	(i)	—	—	—	73,706
Provision of services to a company whose parent has a significant influence on the Company	(ii)	59,497	65,252	103,757	118,087
Online marketing services from a company whose parent has a significant influence on the Company	(ii)	6,336	4,835	12,986	23,734
Licence fee from a company whose parent has a significant influence on the Company	(ii)	38,801	—	39,461	—
Provision of services to a company controlled by a director of the Company	(iii)	46,964	29,495	81,864	54,974
Purchases of products from a company controlled by a director of the Company	(iii)	2,955	1,928	6,905	9,656
Purchase of services from a company controlled by a director of the Company	(iii)	23,803	22,204	33,633	26,787
Licence fee from companies controlled by a director of the Company	(iii)	5,232	4,482	11,812	6,407
Interest income from non-controlling shareholders of subsidiaries	(iv)	958	583	1,803	1,344
Licence fee to a joint venture	(v)	17,272	—	17,272	—
Interest income from an associate		118	—	118	—
Disposal of an associate to a company controlled by a director of the Company	(vi)	—	—	49,019	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. RELATED PARTY TRANSACTIONS (continued)

- (a) In addition to the transactions detailed elsewhere in these interim condensed consolidated financial statements, the Group had the following transactions with related parties during the period: (continued)
- (i) On 30 March 2015, the company controlled by a director of the Company, exercised the warrants in full at the exercise price of US\$0.0742 per Kingsoft Cloud Series A Preferred Share. Under the full exercise of the warrants, the company controlled by a director of the Company subscribed for 161,688,000 Kingsoft Cloud series A preferred shares in an aggregate consideration of US\$12 million (equivalent to RMB73,706,000). Upon completion of the full exercise of the warrants, the company controlled by a director of the Company own approximately 32.77% of equity interest of Kingsoft Cloud.
 - (ii) On 27 September 2012, 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 a total of approximately RMB103,757,000 and RMB59,497,000 for the six months and three months ended 30 June 2016, respectively (six months and three months ended 30 June 2015: RMB118,087,000 and RMB65,252,000, respectively).

In 2015 and 2016, the Group entered into framework agreements with a company whose parent has a significant influence on the Company. Pursuant to the framework agreements, the company whose parent has a significant influence on the Company provides various forms of promotion services to the Group through the internet platforms. The price is based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting the similar transactions. For the six months and three months ended 30 June 2016, the Group received online marketing services from the related company and its controlled affiliates of RMB12,986,000 and RMB6,336,000, respectively (six months and three months ended 30 June 2015: RMB23,734,000 and RMB4,835,000, respectively).

In February 2016, the Group entered into a game operation agreement with a company whose parent has a significant influence on the Company to operate the Group's online games with this related company at the prevailing fair market price. For the six months and three months ended 30 June 2016, the Group received licence fee from this related company and its controlled affiliates of RMB39,461,000 and RMB38,801,000, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. RELATED PARTY TRANSACTIONS (continued)

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

(iii) In 2015 and 2016, the Group entered into various agreements with a company controlled by a director of the Company. Pursuant to the agreements, the Group provides cloud storage services and online advertising services to this related company and its affiliates at the prevailing fair market price in the same industry for similar transactions. For the six months and three months ended 30 June 2016, the Group provided services to an affiliate of the related company of approximately RMB81,864,000 and RMB46,964,000, respectively (six months and three months ended 30 June 2015: RMB54,974,000 and RMB29,495,000, respectively).

For the six months and three months ended 30 June 2016, the Group purchased smart phones and phone accessories from this related company of approximately RMB6,905,000 and RMB2,955,000, respectively (six months and three months ended 30 June 2015: RMB9,656,000 and RMB1,928,000, respectively).

In January 2014, the Group entered into framework agreements with a company controlled by a director of the Company. Pursuant to the framework agreements, this related company provides various forms of promotion services to the Group through the internet platforms. The price is based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting the similar transactions. For the six months and three months ended 30 June 2016, the aforementioned revenue was approximately RMB33,633,000 and RMB23,803,000, respectively (six months and three months ended 30 June 2015: RMB26,787,000 and RMB22,204,000, respectively).

In 2015 and 2016, the Group entered into various licensing agreements with companies controlled by a director of the Company to operate the Group's online games with these related companies at the prevailing fair market price. For the six months and three months ended 30 June 2016, the Group received licence fee from these related companies and their controlled affiliates of RMB11,812,000 and RMB5,232,000, respectively (six months and three months ended 30 June 2015: RMB6,407,000 and RMB4,482,000, respectively).

(iv) The interest income from non-controlling shareholders of subsidiaries was approximately RMB1,803,000 and RMB958,000 for the six months and three months ended 30 June 2016, respectively (six months and three months ended 30 June 2015: RMB1,344,000 and RMB583,000, respectively).

(v) In September 2015, the Group entered into the game joint development and operation agreement with a joint venture to joint develop and operate the Group's online games at the prevailing fair market price. For the six months and three months ended 30 June 2016, the Group paid license fee to this joint venture of RMB17,272,000 and RMB17,272,000, respectively.

(vi) As disclosed in note 13, the Company sold all the shares held by the Company in Zhigu to a company controlled by a director of the Company at a consideration of US\$7.5 million (equivalent to RMB49,019,000).

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

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)	2016 RMB'000 (UNAUDITED)	2015 RMB'000 (UNAUDITED)
Salaries, allowances, and benefits in kind	2,459	3,355	5,122	6,140
Pension scheme contributions	81	88	161	173
Share-based compensation costs	10,074	15,107	24,271	37,869
Total compensation paid to key management personnel	12,614	18,550	29,554	44,182

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. 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 2016

FINANCIAL ASSETS	LOANS AND RECEIVABLES RMB'000 (UNAUDITED)	AVAILABLE-FOR-SALE INVESTMENTS RMB'000 (UNAUDITED)	DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION	TOTAL RMB'000 (UNAUDITED)
			RMB'000 (UNAUDITED)	
Other financial assets	—	—	34,717	34,717
Available-for-sale investments	—	1,576,312	—	1,576,312
Loan receivables	9,596	—	—	9,596
Trade receivables	1,119,181	—	—	1,119,181
Other long term receivables	19,528	—	—	19,528
Financial assets included in prepayments, deposits and other receivables	452,834	—	—	452,834
Restricted cash	90,510	—	—	90,510
Pledged deposits	66,312	—	—	66,312
Cash and bank deposits	8,581,242	—	—	8,581,242
Total	10,339,203	1,576,312	34,717	11,950,232

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	—	315,088	315,088
Financial liabilities included in other liabilities	84,198	1,359,299	1,443,497
Interest-bearing bank loans	—	408,957	408,957
Liability component of convertible bonds	—	2,767,831	2,767,831
Liability component of redeemable convertible preferred shares	—	281,175	281,175
Total	84,198	5,132,350	5,216,548

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. 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 2015

FINANCIAL ASSETS	LOANS AND RECEIVABLES RMB'000 (AUDITED)	AVAILABLE- FOR-SALE INVESTMENTS RMB'000 (AUDITED)	DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000 (AUDITED)	TOTAL RMB'000 (AUDITED)
Other financial assets	—	—	26,294	26,294
Available-for-sale investments	—	2,276,302	—	2,276,302
Loan receivables	12,971	—	—	12,971
Trade receivables	966,000	—	—	966,000
Other long term receivables	88,499	—	—	88,499
Financial assets included in prepayments, deposits and other receivables	738,321	—	—	738,321
Restricted cash	130,187	—	—	130,187
Pledged deposits	46,657	—	—	46,657
Cash and bank deposits	8,606,434	—	—	8,606,434
Total	10,589,069	2,276,302	26,294	12,891,665

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	—	185,417	185,417
Financial liabilities included in other payables	23,339	1,375,696	1,399,035
Interest-bearing bank loans	—	157,552	157,552
Liability component of convertible bonds	—	2,699,698	2,699,698
Total	23,339	4,418,363	4,441,702

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. 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 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)	30 JUNE 2016 RMB'000 (UNAUDITED)	31 DECEMBER 2015 RMB'000 (AUDITED)
Financial assets				
Loan receivables	9,596	12,971	9,708	13,099
Available-for-sale investments	1,124,542	1,726,438	1,124,542	1,726,438
Other long term receivables	19,528	88,499	19,528	88,499
Other financial assets	34,717	26,294	34,717	26,294
	1,188,383	1,854,202	1,188,495	1,854,330
Financial liabilities				
Liability component of convertible bonds	2,767,831	2,699,698	2,767,831	2,699,698
Other liabilities	84,198	23,339	84,198	23,339
Liability component of redeemable convertible preferred shares	281,175	—	281,175	—
Interest-bearing bank loans	408,957	157,552	408,957	157,552
	3,542,161	2,880,589	3,542,161	2,880,589

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

The fair values of loan receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans as at 30 June 2016 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds and the liability component of the redeemable convertible preferred shares are estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of listed equity investments are based on quoted market prices. Except for certain investments, whose fair value have been estimated using market approach, 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 condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair value of other financial asset has been estimated using the Black Scholes Model or equity valuation allocation 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, discount rates and probabilities. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in the condensed consolidated statement of profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of other liabilities have been estimated using a discounted cash flow valuation model or equity valuation allocation 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 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 condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2016 (Unaudited)

	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	955,811	—	168,731	1,124,542
Other financial assets	—	—	34,717	34,717
	955,811	—	203,448	1,159,259

As at 31 December 2015 (Audited)

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Available-for-sale investments	1,726,438	—	—	1,726,438
Other financial assets	—	—	26,294	26,294
	1,726,438	—	26,294	1,752,732

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value hierarchy (continued)

Assets measured at fair value (continued):

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

	RMB'000
Available-for-sale investments and other financial asset:	
At 1 January 2015 (Audited)	88,441
Additions	53,303
Disposal	(67,640)
Total losses recognised in profit or loss	(49,650)
Total gains recognised in other comprehensive income	1,840
At 31 December 2015 (Audited)	26,294
Additions	20,143
Remeasurement	168,731
Total losses recognised in profit or loss	(12,074)
Total gains recognised in other comprehensive income	354
At 30 June 2016 (Unaudited)	203,448

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value hierarchy (continued)

Assets measured at fair value (continued):

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2016:

	Valuation techniques	Significant unobservable inputs	Sensitivity of the input to fair value
Other financial assets	Black Scholes Model	Fair value per share	5% increase(decrease) in fair value per share would result in increase(decrease) in fair value by RMB1,511,000 (RMB1,467,000)
		Risk-free rate	5% increase(decrease) in risk-free rate would result in increase(decrease) in fair value by RMB63,000
		Volatility	5% increase(decrease) in volatility would result in increase(decrease) in fair value by RMB912,000
Other financial assets	Equity valuation allocation model	Probability	5% increase(decrease) in probability would result in increase(decrease) in fair value by RMB1,063,000
		Risk-free rate	5% increase(decrease) in risk-free rate would result in increase in fair value by nil (RMB126,000)
		Volatility	5% increase(decrease) in volatility would result in decrease(increase) in fair value by RMB863,000 (RMB963,000)
Available-for-sale investments	Market approach	Probability	5% increase(decrease) in probability would result in increase(decrease) in fair value by RMB5,147,000
		Risk-free rate	5% increase(decrease) in risk-free rate would result in decrease(increase) in fair value by RMB269,000
		Volatility	5% increase(decrease) in volatility would result in increase(decrease) in fair value by RMB1,843,000 (RMB1,854,000)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 30 June 2016 (Unaudited)

	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	—	—	84,198	84,198

As at 31 December 2015 (Audited)

	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	—	—	23,339	23,339

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 2015 (Audited)	53,591
Additions	17,202
Paid	(32,727)
Extinguish	(18,532)
Total losses recognised in profit or loss	2,747
Total losses recognised in other comprehensive income	1,058
At 31 December 2015 (Audited)	23,339
Additions	63,345
Paid	(5,196)
Total losses recognised in profit or loss	1,542
Total losses recognised in other comprehensive income	1,168
At 30 June 2016 (Unaudited)	84,198

During the six months ended 30 June 2016, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2015: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value hierarchy (continued)

Liabilities measured at fair value (continued):

	Valuation techniques	Significant unobservable inputs	Sensitivity of the input to fair value
Other Liabilities	Equity valuation allocation model	Fair Value of equity value	5% increase(decrease) in fair value per share would result in increase(decrease) in fair value by RMB6,066,000 (RMB6,504,000)
		Risk-free rate	5% increase(decrease) in risk-free rate would result in increase(decrease) in fair value by RMB66,000
		Volatility	5% increase(decrease) in volatility would result in increase(decrease) in fair value by RMB1,771,000 (RMB1,684,000)
		Probability of IPO	5% increase (decrease) in probability of IPO would result in decrease (increase) in fair value by RMB2,898,000
Other Liabilities	Discounted cash flow method	Discount rate for cash flows	5% increase(decrease) in discount rate would result in decrease(increase) in fair value by RMB186,000

Assets for which fair values are disclosed:

As at 30 June 2016 (Unaudited)

	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	—	9,708	—	9,708

As at 31 December 2015 (Audited)

	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	—	13,099	—	13,099

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 30 June 2016 (Unaudited)

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (UNAUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (UNAUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (UNAUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (UNAUDITED)	
Liability component of convertible bonds	—	—	2,767,831	2,767,831
Interest-bearing bank loans	—	408,957	—	408,957
Liability component of redeemable convertible preferred shares	—	—	281,175	281,175
	—	408,957	3,049,006	3,457,963

As at 31 December 2015 (Audited)

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000 (AUDITED)
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 (AUDITED)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 (AUDITED)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 (AUDITED)	
Liability component of convertible bonds	—	—	2,699,698	2,699,698
Interest-bearing bank loans	—	157,552	—	157,552
	—	157,552	2,699,698	2,857,250

33. CONTINGENT LIABILITIES

At 30 June 2016, the Group had no significant contingent liabilities (31 December 2015: nil).

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 August 2016.

TERMS AND GLOSSARIES

“2004 Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 30 June 2004 before its initial public offering
“2006–2007 Kingsoft Japan Share Option Scheme”	the share option scheme adopted by Kingsoft Japan on 2 November 2006 and 31 July 2007
“2007 Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 22 January 2007 before its initial public offering
“2011 Cheetah Mobile Share Award Scheme”	the share award scheme approved and adopted by the directors of Cheetah Mobile on 26 May 2011
“2011 Share Option Scheme”	the share option scheme adopted by the Company on 9 December 2011
“2014 Cheetah Mobile Share Award Scheme”	the share award scheme approved and adopted by the shareholders of Cheetah Mobile on 24 April 2014
“2014 Kingsoft Japan Share Option Scheme”	the share option scheme of Kingsoft Japan approved by the shareholders of the Company on 2 January 2014 and adopted by the shareholders of Kingsoft Japan on 28 March 2014
“21Vianet”	21Vianet Group, Inc.
“ADPCU”	daily average peak concurrent users
“ADS”	American Depositary Share
“APA”	average paying accounts
“ARPU”	average revenue per paying user
“Board”	the board of directors of the Company
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
“Cheetah Mobile Equity Incentive Scheme”	the equity incentive scheme of Cheetah Mobile approved by the shareholders of the Company and Cheetah Mobile on 2 January 2014
“Cheetah Mobile Group”	Cheetah Mobile and its subsidiaries
“Cheetah Mobile”	Cheetah Mobile Inc, a non-wholly owned subsidiary of the company and was listed on NYSE in May 2014
“Cheetah Share(s) ”	ordinary share(s) of Cheetah Mobile

TERMS AND GLOSSARIES (continued)

“Company” or “Kingsoft”	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its shares listed on the Stock Exchange (stock code: 03888)
“Director”	the directors of the Company
“eCPM”	effective cost per mille
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IDC”	internet data center
“IFRSs”	International Financial Reporting Standards
“Kingsoft Cloud”	Kingsoft Cloud Holdings Limited, a subsidiary of the Company
“Kingsoft Cloud Group”	Kingsoft Cloud and its subsidiaries
“Kingsoft Cloud Share Award Scheme”	the share award scheme approved and adopted by the directors of Kingsoft Cloud on 22 February 2013
“Kingsoft Cloud Share Option Scheme”	the share option scheme approved and adopted by the shareholders of the Company and Kingsoft Cloud on 27 February 2013
“Kingsoft Japan”	Kingsoft Japan Inc., a subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MAU”	monthly active users
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“NASDAQ”	National Association of Securities Dealers Automated Quotations

TERMS AND GLOSSARIES (continued)

“NYSE”	New York Stock Exchange
“PRC”, “China” or “Mainland China”	the People’s Republic of China excluding, for the purpose of this interim report only, Hong Kong, the Macau Special Administrative Region and Taiwan
“Pre-IPO Share Option Schemes”	the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme
“R&D”	research and development
“RMB” or “Renminbi”	the lawful currency of the PRC
“Seasun Holdings”	Seasun Holdings Limited, a subsidiary of the Company
“Seasun Holdings Share Option Scheme”	the share option scheme of Seasun Holdings approved and adopted by the shareholders of the Company and Seasun Holdings on 27 June 2013
“SFO”	the Securities and Future Ordinance, Chapter 571 of the Laws of Hong Kong
“Share Award Scheme”	the share award scheme of the Company adopted by the Board on 31 March 2008
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“U.S.”	United States of America
“US\$”	United States dollars, the lawful currency of the U.S.
“Xunlei”	Xunlei Limited