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## Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

# ANNOUNCEMENT OF THE RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The board (“**Board**”) of directors (the “**Directors**”) of Kingsoft Corporation Limited (the “**Company**”) announces the audited results of the Company and its subsidiaries (the “**Group**” or “**Kingsoft**”) for the year ended 31 December 2014. The consolidated financial statements of the Group for the year have been audited by Ernst & Young, the auditors of the Company in accordance with Hong Kong Standards on Auditing. In addition, the results have also been reviewed by the audit committee of the Company (the “**Audit Committee**”).

## FINANCIAL HIGHLIGHTS

	Year ended 31 December			Year-over-year Change
	2014 <i>RMB'000</i>	2014 <i>HKD'000</i> **	2013 <i>RMB'000</i>	
Revenue	3,350,133	4,246,588	2,173,269	54%
Profit attributable to owners of the parent*	768,783	974,501	670,746	15%
	<i>RMB</i>	<i>HKD</i>	<i>RMB</i>	
Basic earnings per share	0.66	0.84	0.58	14%
Diluted earnings per share	0.63	0.80	0.55	15%

\* Profit attributable to owners of the parent before the effect of share-based compensation costs is RMB875.4 million and RMB716.9 million for the years ended 31 December 2014 and 31 December 2013, respectively, representing an increase of 22% year-over-year.

\*\* The conversion of Renminbi (“**RMB**”) into Hong Kong Dollar (“**HKD**”) in this release is based on RMB0.7889 to HKD1.00 as published by the Bank of China on 31 December 2014. Translations of amounts from RMB into HKD are solely for the convenience of the reader. This convenient translation is not intended to imply that RMB amounts could have been, or could be, converted, realised, or settled into HKD at that rate on 31 December 2014, or at any other rate.

## DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.13 per share for the year ended 31 December 2014 (2013: HKD0.12 per share). The final dividend, if approved by the shareholders at the annual general meeting (“AGM”) of the Company to be held on 20 May 2015, will be payable on 19 June 2015 to the shareholders whose names appear on the register of members of the Company on 1 June 2015.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

		As at 31 December	
		2014	2013
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		583,637	385,067
Prepaid land lease payments		281,066	42,260
Goodwill		267,288	53,994
Other intangible assets		197,425	60,104
Investments in joint ventures		118,153	—
Investments in associates		30,718	34,852
Available-for-sale investments		566,672	56,723
Other financial asset		10,063	27,699
Deferred tax assets		77,988	52,406
Loan receivables		13,555	15,976
Long term prepayment		40,246	—
Other long term receivables		122,524	—
Total non-current assets		<u>2,309,335</u>	<u>729,081</u>
<b>Current assets</b>			
Inventories		6,945	3,528
Trade receivables	11	411,137	185,161
Prepayments, deposits and other receivables		391,649	144,966
Due from related parties		123,570	142,285
Available-for-sale investments		56,913	55,780
Other financial assets		78,378	—
Pledged deposit		19,978	19,588
Cash and bank deposits		6,983,699	4,481,188
Investment in a joint venture classified as held for sale		<u>8,072,269</u>	<u>5,032,496</u>
		<u>—</u>	<u>42,756</u>
Total current assets		<u>8,072,269</u>	<u>5,075,252</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)  
AS AT 31 DECEMBER 2014**

		<b>As at 31 December</b>	
	<i>Notes</i>	<b>2014</b>	<b>2013</b>
		<b>RMB'000</b>	<b>RMB'000</b>
<b>Current liabilities</b>			
Trade payables	12	79,324	32,463
Due to related party		1,020	—
Interest-bearing bank loans	13	15,778	15,724
Other payables and accruals		931,437	498,964
Deferred revenue		310,983	202,105
Income tax payable		56,806	39,338
Total current liabilities		<u>1,395,348</u>	<u>788,594</u>
<b>Net current assets</b>		<u>6,676,921</u>	<u>4,286,658</u>
<b>Total assets less current liabilities</b>		<u>8,986,256</u>	<u>5,015,739</u>
<b>Non-current liabilities</b>			
Deferred revenue		13,535	31,533
Deferred tax liabilities		41,583	30,545
Liability component of convertible bonds	14	2,792,322	1,037,587
Liability component of redeemable convertible preferred shares		—	77,982
Other liabilities		22,272	7,401
Total non-current liabilities		<u>2,869,712</u>	<u>1,185,048</u>
<b>Net assets</b>		<u>6,116,544</u>	<u>3,830,691</u>
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		4,730	4,718
Share premium account		99,769	259,665
Treasury shares		(83,964)	(53,890)
Statutory reserves		185,513	173,228
Employee share-based reserve		231,360	166,756
Other capital reserve		1,192,967	500,055
Available-for-sale investment revaluation reserve		(211,898)	12,596
Equity component of convertible bonds		74,505	8,500
Equity component of redeemable convertible preferred shares		—	10,015
Foreign currency translation reserve		(94,797)	(89,277)
Retained earnings		3,043,752	2,278,468
Proposed final dividend	10	119,438	109,387
<b>Non-controlling interests</b>		<u>4,561,375</u>	<u>3,380,221</u>
		<u>1,555,169</u>	<u>450,470</u>
<b>Total equity</b>		<u>6,116,544</u>	<u>3,830,691</u>

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2014

		Year ended 31 December	
	<i>Notes</i>	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Revenue</b>			
Online game		1,252,753	1,095,913
Cheetah Mobile		1,674,060	694,389
Office software and others		423,320	382,967
		3,350,133	2,173,269
Cost of revenue		(589,655)	(297,104)
<b>Gross profit</b>			
		2,760,478	1,876,165
Research and development costs, net of government grants		(956,097)	(596,491)
Selling and distribution expenses		(797,416)	(382,848)
Administrative expenses		(297,412)	(192,245)
Share-based compensation costs	7	(201,922)	(61,387)
Other income		35,818	45,949
Other expenses		(29,873)	(7,263)
<b>Operating profit</b>			
		513,576	681,880
Other gains, net	6	299,748	37,097
Finance income		238,900	129,462
Finance costs		(75,944)	(24,466)
Share of profits and losses of:			
Joint ventures		(7,657)	4,827
Associates		(6,868)	(3,748)
<b>Profit before tax</b>			
	5	961,755	825,052
Income tax expense	8	(95,188)	(71,178)
<b>Profit for the year</b>			
		866,567	753,874
<b>Attributable to:</b>			
Owners of the parent		768,783	670,746
Non-controlling interests		97,784	83,128
		866,567	753,874
<b>Earnings per share attributable to ordinary equity holders of the parent</b>			
	10	<i>RMB</i>	<i>RMB</i>
Basic		0.66	0.58
Diluted		0.63	0.55

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	<b>2014</b>	2013
	<i>RMB'000</i>	<i>RMB'000</i>
<b>PROFIT FOR THE YEAR</b>	<b>866,567</b>	753,874
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value of available-for-sale investments, net of tax	<b>(234,439)</b>	20,927
Reclassification adjustments for gains included in the consolidated statement of profit or loss		
— gain on disposal	<b>(3,465)</b>	—
— impairment losses	<b>6,545</b>	—
Exchange differences on translation of foreign operations	<b>(7,099)</b>	(23,483)
Share of comprehensive loss of associates	<b>(688)</b>	—
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX</b>	<b>(239,146)</b>	(2,556)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>627,421</b>	751,318
<b>Attributable to:</b>		
Owners of the parent	<b>538,769</b>	669,418
Non-controlling interests	<b>88,652</b>	81,900
	<b>627,421</b>	751,318

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to owners of the parent														Total equity RMB'000
	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000	Statutory reserves RMB'000	Employee share-based reserve RMB'000	Other capital reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Equity component of convertible bonds RMB'000	Equity component of redeemable convertible preferred shares RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Proposed final dividends RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 1 January 2014	4,718	259,665	(53,890)	173,228	166,756	500,055	12,596	8,500	10,015	(89,277)	2,278,468	109,387	3,380,221	450,470	3,830,691
Profit for the year	—	—	—	—	—	—	—	—	—	—	768,783	—	768,783	97,784	866,567
Other comprehensive income for the year:															
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	(224,494)	—	—	—	—	—	(224,494)	(6,865)	(231,359)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	—	(4,832)	—	—	(4,832)	(2,267)	(7,099)
Share of comprehensive loss of associates	—	—	—	—	—	—	—	—	—	(688)	—	—	(688)	—	(688)
Total comprehensive income for the year	—	—	—	—	—	—	(224,494)	—	—	(5,520)	768,783	—	538,769	88,652	627,421
Approved and paid final dividend in respect of the previous year	—	(1,336)	—	—	—	—	—	—	—	—	(109,387)	(110,723)	—	—	(110,723)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(45,605)	(45,605)
Share-based compensation costs	—	—	—	—	107,496	—	—	—	—	—	—	—	107,496	95,287	202,783
Exercise of share options	12	11,844	—	—	(4,701)	—	—	—	—	—	—	—	7,155	—	7,155
Vested awarded shares transferred to employees	—	—	15,089	—	(38,191)	23,102	—	—	—	—	—	—	—	—	—
Issue of convertible bonds (note 14)	—	—	—	—	—	—	—	66,005	—	—	—	—	66,005	—	66,005
Extinguishment of redeemable convertible preferred shares with issuance of subsidiary's convertible preferred shares and warrants	—	—	—	—	—	—	—	—	(10,015)	—	—	—	(10,015)	71,952	61,937
Repurchase of shares	—	—	(45,163)	—	—	—	—	—	—	—	—	—	(45,163)	—	(45,163)
Distribution in specie	—	(50,966)	—	—	—	—	—	—	—	—	—	—	(50,966)	—	(50,966)
Profit appropriation	—	—	—	12,285	—	—	—	—	—	—	(12,285)	—	—	—	—
Subsidiaries' business combination under common control	—	—	—	—	—	—	—	—	—	—	8,786	—	8,786	(8,786)	—
Proposed final 2014 dividend (note 9)	—	(119,438)	—	—	—	—	—	—	—	—	119,438	—	—	—	—
Capital contribution	—	—	—	—	—	—	—	—	—	—	—	—	—	47,821	47,821
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	71,576	71,576
Changes in the ownership interests in subsidiaries	—	—	—	—	—	669,810	—	—	—	—	—	—	669,810	783,802	1,453,612
At 31 December 2014	4,730	99,769	(83,964)	185,513	231,360	1,192,967	(211,898)	74,505	—	(94,797)	3,043,752	119,438	4,561,375	1,555,169	6,116,544
At 1 January 2013	4,690	347,965	(82,127)	156,462	160,833	275,739	—	—	—	(75,353)	1,624,488	102,132	2,514,829	160,103	2,674,932
Profit for the year	—	—	—	—	—	—	—	—	—	—	670,746	—	670,746	83,128	753,874
Other comprehensive income for the year:															
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	12,596	—	—	—	—	—	12,596	8,331	20,927
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	—	(13,924)	—	—	(13,924)	(9,559)	(23,483)
Total comprehensive income for the year	—	—	—	—	—	—	12,596	—	—	(13,924)	670,746	—	669,418	81,900	751,318
Approved and paid final dividend in respect of the previous year	—	631	—	—	—	—	—	—	—	—	—	(102,132)	(101,501)	—	(101,501)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(20,460)	(20,460)
Share-based compensation costs	—	—	—	—	44,300	—	—	—	—	—	—	—	44,300	15,235	59,535
Profit appropriations	—	—	—	16,766	—	—	—	—	—	—	(16,766)	—	—	—	—
Exercise of share options	28	20,456	—	—	(10,140)	—	—	—	—	—	—	—	10,344	—	10,344
Vested awarded shares transferred to employees	—	—	28,237	—	(28,237)	—	—	—	—	—	—	—	—	—	—
Capital contributions from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	3,000	3,000
Issue of convertible bonds	—	—	—	—	—	—	—	8,500	—	—	—	—	8,500	—	8,500
Issue of redeemable convertible preferred shares of a subsidiary	—	—	—	—	—	—	—	—	10,015	—	—	—	10,015	6,185	16,200
Proposed final 2013 dividend (note 9)	—	(109,387)	—	—	—	—	—	—	—	—	109,387	—	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	224,316	—	—	—	—	—	—	224,316	204,507	428,823
At 31 December 2013	4,718	259,665	(53,890)	173,228	166,756	500,055	12,596	8,500	10,015	(89,277)	2,278,468	109,387	3,380,221	450,470	3,830,691

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

	<b>2014</b>	2013
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Net cash flows from operating activities</b>	<b>952,264</b>	938,124
<b>Net cash flows used in investing activities</b>	<b>(3,367,589)</b>	(44,019)
<b>Net cash flows from financing activities</b>	<b>2,950,177</b>	1,121,716
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<b>Net increase in cash and cash equivalents</b>	<b>534,852</b>	2,015,821
Cash and cash equivalents at beginning of year	<b>2,677,248</b>	696,499
Effect of foreign exchange rate changes, net	<b>(18,166)</b>	(35,072)
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<b>Cash and cash equivalents at end of year</b>	<b>3,193,934</b>	2,677,248
Time deposits with original maturity of over three months when acquired	<b>1,726,451</b>	868,638
Principle protected structure deposits with original maturity of over three months when acquired	<b>2,083,292</b>	954,890
Less: pledged time deposit for a bank loan	<b>(19,978)</b>	(19,588)
<b>Cash and bank deposits as stated</b>		
<b>in the consolidated statement of financial position</b>	<b>6,983,699</b>	4,481,188
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# NOTES TO FINANCIAL STATEMENTS

## 1. Corporate information

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

The Group is principally involved in the following principal activities:

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

## 2. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) (which include all International Financial Reporting Standards, International Accounting Standards (“**IASs**”) and Interpretations) issued by the International Accounting Standards Board (“**IASB**”). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

The financial statements have been prepared under the historical cost convention, except for available-for-sale investments and other financial assets, which have been measured at fair value. Investment in a joint venture classified as held for sale is stated at the lower of the carrying amount and fair value less costs to sell. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.



### 3. Changes in accounting policy and disclosures

The Group has adopted the following revised standards and new interpretation for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27	<i>Investment Entities</i>
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to IAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>
Amendment to IFRS 2 included in <i>Annual Improvements 2010–2012 Cycle</i>	<i>Definition of Vesting Condition<sup>1</sup></i>
Amendment to IFRS 3 included in <i>Annual Improvements 2010–2012 Cycle</i>	<i>Accounting for Contingent Consideration in a Business Combination<sup>1</sup></i>
Amendment to IFRS 13 included in <i>Annual Improvements 2010–2012 Cycle</i>	<i>Short-term Receivables and Payables</i>
Amendment to IFRS 1 included in <i>Annual Improvements 2011–2013 Cycle</i>	<i>Meaning of Effective IFRSs</i>

<sup>1</sup> Effective from 1 July 2014

The adoption of the above revised standards and new interpretation has had no significant financial effect on these financial statements.

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

#### 4. Segment information (continued)

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

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

Year ended 31 December 2014	Entertainment software RMB'000	Information security and internet services RMB'000	Office software and others RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	1,252,753	1,674,060	423,320	3,350,133
Sales to intersegments	<u>22,950</u>	<u>4,146</u>	<u>67,229</u>	<u>94,325</u>
<b>Segment results</b>	<b>581,340</b>	<b>399,994</b>	<b>25,631</b>	<b>1,006,965</b>
<i>Reconciliation:</i>				
Administrative expenses				(297,412)
Share-based compensation costs				(201,922)
Other income				35,818
Other expenses				(29,873)
Finance income				238,900
Other gains, net				299,748
Finance costs				(75,944)
Share of profits/(losses) of:				
Joint ventures				(7,657)
Associates				<u>(6,868)</u>
<b>Profit before tax</b>				<b><u>961,755</u></b>

#### 4. Segment information (continued)

Year ended 31 December 2013 (restated)	Entertainment software RMB'000	Information security and internet services RMB'000	Office software and others RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	1,095,913	694,389	382,967	2,173,269
Sales to intersegments	16,098	964	44,691	61,753
<b>Segment results</b>	578,028	184,603	134,195	896,826
<i>Reconciliation:</i>				
Administrative expenses				(192,245)
Share-based compensation costs				(61,387)
Other income				45,949
Other expenses				(7,263)
Finance income				129,462
Other gains, net				37,097
Finance costs				(24,466)
Share of profits/(losses) of:				
Joint ventures				4,827
Associates				(3,748)
<b>Profit before tax</b>				<u>825,052</u>

#### Geographical information

(a) Revenue from external customers:

	2014 RMB'000	2013 RMB'000
Mainland China	2,974,878	1,987,694
Hong Kong	261,855	45,367
Japan	94,665	111,647
Other countries	18,735	28,561
<b>Total</b>	<u>3,350,133</u>	<u>2,173,269</u>

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

#### 4. Segment information (continued)

##### Geographical information (continued)

(b) *Non-current assets:*

	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
Mainland China	<b>1,361,944</b>	539,120
Japan	<b>7,551</b>	2,237
Other countries	<b>149,038</b>	34,920
Total	<b><u>1,518,533</u></b>	<u>576,277</u>

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

## 5. Profit before tax

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

	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	<b>840,865</b>	524,150
Social insurance costs and staff welfare	<b>167,821</b>	103,086
Share-based compensation costs	<b>201,922</b>	61,387
Pension plan contributions	<b>77,374</b>	46,562
	<b>1,287,982</b>	735,185
Minimum lease payments under operating leases:		
Bandwidth and server hosting costs	<b>178,771</b>	90,425
Buildings	<b>68,160</b>	39,279
	<b>246,931</b>	129,704
Depreciation	<b>87,504</b>	64,963
Amortisation of prepaid land lease payments	<b>3,194</b>	941
Amortisation of other intangible assets	<b>73,488</b>	32,968
Write-down of inventories to net realisable value**	<b>7</b>	962
Loss on disposal of items of property, plant and equipment**	<b>181</b>	1,679
Foreign exchange differences, net	<b>(5,619)</b>	(24)
Impairment of other intangible assets**	<b>9,187</b>	—
Impairment of trade and other receivables**	<b>19,751</b>	14,484
Impairment loss of available-for-sale investments	<b>8,664</b>	—
Impairment loss of investment in associates	<b>472</b>	—
Reversal of impairment of investment in a joint venture**	<b>—</b>	(13,400)
Donation**	<b>60</b>	3,690
Government grants:		
— Recorded as a reduction to research and development costs*	<b>(6,387)</b>	(7,350)
— Recorded in other income and gains	<b>(29,332)</b>	(32,657)
	<b>(35,719)</b>	(40,007)
Interest income from loans to related parties	<b>(2,238)</b>	(2,867)
Bank interest income	<b>(236,657)</b>	(126,595)
Interest income from long term receivables	<b>(5)</b>	—
	<b>(238,900)</b>	(129,462)

## 5. Profit before tax (continued)

\* Government grants which were granted to support the development of software and online game technology are recorded as a reduction to “research and development costs” on the face of the consolidated income statement during the year. Government grants received/receivable for which the related expenditures have not yet been incurred are included in “deferred revenue” in the consolidated statement of financial position.

\*\* They are included in “other expenses” on the face of the consolidated income statement.

## 6. Other gains, net

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Fair value loss on financial instruments		
at fair value through profit or loss	(6,401)	(10,355)
Gain on disposal of a subsidiary	—	47,452
Gain on disposal of a business	193,632	—
Gain on disposal of an investment in a joint venture classified as held for sale	116,845	—
Gain on disposal of available-for-sale investments	1,968	—
Gain on extinguishing redeemable convertible preferred shares	9,892	—
Loss on disposal of financial asset	(7,052)	—
Impairment loss of investment in an associate	(472)	—
Impairment loss of available-for-sale investments	(8,664)	—
	<u>299,748</u>	<u>37,097</u>

## 7. Share-based compensation costs

### (a) Share option schemes

#### *2004 and 2007 Pre-IPO Share Option Schemes*

The Company has adopted two option schemes for the purpose of providing incentives and awards to its employees, senior management and directors: 2004 Pre-IPO Share Option Scheme and 2007 Pre-IPO Share Option Scheme.

The 2004 Scheme and the 2007 Scheme were terminated on 3 September 2007. The following table illustrates the numbers and weighted average exercise prices (“WAEP”) of, and movements in, the Company’s share options under these two schemes for the years ended 31 December 2014 and 2013.

## 7. Share-based compensation costs (continued)

### (a) Share option schemes (continued)

#### *2004 and 2007 Pre-IPO Share Option Scheme (continued)*

	2014 Number of share options	2014 WAEP USD per share	2013 Number of share options	2013 WAEP USD per share
<b>2004 Scheme</b>				
Outstanding at 1 January	645,300	0.0314	2,943,000	0.0331
Exercised during the year	<u>(592,060)</u>	0.0305	<u>(2,297,700)</u>	0.0336
Outstanding at 31 December	<u>53,240</u>	0.0415	<u>645,300</u>	0.0314
Exercisable at 31 December	<u>53,240</u>	0.0415	<u>645,300</u>	0.0314
<b>2007 Scheme</b>				
Outstanding at 1 January	7,329,300	0.2459	13,873,800	0.2438
Exercised during the year	<u>(2,016,800)</u>	0.2582	<u>(6,544,500)</u>	0.2416
Outstanding at 31 December	<u>5,312,500</u>	0.2412	<u>7,329,300</u>	0.2457
Exercisable at 31 December	<u>5,312,500</u>	0.2412	<u>7,329,300</u>	0.2457
Total outstanding at 31 December	<u>5,365,740</u>	0.2392	<u>7,974,600</u>	0.2288
Total exercisable at 31 December	<u>5,365,740</u>	0.2392	<u>7,974,600</u>	0.2288

#### *2011 Share Option Scheme*

The Company operates 2011 share option scheme (the “**2011 Scheme**”) for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Scheme include the Company’s directors, including independent non-executive directors, other employees of the Group. The 2011 Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

## 7. Share-based compensation costs (continued)

### (a) Share option schemes (continued)

#### 2011 Share Option Scheme (continued)

The following share options were outstanding under the 2011 Scheme during the years ended 31 December 2014 and 2013:

	<b>2014</b> <b>Number</b> <b>of share</b> <b>options</b>	<b>2014</b> <b>WAEP</b> <b>HKD</b> <b>per share</b>	2013 Number of share options	2013 WAEP HKD per share
Outstanding at 1 January	<b>10,500,000</b>	<b>3.00</b>	10,500,000	3.00
Granted during the year	—	—	—	—
Exercised during the year	<b>(1,600,000)</b>	<b>3.04</b>		
Forfeited during the year	—	—	—	—
	<u>8,900,000</u>	<b>2.95</b>	<u>10,500,000</u>	3.00
Outstanding at 31 December				
Exercisable at 31 December	<u><b>4,100,000</b></u>	—	<u>3,600,000</u>	—

### (b) Share Award Scheme

On 31 March 2008, the directors of the Company approved and adopted the Share Award Scheme in which selected employees of the Group are entitled to participate. The vesting period of the awarded shares is determined by the Board.

The following table illustrates the numbers of and movements in the Company's Awarded Shares for the years ended 31 December 2014 and 2013.

	<b>2014</b> <b>Number of</b> <b>Awarded</b> <b>Shares</b>	2013 Number of Awarded Shares
Outstanding as at 1 January	<b>13,102,935</b>	17,644,670
Granted during the year	<b>4,168,000</b>	1,230,000
Forfeited during the year	<b>(883,900)</b>	(302,000)
Exercised and transferred during the year	<b>(4,781,967)</b>	(5,469,735)
	<u><b>11,605,068</b></u>	<u>13,102,935</u>
Outstanding as at 31 December		
Exercisable as at 31 December	<u><b>31,000</b></u>	<u>211,000</u>



## 8. Income tax

PRC corporate income tax represents the tax charged on the estimated assessable profits arising from Mainland China during the year. 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 holidays and preferential tax rates.

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on estimated assessable profits arising from Hong Kong during the year ended 31 December 2014.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiary in Japan was 38% for the year ended 31 December 2014 (2013: 41%).

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

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Current — Mainland China	<b>94,107</b>	67,879
Current — Hong Kong	<b>16,308</b>	10,322
Current — Elsewhere	<b>13,177</b>	5,353
Deferred	<b>(28,404)</b>	(12,376)
	<hr/>	<hr/>
Total tax charge for the year	<b><u>95,188</u></b>	<u>71,178</u>

## 9. Dividends

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Final dividend proposed (notes (a) and (b)): HKD0.13 (2013: HKD0.12) per share based on issued share capital as at year end	121,509	111,386
Less: Dividend for shares held for share award scheme as at year end	<u>(2,071)</u>	<u>(1,999)</u>
	<u><u>119,438</u></u>	<u><u>109,387</u></u>

Notes:

- (a) The actual amount of final 2013 dividends paid was RMB110.7 million, after eliminating RMB1.7 million paid for shares held by the Share Award Scheme Trust.
- (b) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,165,055,520 (2013: 1,154,128,710) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the convertible bonds and the share option schemes and the share award schemes adopted by the Company and subsidiaries, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, 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.

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

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

	<b>2014</b>	2013
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent	<b>768,783</b>	670,746
Increase in earnings adjusted for the convertible bonds and the share option schemes and the share award schemes adopted by the Company and subsidiaries	<u>31,704</u>	<u>2,055</u>
	<u><b>800,487</b></u>	<u>672,801</u>
<b>Number of shares</b>		
	<b>2014</b>	2013
<b>Shares</b>		
Weighted average number of ordinary shares in issue less shares held for the share award scheme	<b>1,165,055,520</b>	1,154,128,710
Effect of dilution — weighted average number of ordinary shares:		
Share options	<b>13,711,658</b>	17,538,811
Awarded shares	<b>10,228,899</b>	11,841,127
Convertible bond	<u>80,064,713</u>	<u>35,535,571</u>
	<u><b>1,269,060,790</b></u>	<u>1,219,044,219</u>

## 11. Trade receivables

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

	<b>2014</b>	2013
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 30 days	<b>338,453</b>	135,334
31 to 60 days	<b>36,366</b>	19,202
61 to 90 days	<b>11,890</b>	6,324
91 to 365 days	<b>23,668</b>	16,589
Over one year	<u>760</u>	<u>7,712</u>
	<u><b>411,137</b></u>	<u>185,161</u>

## 12. Trade payables

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

	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
0 to 30 days	<b>45,073</b>	17,246
31 to 60 days	<b>6,148</b>	6,967
61 to 90 days	<b>959</b>	1,857
91 to 365 days	<b>24,852</b>	4,740
Over one year	<b>2,292</b>	1,653
	<u><b>79,324</b></u>	<u>32,463</u>

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

## 13. Interest-bearing bank loans

	<b>Maturity</b>	<b>Principal amount</b> <i>RMB'000</i>
At 31 December 2014		
Current		
Bank loan — secured	2015	<u><b>15,778</b></u>
At 31 December 2013		
Current		
Bank loan — secured	2014	<u>15,724</u>

As at 31 December 2014, the interest-bearing bank loan represented a drawdown of HKD20.0 million (equivalent to RMB15.8 million) (2013: HKD20.0 million, equivalent to RMB15.7 million). The bank loan was secured by the Group's time deposit of RMB20.0 million (2013: RMB19.6 million).

## 14. Convertible bonds

- (a) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HKD1,356.0 million which bear interest at a rate of 3.00% 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 (both days inclusive), at a price of HKD16.9363 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2013 Convertible Bonds at principal amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days’ prior notice. On the maturity date, any 2013 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon. There was no conversion or redemption of the 2013 Convertible Bonds during the year ended 31 December 2014.

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

- (b) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HKD2,327.0 million which bear interest at a rate of 1.25% per annum payable semi-annually (the “**2014 Convertible Bonds**”). The 2014 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 22 May 2014 to the close of business on the date falling 10 days prior to the maturity date (both days inclusive), at a price of HKD43.89 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2014 Convertible Bonds at principal amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days’ prior notice. On the maturity date, any 2014 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon. There was no conversion or redemption of the 2014 Convertible Bonds from 11 April 2014 to 31 December 2014.

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

## 15. Events after the reporting period

### (a) Investment in 21 Vianet Group Net. (“21Vianet”)

King Venture Holdings Limited (“**King Venture**”), a wholly-owned subsidiary of the Company, entered into the Purchase Agreement on 29 November 2014 with 21Vianet and the Founder Parties. Pursuant to the Purchase Agreement, 21Vianet agrees to issue and allot to King Venture, and King Venture agrees to purchase and subscribe for from 21Vianet, 39,087,125 Class A Shares and 18,250,268 Class B Shares for an aggregate purchase price of approximately USD172.0 million.

21Vianet is a company incorporated under the laws of the Cayman Islands, which is listed on the NASDAQ Global Select Market in the United States (Nasdaq: VNET). 21Vianet is a leading carrier-neutral internet data center services provider in China. 21Vianet provides hosting and related services, managed network services, cloud infrastructure services, and content delivery network services, improving the reliability, security and speed of its customers’ internet infrastructure.

Each Class A Share has one vote and each Class B Share has ten votes for matters submitted to vote at shareholders’ meetings of 21Vianet. Holder of Class B Shares can convert Class B Shares to Class A Shares at any time based on the conversion ratio of 1:1. If a Class B Share is transferred to a third party that is not an affiliate to the original holder, the Class B Shares will be automatically converted into Class A Shares.

The transaction was closed in January 2015, and the Company holds 39,087,125 Class A Shares and 18,250,268 Class B Shares through King Venture, representing approximately 11.6% of the total ordinary shares in issue of 21Vianet and approximately 19.9% of the voting power at any general meetings of 21Vianet.

### (b) Acquisition of MobPartner S.A.S. (“MobPartner”)

On 15 March 2015 (San Francisco Time), Cheetah Mobile has reached a definitive agreement to acquire the entire equity interest in MobPartner for an estimated total consideration of approximately USD58.0 million, subject to closing and other adjustments, payable in cash and shares to be issued by Cheetah Mobile. The acquisition is subject to customary closing conditions. Upon completion of the acquisition, MobPartner will become a wholly owned subsidiary of Cheetah Mobile.

MobPartner is a mobile marketing company based in San Francisco, London, Paris and Beijing that offers mobile marketers sophisticated advertising and monetization solutions.

# OPERATIONAL HIGHLIGHTS

	For the three months ended							
	31 December 2014	30 September 2014	30 June 2014	31 March 2014	31 December 2013	30 September 2013	30 June 2013	31 March 2013
<b>Online Games</b>								
Daily Average Peak Concurrent Users (“ADPCU”)	661,002	617,717	572,374	631,098	632,171	614,263	616,285	631,098
Monthly Average Paying Accounts (“APA”)	2,717,443	2,374,699	2,255,404	1,768,190	1,869,433	1,791,194	2,002,414	1,768,190
Monthly Average Revenue per Paying User (“ARPU”) (RMB)	<u>39</u>	<u>41</u>	<u>43</u>	<u>47</u>	<u>49</u>	<u>48</u>	<u>43</u>	<u>47</u>
	<b>In December 2014</b>	<b>In September 2014</b>	<b>In June 2014</b>	<b>In March 2014</b>	In December 2013	In September 2013	In June 2013	In March 2013
<b>Cheetah Mobile</b>								
Mobile Monthly Active Users (“MAU”) (Million)	395.4	340.7	284.3	222.5	166.2	120.3	80.0	45.8
% of Mobile MAU from Overseas Markets	69%	65%	67%	63%	53%	N/A	N/A	N/A
Mobile Users Installations (Million)	<u>1,089.1</u>	<u>862.2</u>	<u>662.2</u>	<u>502.1</u>	<u>346.6</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

# MANAGEMENT DISCUSSION AND ANALYSIS

## For the Three Months Ended 31 December 2014

The following table sets forth the comparative numbers for the three months ended 31 December 2014, 30 September 2014 and 31 December 2013, respectively.

	<b>Three months ended</b>		
	<b>31 December 2014 RMB'000 (Unaudited)</b>	<b>30 September 2014 RMB'000 (Unaudited)</b>	<b>31 December 2013 RMB'000 (Unaudited)</b>
<b>Revenue</b>			
Online game	346,133	304,172	287,724
Cheetah Mobile	581,637	445,981	249,833
Office software and others	144,051	102,028	131,195
	<u>1,071,821</u>	<u>852,181</u>	<u>668,752</u>
Cost of revenue	<u>(226,413)</u>	<u>(140,344)</u>	<u>(89,680)</u>
<b>Gross profit</b>	<b>845,408</b>	<b>711,837</b>	<b>579,072</b>
Research and development costs, net of government grants	(264,396)	(272,622)	(175,465)
Selling and distribution expenses	(244,300)	(229,501)	(164,991)
Administrative expenses	(89,701)	(74,526)	(52,378)
Share-based compensation costs	(58,779)	(65,388)	(16,609)
Other income	15,417	17,400	6,477
Other expenses	<u>(15,198)</u>	<u>(15,997)</u>	<u>7,988</u>
<b>Operating profit</b>	<b>188,451</b>	<b>71,203</b>	<b>184,094</b>
Other gains/(losses), net	(12,733)	195,853	(8,645)
Finance income	64,951	66,659	39,640
Finance costs	(18,936)	(22,945)	(10,864)
Share of profits and losses of:			
Joint ventures	(5,066)	(1,638)	4,588
Associates	<u>(540)</u>	<u>(2,559)</u>	<u>(2,774)</u>
<b>Profit before tax</b>	<b>216,127</b>	<b>306,573</b>	<b>206,039</b>
Income tax expense	<u>(15,511)</u>	<u>(20,309)</u>	<u>(11,028)</u>
<b>Profit for the period</b>	<b><u>200,616</u></b>	<b><u>286,264</u></b>	<b><u>195,011</u></b>
<b>Attributable to:</b>			
Owners of the parent	173,887	230,538	166,301
Non-controlling interests	<u>26,729</u>	<u>55,726</u>	<u>28,710</u>
	<u>200,616</u>	<u>286,264</u>	<u>195,011</u>
<b>Earnings per share attributable to ordinary equity holders of the parent</b>	<b>RMB (Unaudited)</b>	<b>RMB (Unaudited)</b>	<b>RMB (Unaudited)</b>
Basic	0.15	0.20	0.14
Diluted	<u>0.14</u>	<u>0.18</u>	<u>0.13</u>



## Revenue

Revenue for the fourth quarter of 2014 increased 26% quarter-over-quarter and 60% year-over-year to RMB1,071.8 million. Revenue from the online game, Cheetah Mobile and office software and others businesses represented 32%, 54% and 14%, respectively, of the Group's total revenue for the fourth quarter of 2014. Revenues from the three business lines are reported net of intra-group transactions.

Revenue from the online game business mainly consists of revenues from operations of proprietary PC-based online games, mobile games, and game licensing services, which are generated from the Group's companies, other than Cheetah Mobile and its subsidiaries, through research, development and provision of online games across devices. Revenue from the online game business for the fourth quarter of 2014 increased 14% quarter-over-quarter and 20% year-over-year to RMB346.1 million. The quarter-over-quarter increase was mainly attributable to the continued growth of JX Online III with the release of the largest expansion pack of the year "Cang Xue Long Cheng" ("蒼雪龍城") in November 2014 and new contributions from two mobile games which were commercially launched in September and November 2014, respectively. The year-over-year increase was primarily due to the sustainable and notable growth of JX Online III, which has grown for the past 13 consecutive quarters, driven by continuous improvement in game experiences and introduction of attractive expansion packs on quarterly basis.

ADPCU for the Group's online games for the fourth quarter of 2014 increased 7% quarter-over-quarter and 5% year-over-year to 0.66 million. The quarter-over-quarter increase was mainly due to the sustained popularity of JX Online III. The year-over-year increase was primarily driven by the launch of new version of JX Online I in Vietnam. APA for the Group's online games for the fourth quarter of 2014 increased 14% quarter-over-quarter and 45% year-over-year to 2.72 million. The solid quarter-over-quarter and year-over-year increases in APA primarily reflected an ongoing increase in JX Online III users. The monthly ARPU for the Group's online games for the fourth quarter of 2014 decreased 5% quarter-over-quarter and decreased 20% year-over-year to RMB39.

Revenue from Cheetah Mobile business mainly consists of revenues from online marketing services, internet value-added services, and internet security services and others, which are generated from Cheetah Mobile and its subsidiaries through research, development and operation of information security software, internet browser, mission critical mobile applications, and operation of games and provision of global content distribution channel for its business partners. Revenue from Cheetah Mobile business for the fourth quarter of 2014 increased 30% quarter-over-quarter and 133% year-over-year to RMB581.6 million. The quarter-over-quarter increase was primarily due to the outstanding performance of online marketing services driven by the phenomenal growth of global mobile monetization. The year-over-year increase was mainly due to the increase in revenues from online marketing services and internet value-added services ("IVAS") driven by increased monetization capabilities of PC-based user traffic as well as notable ramp-up in global mobile monetization.

Mobile MAU from Cheetah Mobile increased 16% quarter-over-quarter and 138% year-over-year to 395.4 million in December 2014. In December 2014, approximately 69% of mobile MAU were from overseas markets, mostly from the United States, Asia (excluding China) and Europe,

compared to approximately 53% in December 2013. Our mobile user installations increased 26% quarter-over-quarter and 214% year-over-year to 1,089.1 million as of 31 December 2014. The robust mobile user growth mainly reflected that our mission critical applications, particularly Clean Master, continued to gain traffic share and were expanding rapidly in the global market through our efforts in market exploration, market expansion and continuous improvement of user experiences. The growing number of users, in turn, attracts additional users on our mobile advertising platform, which once again attracts advertisers which results in a virtuous cycle.

Revenue from the office software and others business consists of revenues from all the other businesses, including office application software, cloud storage, dictionary services, etc. Revenue from the office software and others businesses for the fourth quarter of 2014 increased 41% quarter-over-quarter and 10% year-over-year to RMB144.1 million. The quarter-over-quarter increase mainly reflected the strong sales of WPS Office in the peak season and the significant ramp-up of revenue contribution from Kingsoft Cloud driven by the phenomenal growth of cloud storage users from Xiaomi as well as our fast growing cloud computing services to mobile game providers. The year-over-year increase mainly reflected the full year's strong growth of our cloud storage services provided to Xiaomi and significant progresses we have made in cloud computing services to mobile game providers, as well as the growth in revenue from online marketing services driven by improved monetization capabilities of WPS free user traffic.

### **Cost of Revenue and Gross Profit**

Cost of revenue for the fourth quarter of 2014 increased 61% quarter-over-quarter and 152% year-over-year to RMB226.4 million. The quarter-over-quarter and year-over-year increases were primarily due to the increases in channel and content costs associated with the Cheetah Mobile's game business as well as higher bandwidth, server hosting costs and depreciation along with increasing user traffic and activities of Cheetah Mobile and the rapid development of our cloud services.

Gross profit for the fourth quarter of 2014 increased 19% quarter-over-quarter and 46% year-over-year to RMB845.4 million. The Group's gross profit margin decreased by five percentage points quarter-over-quarter and eight percentage points year-over-year to 79%.

### **Research and Development (“R&D”) Costs**

R&D costs, net of government grants, for the fourth quarter of 2014 decreased 3% quarter-over-quarter and increased 51% year-over-year to RMB264.4 million. The year-over-year increase was mainly attributable to increased staff costs driven by the expansion of the Group's mobile application development teams and increased salary and benefits.

### **Selling and Distribution Expenses**

Selling and distribution expenses for the fourth quarter of 2014 increased 6% quarter-over-quarter and 48% year-over-year to RMB244.3 million. The quarter-over-quarter and year-over-year increases primarily reflected our investment in expanding the mobile user base of Cheetah Mobile in the global market.

## **Administrative Expenses**

Administrative expenses for the fourth quarter of 2014 increased 20% quarter-over-quarter and 71% year-over-year to RMB89.7 million. The quarter-over-quarter increase was primarily due to an increase in professional fees. The year-over-year increase was mainly due to higher professional fees and an increase in staff costs.

## **Share-based Compensation Costs**

Share-based compensation costs for the fourth quarter of 2014 decreased 10% quarter-over-quarter and increased 254% year-over-year to RMB58.8 million. The year-over-year increase was primarily driven by the new grants of Cheetah Mobile's options and awarded shares to selected employees.

## **Operating Profit before Share-based Compensation Costs**

Operating profit before share-based compensation costs for the fourth quarter of 2014 increased 81% quarter-over-quarter and 23% year-over-year to RMB247.2 million as a result of the combination of the above reasons. The operating profit margin before share-based compensation costs for the fourth quarter of 2014 increased by seven percentage points quarter-over-quarter and decreased by seven percentage points year-over-year to 23%.

## **Other Gains/(Losses), net**

Other gains/(losses), net for the fourth quarter of 2014 recorded a loss of RMB12.7 million, compared to a gain of RMB195.9 million in the third quarter of 2014. The other gains, net in the third quarter primarily represented a gain on disposal of Kuaipan Personal Version business.

## **Finance Income**

Finance income for the fourth quarter of 2014 decreased 3% quarter-over-quarter and increased 64% year-over-year to RMB65.0 million.

## **Income Tax Expense**

Income tax expense for the fourth quarter of 2014 decreased 24% quarter-over-quarter and increased 41% year-over-year to RMB15.5 million. The Group's effective tax rate held flat quarter-over-quarter and increased by two percentage points year-over-year to 7%.

## **Profit Attributable to Owners of the Parent**

As a result of the reasons discussed above, profit attributable to owners of the parent for the fourth quarter of 2014 decreased 25% quarter-over-quarter and increased 5% year-over-year to RMB173.9 million.

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

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

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

Profit attributable to owners of the parent before share-based compensation costs for the fourth quarter of 2014 decreased 24% quarter-over-quarter and increased 13% year-over-year to RMB201.7 million. The net profit margin excluding the effect of share-based compensation costs was 19%, 31% and 27% for the three months ended 31 December 2014, 30 September 2014 and 31 December 2013, respectively.

## For the Year Ended 31 December 2014

The following table sets forth the comparative numbers for the years ended 31 December 2014 and 31 December 2013, respectively.

	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>		
Online game	1,252,753	1,095,913
Cheetah Mobile	1,674,060	694,389
Office software and others	423,320	382,967
	<u>3,350,133</u>	<u>2,173,269</u>
Cost of revenue	(589,655)	(297,104)
	<u>2,760,478</u>	<u>1,876,165</u>
<b>Gross profit</b>		
Research and development costs, net of government grants	(956,097)	(596,491)
Selling and distribution expenses	(797,416)	(382,848)
Administrative expenses	(297,412)	(192,245)
Share-based compensation costs	(201,922)	(61,387)
Other income	35,818	45,949
Other expenses	(29,873)	(7,263)
	<u>513,576</u>	<u>681,880</u>
<b>Operating profit</b>		
Other gains, net	299,748	37,097
Finance income	238,900	129,462
Finance costs	(75,944)	(24,466)
Share of profits and losses of:		
Joint ventures	(7,657)	4,827
Associates	(6,868)	(3,748)
	<u>961,755</u>	<u>825,052</u>
<b>Profit before tax</b>		
Income tax expense	(95,188)	(71,178)
	<u>866,567</u>	<u>753,874</u>
<b>Profit for the year</b>		
<b>Attributable to:</b>		
Owners of the parent	768,783	670,746
Non-controlling interests	97,784	83,128
	<u>866,567</u>	<u>753,874</u>
<b>Earnings per share attributable to ordinary equity holders of the parent</b>	<b>RMB</b>	<b>RMB</b>
Basic	0.66	0.58
Diluted	0.63	0.55

## **Revenue**

Revenue for the year of 2014 increased 54% year-over-year to RMB3,350.1 million. Approximately 37% of the revenue was generated from the online game business, 50% of the revenue was generated from Cheetah Mobile business and 13% of the revenue was generated from the office software and others business.

### **— *Online game***

Revenue from the online game business for the year of 2014 increased 14% year-over-year to RMB1,252.8 million. The increase was primarily due to the strong performance of JX Online III driven by continuous optimization, innovation of the game, and introduction of new excitements through expansion packs on quarterly basis.

### **— *Cheetah Mobile***

Revenue from Cheetah Mobile business for the year of 2014 increased 141% year-over-year to RMB1,674.1 million. The rapid increase was primarily due to the increase in revenues from online marketing services and IVAS. The increase in revenue from online marketing services was supported by strengthened monetization capabilities of PC user traffic and accelerating mobile monetization in the global market. The increase in revenue from IVAS was mainly driven by the increase in the number of PC and mobile games published on the game platform of Cheetah Mobile business and the increase in the number of monthly paying users.

### **— *Office Software and others***

Revenue from the office software and others for the year of 2014 increased 11% year-over-year to RMB423.3 million. The increase was mainly due to: i) the revenue contribution from Kingsoft Cloud, driven by explosive growth of Xiaomi Cloud users as well as strong growth of our cloud computing services to game providers; and ii) the healthy growth of revenue from WPS Office, driven by significant improvement in monetization of WPS free user traffic, partially offset by the mild decline in sales of WPS Office. The mild decline in sales of WPS office mainly reflected the combination of increases in sales to enterprises and declines of sales to government agencies.

## **Cost of Revenue and Gross Profit**

Cost of revenue for the year of 2014 increased 98% year-over-year to RMB589.7 million. The increase was primarily driven by the increases in channel and content costs associated with expansion of the mobile game business as well as higher bandwidth, server hosting costs and depreciation associated with increased user traffic and the fast development of our cloud services.

Gross profit for the year of 2014 increased 47% year-over-year to RMB2,760.5 million. The Group's gross profit margin decreased by four percentage points year-over-year to 82%.

## **R&D Costs**

R&D costs, net of government grants, for the year of 2014 increased 60% year-over-year to RMB956.1 million. This increase was primarily due to an increase in R&D headcount and staff salaries and benefits as a result of our increased investment in mobile business and cloud services.

## **Selling and Distribution Expenses**

Selling and distribution expenses for the year of 2014 increased 108% year-over-year to RMB797.4 million. The increase was primarily due to an increase in marketing and promotion expenses for the acceleration of expansion of global user base of mobile applications of Cheetah Mobile.

## **Administrative Expenses**

Administrative expenses for the year of 2014 increased 55% year-over-year to RMB297.4 million. This was primarily attributable to higher staff costs and professional service fees.

## **Share-based Compensation Costs**

Share-based compensation costs for the year of 2014 increased 229% year-over-year to RMB201.9 million. The increase was primarily due to the new grants of Cheetah Mobile's options and awarded shares to selected employees.

## **Operating Profit before Share-based Compensation Costs**

Operating profit before share-based compensation costs for the year of 2014 decreased 4% year-over-year to RMB715.5 million as a result of the combination of above reasons. The margin of operating profit before share-based compensation costs decreased by thirteen percentage points year-over-year to 21%.

## **Other gains, net**

Other gains, net for the year of 2014 increased 708% year-over-year to RMB299.7 million. The increase mainly reflected gains from the disposal of Kuaipan Personal Version business and an investment in a joint venture.

## **Finance Income**

Finance income for the year of 2014 increased 85% year-over-year to RMB238.9 million.

## **Income Tax Expense**

Income tax expenses for the year of 2014 increased 34% year-over-year to RMB95.2 million. The Group's effective tax rate increased by one percentage point year-over-year to 10%.

## **Profit attributable to Owners of the Parent**

For the reasons described above, profit attributable to owners of the parent for the year of 2014 increased 15% year-over-year to RMB768.8 million.

## **Profit attributable to Owners of the Parent before Share-based Compensation Costs**

Profit attributable to owners of the parent before share-based compensation costs for the year of 2014 increased 22% year-over-year to RMB875.4 million.

The profit margin excluding the effect of share-based compensation costs for the year of 2014 decreased by seven percentage points year-over-year to 26%.

## **Liquidity and Financial Resource**

The Group had a strong cash position towards the end of the reporting period. As at 31 December 2014, the Group had major financial resources in the forms of cash and cash equivalent and time deposits with initial term of over three months amounting to RMB3,193.9 million and RMB3,809.7 million, respectively, which totally represented 67% of the Group's total assets.

As at 31 December 2014, the Group's gearing ratio, which represents total liabilities divided by total assets, was 41%, compared to 34% as at 31 December 2013. As at 31 December 2014, the Group had HKD3,539.0 million (equivalent of RMB2,792.3 million) debt of convertible bonds and HKD20.0 million (equivalent of RMB15.8 million) bank loan.

## **Foreign Currency Risk Management**

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

As at 31 December 2014, RMB3,209.7 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 31 December 2014 was RMB324.5 million compared to RMB233.6 million as at 31 December 2013. The increase was primarily due to the increased sales of prepaid cards in the year of 2014.



## **Net Cash Generated from Operating Activities**

Net cash generated from the operating activities reflects the Group's profit for the year, as the case maybe, as adjusted for non-cash items, such as depreciation, amortisation 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 from operating activities was RMB952.3 million and RMB938.1 million for the years ended 31 December 2014 and 31 December 2013, respectively.

## **Capital Expenditures**

Capital expenditures represent cash payments for acquisition of business, property, land use right, fixed assets and intangible assets. Cash used for capital expenditures was RMB848.9 million and RMB135.1 million for the years ended 31 December 2014 and 31 December 2013, respectively.

## **BUSINESS REVIEW AND PROSPECTS**

“If the year 2013 was the start of mobile transformation for our core businesses, then 2014 was a year of outstanding achievements in mobile transformation for Kingsoft. Our total mobile MAU continued a rapid growth and exceeded over 481 million in December 2014, compared with 210 million a year ago. Over 63% of our mobile MAU were from overseas markets in December 2014. In the fourth quarter of 2014, 37% of Cheetah Mobile's revenue was from mobile services. These performances showcase that we have made excellent progresses in all of our priorities from gaining traffic share, accelerating global market expansion, to strengthening mobile monetization capabilities. In addition to the accomplished mobile transformation, all of our three major business lines delivered outstanding results in 2014, amongst which Cheetah Mobile's achievement was particularly impressive. On 8 May 2014, Cheetah Mobile was successfully listed on the New York Stock Exchange. As we continue to invest aggressively in mobile application development, global market penetration and global mobile monetization, we are well positioned to take the tremendous opportunities ahead, driven by the explosive development of the global mobile internet.” commented Mr. Jun LEI, Chairman of Kingsoft.

“The year 2014 was also a critical turning year for our strategic business Kingsoft Cloud”. Mr. Jun LEI continued, “In 2014, we decided to focus our cloud efforts on enterprise services by disposing Kuaipan Personal Edition business in September 2014. We are excited to see substantial progresses in the development of our cloud storage and cloud computing services. The daily average data uploaded onto our storage services was approximately 258 terabyte in December 2014, driven by the soaring increase in cloud storage users and organic mobile user data. Now, more than 90 games are operated on our platform, including “MU Miracle” (“全民奇迹”), China's blockbuster mobile game in 2014. All of these metrics showed that it was the right time for us to focus and invest on the next great opportunity, enterprise cloud storage and cloud computing services. As a significant step forward for our cloud business, we unveiled the “ALL IN Cloud” strategy in December 2014. This strategy entails making huge investments into cloud technology development, talent recruitments, market expansion and cloud service infrastructure building. We are dedicated to building Kingsoft into a leading cloud service provider in China in the coming years.”

Dr. Hong Jiang ZHANG, CEO of Kingsoft added, “2014 was another year of continued strong growth. We delivered a solid annual top line growth of 54% and our total revenue reached RMB3,350.1 million. All of our business lines achieved record highs in terms of revenue and operation metrics. Excluding the effect of share-based compensation costs, the operating profit for 2014 declined 4% year-over-year to RMB715.5 million and operating profit margin decreased by thirteen points year-over-year to 21%. These results are in line with our proactive investment strategy in mobile transformation and trading off short term profit for long term greater gains in the future. I am pleased with the outstanding performances and execution of our strategies, particularly the swift expansion of our global mobile user base, the substantial improvement in mobile monetization capability and the accelerated growth of our cloud services.

2014 was a milestone year and marked a new start for Cheetah Mobile. It delivered another year of impressive achievements in terms of revenue and operating metrics. For the year 2014, the revenue for Cheetah Mobile recorded a growth of 141% year-over-year. The strong growth momentum was supported by the significant progresses we have made in exploration of global mobile monetization, mobile traffic expansion and strengthened monetization capabilities of PC-based user traffic. In terms of revenue growth rate, the breakthrough in global monetization is particularly impressive, driven by the strong and accelerated growth of global mobile advertising market and Cheetah Mobile’s unprecedented efforts in expanding our mobile advertising business worldwide. For the fourth quarter of 2014, revenue from mobile services of Cheetah Mobile grew 98% quarter-over-quarter and 635% year-over-year to RMB217.4 million, which represented approximately 37% of its total revenue, compared with approximately 11% a year ago. Mobile MAU of Cheetah Mobile soared at an impressive rate of over 138% year-over-year to 395 million, approximately 69% of which were from overseas markets. I am also excited to see that CM Security, which was launched in January 2014, has rapidly grown into the second leading mobile application of Cheetah Mobile. Our flagship mobile application, Clean Master continued to rank #1 in downloads within the Tools category on Google Play in December 2014 according to APP Annie Limited (“APP Annie”) and CM Security took the #2 position.

Online game business continued to grow at an annual rate of 14% in the year of 2014, outpacing the average annual growth rate of MMO gaming market in China. Thanks to the release of a series of expansion packs in the past year, the revenue of our flagship game, JX Online III, increased 54% year-over-year to reach RMB705.3 million following a consecutive two-year, nearly double annual rate. In November 2014, JX Online III achieved a new record in terms of revenue and APA with the launch of the expansion pack “Cang Xue Long Cheng” (“蒼雪龍城”). In November 2014, our first self-developed mobile game “Transfiguration, Lord!” (“變身吧，主公”) was launched and well received by the gamers.

The past year marked a year of change for Kingsoft WPS Office. Total revenue from WPS Office, net of advertising revenue derived from cooperation with Cheetah Mobile posted a slight growth of 1% year-over-year to reach RMB290.7 million in 2014. The monetization on traffic from of WPS Office Personal Edition users exceeded our expectation, driven by the rising usage of WPS Office, our improved monetization capability as well as the cooperation with Cheetah Mobile. The MAU of WPS Personal Edition continued to increase and exceeded 82 million in December 2014, compared to 62 million a year ago. However, we have observed a slight decline in WPS sales to government agencies, following a peak in the year of 2013. During the year of 2014, WPS Office focused its efforts on the mobile office application development and global user base expansion. In July 2014,

WPS Mail and WPS Mail for Xiaomi phones were launched, adding a key function to our mobile WPS productivity suit, which enhanced the email experience of Android phone users. Our global mobile MAU of WPS family increased 96% year-over-year to 85.6 million in December 2014, amongst which mobile MAU of WPS Office were 65.5 million.

2014 was a turning year and had laid a sound foundation for Kingsoft Cloud, as cloud services became mainstream and experienced explosive growth in China. The successful provision of cloud storage services to Xiaomi, the year's fastest growing smart device provider in the world, and the excellent provision of cloud computing services to "MU Miracle" ("全民奇迹"), the China's phenomenal blockbuster mobile game in 2014, marked a milestone of our capabilities in the provision of cloud storage and computing services. We are most encouraged to see the daily average upload data into our storage services soared to approximately 258 terabyte in December 2014, compared to 61 terabyte a year ago.

Looking forward, Cheetah Mobile will continue to invest aggressively in mobile application innovation, big data analytic research and global market expansion as well as global mobile monetization. Clean Master and CM Security will maintain their strong growth momentum as Cheetah Mobile's flagship mobile applications that continue to deliver innovative and better than expected mobile experiences. Leveraging the fast development of mobile internet market, strategic collaboration with Samsung and Xiaomi, as well as the expansion of geographic coverage, the user base of our mobile applications will continue to expand rapidly. As the global mobile advertising market booms and evolves fast, we expect the mobile platform of Cheetah Mobile will continue to attract user activities and advertisers and mobile advertising will become our strong growth catalyst in the coming year. Additionally, Cheetah Mobile's recent acquisition of MobPartner will further enhance our global mobile monetization capabilities and extend the footprint of our advertising business. Going forward, we remain focus on building one of the world's leading mobile advertising platforms.

With its proven track record of growth and increasing popularity, we expect JX Online III will maintain its growth momentum in the coming year as we continue to provide ingenious and better than expected game experiences. A number of expansion packs for JXs will be launched in 2015 to further stimulate and consolidate our gaming population. We have more than ten mobile game projects currently under development, a number of which will be commercially launched in 2015. We expect revenue from mobile games will become an important growth catalyst for online game business in the coming year.

We expect the enterprise sales from Kingsoft WPS Office will resume its strong growth momentum, driven by the increasing demand for office software services across devices as well as the improved IPR protection policies in China. In addition to enterprise sales, we will continue to explore the monetization on traffic of WPS Personal Edition, which will be as a growth catalyst for Kingsoft WPS Office in 2015. More importantly, we will focus on the new mobile office application developments and the worldwide mobile user base expansion. We will also start to explore the monetization opportunities on the traffic of our mobile WPS Personal Edition.

In the past year, we have established competitive capabilities in providing cloud services to meet the needs of rapid growing mobile internet companies, with phenomenal successes in mobile user data storage service and mobile game platform service. In 2015, with increased investment,

we will accelerate our effort in extending our storage service capabilities into new markets and vertical applications. We expect revenue from Kingsoft cloud storage will continue its strong growth momentum, driven by the fast growing shipments of smart devices and mobile user data, as well as the penetration of cloud service into new sectors. Also, we will increase our investment in cloud computing services to ensure we continue expanding our share in mobile game platform market and extending to other non-game industries. We expect revenue from our cloud computing services will also gain strong growth momentum. To accommodate the explosive growth in demand of cloud services and achieve our business goals, we will invest heavily in building cloud service infrastructure.”

“Looking forward, we will continue to execute our mobile transformation and “ALL IN Cloud” strategies. Given the encouraging performances of all our business lines in 2014 and our solid execution capabilities, we are confident that Kingsoft will maintain its strong growth momentum in terms of top line and mobile internet transformation and reach new heights in 2015.” Mr Jun LEI concluded.

## **OTHER INFORMATION**

### **Employee and Remuneration Policies**

The Group upholds a high standard of business ethics and personal conduct of its employees. The Group strives to ensure that our staff enjoy a healthy, safe and inspiring environment which promotes them to work and interact with others. These were demonstrated by the Group organizing various kinds of outdoor trips as well as the provision of certain facilities such as indoor sports center and staff canteen in our headquarter.

The remuneration policies and packages of the Group’s employees are periodically reviewed. The principle of the Group’s remuneration policies is fairness, motivating, performance-oriented and market-competitive. Apart from salaries, medical insurance, discretionary bonuses and state managed retirement benefit scheme, the Group has also adopted share option scheme and share award scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

As at 31 December 2014, the Group employed approximately 5,296 full-time employees (2013: 4,163) inclusive of all its staff in Mainland China and overseas offices, most of whom are based at the Company’s offices in Beijing and Zhuhai. The staff costs of the Group including Directors’ and senior management’s emoluments in 2014 and 2013 were approximately RMB1,288.0 million and RMB735.2 million, respectively.

### **Purchase, Sale or Redemption of the Company’s Listed Securities**

During the year ended 31 December 2014, the Company repurchased a total of 3,802,000 of its own ordinary shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) at a total cost of approximately HKD57.2 million. The company considered that it is in the best interest of the shareholders to return some surplus funds to them which will in turn enhance shareholders’ value.

Details of the repurchases by the Company on the Stock Exchange during the year ended 31 December 2014 were as follows:

Month of Repurchase in 2014	No. of Shares Repurchased	Repurchase Consideration Per Share		Aggregate Consideration Paid <i>HKD</i>
		Highest Price Paid <i>HKD</i>	Lowest Price Paid <i>HKD</i>	
December	3,802,000	15.20	14.90	57,217,800

### **Code of Conduct Regarding Directors' Securities Transaction**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) to govern securities transactions by Directors. Further to the specific enquiries made by the Company to all Directors, they have confirmed their compliance with the Model Code during their terms of services for the year ended 31 December 2014.

### **Closure of Register of Members**

For the purposes of determining shareholders' eligibility to attend and vote at AGM, and entitlement to the final dividend, the register of members of the Company will be closed. Details of such closures are set out below:

#### ***(i) For determining eligibility to attend and vote at the AGM:***

Latest time to lodge transfer documents for registration	4:30 pm on Wednesday, 13 May 2015
Closure of the register of members of the Company	Thursday, 14 May 2015 to Wednesday, 20 May 2015 (both dates inclusive)
Record date	Wednesday, 20 May 2015

#### ***(ii) For determining entitlement to the final dividend:***

Latest time to lodge transfer documents for registration	4:30 pm on Tuesday, 26 May 2014
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Closure of the register of members  
of the Company

Wednesday, 27 May 2015 to  
Monday, 1 June 2015  
(both dates inclusive)

Record date

Monday, 1 June 2015

During the above closure periods, no transfer of shares will be registered. In order to qualify for the proposed final dividend and the right to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than the aforementioned latest time.

### **Review by Audit Committee**

The Audit Committee of the Company has been established since 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. During the year ended 31 December 2014, our Audit Committee comprised of three independent non-executive Directors, namely Ms. Wenjie WU (chairman of the Audit Committee), Mr. David Yuen Kwan TANG, Mr. Guangming George LU (resigned as member of the Audit Committee on 15 July 2014) and Mr. Shun Tak WONG (appointed as member of the Audit Committee on 15 July 2014).

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters with management.

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2014, and is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

### **Code on Corporate Governance Practices**

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 Corporate Governance Code and Corporate Governance Report (the "Code") contained in Appendix 14 to the Listing Rules, except for the code provision A.6.7 and C.1.2 of the Code.

The code provision A.6.7 of the Code is regarding non-executive directors' attendance to general meetings. Non-executive director Mr. Chi Ping LAU and independent non-executive director Mr. Guangming George LU did not attend the annual general meeting of the Company held on 28 May 2014 as they were traveling at that time due to other engagements. Non-executive directors Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Chi Ping LAU, and independent non-executive directors Mr. Guangming George LU, David Yuen Kwan TANG and Ms. Wenjie WU did not attend the

extraordinary general meeting held on 2 January 2014 due to previously arranged engagements. Non-executive director Mr. Chi Ping LAU and independent non-executive director Mr. Shun Tak WONG did not attend the extraordinary general meeting held on 26 December 2014 due to previously arranged engagements. The code provision C.1.2 of the 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.

### **Forward Looking Statements**

This announcement contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements are based upon current plans, estimates and projections and represent the Company's expectations or beliefs concerning future events, therefore, no undue reliance should be placed upon them.

Forward looking statements contain inherent risks and uncertainties. The Company warns that should any of these risks or uncertainties ever materialize or should any number of important factors or events occur or not occur, then the actual results of the Company may differ materially from those either expressed or implied in any of these forward looking statements.

### **Publication of the Annual Results, Annual Reports and Corporate Governance Report**

All the financial and other related information of the Company required by the Listing Rules will be published on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.kingsoft.com](http://www.kingsoft.com)) in due course.

### **APPRECIATION**

Last but not least, on behalf of the Board, I would like to take this opportunity to express my gratitude to our management and staff for their hard work and contributions, and our shareholders, business associates and investors for their support during the year.

By order of the Board  
**Kingsoft Corporation Limited**  
**Jun LEI**  
*Chairman*

The PRC, 20 March 2015

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