The Board is pleased to announce that the issue of the Convertible Bonds has been completed on 11 April 2014.

Reference is made to the announcements of Kingsoft Corporation Limited (the “Company”) dated 3 April 2014 (the “Announcement”) in relation to the issue of the Convertible Bonds. Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement unless the context requires otherwise.
(1) COMPLETION OF THE ISSUE OF THE CONVERTIBLE BONDS

The Board is pleased to announce that the issue of the Convertible Bonds in the principal amount of HK$2,327,000,000 has been completed on 11 April 2014. The net proceeds from the subscription of the Bonds, after deduction of commissions and other related expenses, are estimated to be approximately HK$2,277 million. The Company intends to use the net proceeds from the Subscription primarily for general corporate purposes, for strategic investments and acquisitions, if appropriate, and to supplement working capital. The net price for each Conversion Share is estimated to be approximately HK$42.95 (subject to adjustments). The Convertible Bonds are expected to be listed on the SGX-ST on 14 April 2014.

(2) OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued pursuant to Rule 13.10B of the Listing Rules.

The Offering Circular in relation to the issue of the Bonds is expected to be published on the website of the SGX-ST (http://www.sgx.com) on or within two business days after 14 April 2014. An extract of the Offering Circular containing certain information regarding the Group is attached to this announcement. The posting of the said extract on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.10B of the Listing Rules, and for no other purposes.

The Offering Circular does not constitute a prospectus, notice, circular, brochure, advertisement or document offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be based on the information contained in the Offering Circular.

By Order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

The PRC, 11 April 2014

As at the date of this announcement, the executive Directors are Messrs. Hong Jiang 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. Guangming George LU, David Yuen Kwan TANG and Ms. Wenjie WU.
Extract of certain information regarding the Group

1. Summary Consolidated Financial Information and Other Data
2. Risk Factors
3. Capitalisation and Indebtedness
4. Corporate Structure
5. Business
Summary Consolidated Financial Information and Other Data

Summary Consolidated Statement of Profit or Loss and Comprehensive Income Data

The following tables present our summary consolidated financial information and other data. The summary consolidated annual financial information as of and for each of the years ended 31 December 2011, 2012 and 2013 have been extracted from our consolidated financial statements as of and for the years ended 31 December 2011, 2012 and 2013, as audited by Ernst & Young, independent auditors, and incorporated by reference in this Offering Circular.

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2011 (RMB’000)</th>
<th>2012 (RMB’000)</th>
<th>2013 (RMB’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,020,508</td>
<td>1,411,161</td>
<td>2,173,269</td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>(147,812)</td>
<td>(186,939)</td>
<td>(297,104)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>872,696</td>
<td>1,224,222</td>
<td>1,876,165</td>
</tr>
<tr>
<td>Research and development costs, net of government grants</td>
<td>(303,848)</td>
<td>(385,409)</td>
<td>(596,491)</td>
</tr>
<tr>
<td>Selling and distribution costs</td>
<td>(125,873)</td>
<td>(234,115)</td>
<td>(382,848)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(127,498)</td>
<td>(147,954)</td>
<td>(192,245)</td>
</tr>
<tr>
<td>Share-based compensation costs</td>
<td>(17,266)</td>
<td>(48,472)</td>
<td>(61,387)</td>
</tr>
<tr>
<td>Other income and gains</td>
<td>44,051</td>
<td>28,609</td>
<td>45,949</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(10,747)</td>
<td>(22,971)</td>
<td>(7,263)</td>
</tr>
<tr>
<td>Fair value (loss)/gain on a financial asset at fair value through profit or loss</td>
<td>(1,973)</td>
<td>16,010</td>
<td>(10,355)</td>
</tr>
<tr>
<td>Finance income</td>
<td>65,130</td>
<td>97,973</td>
<td>129,462</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(3,461)</td>
<td>(8,702)</td>
<td>(24,466)</td>
</tr>
<tr>
<td>Gain on disposal of a subsidiary</td>
<td>–</td>
<td>–</td>
<td>47,452</td>
</tr>
<tr>
<td>Share of profits and losses of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint ventures</td>
<td>(1,945)</td>
<td>9,532</td>
<td>4,827</td>
</tr>
<tr>
<td>Associates</td>
<td>(4,070)</td>
<td>(930)</td>
<td>(3,748)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>385,196</td>
<td>527,793</td>
<td>825,052</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(50,162)</td>
<td>(61,359)</td>
<td>(71,178)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>335,034</td>
<td>466,434</td>
<td>753,874</td>
</tr>
<tr>
<td>Attributable to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>324,729</td>
<td>432,589</td>
<td>670,746</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>10,305</td>
<td>33,845</td>
<td>83,128</td>
</tr>
<tr>
<td>Earnings per Share attributable to ordinary equity holders of the Parent (expressed in RMB per share)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>0.2886</td>
<td>0.3785</td>
<td>0.5812</td>
</tr>
<tr>
<td>Diluted</td>
<td>0.2790</td>
<td>0.3715</td>
<td>0.5519</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>335,034</td>
<td>466,434</td>
<td>753,874</td>
</tr>
<tr>
<td>Other comprehensive loss:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange differences on translation of foreign operations</td>
<td>(3,885)</td>
<td>(5,613)</td>
<td>(23,483)</td>
</tr>
<tr>
<td>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in fair value of available-for-sale investments, net of tax</td>
<td>–</td>
<td>–</td>
<td>20,927</td>
</tr>
<tr>
<td>Other comprehensive loss for the year, net of tax</td>
<td>(3,885)</td>
<td>(5,613)</td>
<td>(2,556)</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>331,149</td>
<td>460,821</td>
<td>751,318</td>
</tr>
<tr>
<td>Attributable to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>321,339</td>
<td>429,251</td>
<td>669,418</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>9,810</td>
<td>31,570</td>
<td>81,900</td>
</tr>
<tr>
<td>Total</td>
<td>331,149</td>
<td>460,821</td>
<td>751,318</td>
</tr>
</tbody>
</table>
## Summary Consolidated Statement of Financial Position Data

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>395,328</td>
<td>371,213</td>
<td>385,067</td>
</tr>
<tr>
<td>Lease prepayments</td>
<td>44,142</td>
<td>43,201</td>
<td>42,260</td>
</tr>
<tr>
<td>Goodwill</td>
<td>14,559</td>
<td>14,559</td>
<td>53,994</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>68,170</td>
<td>53,261</td>
<td>60,104</td>
</tr>
<tr>
<td>Long-term prepayment</td>
<td>80,109</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Investments in joint ventures</td>
<td>10,622</td>
<td>20,122</td>
<td>–</td>
</tr>
<tr>
<td>Investments in associates</td>
<td>930</td>
<td>–</td>
<td>34,852</td>
</tr>
<tr>
<td>Available-for-sale investments</td>
<td>4,990</td>
<td>7,182</td>
<td>62,626</td>
</tr>
<tr>
<td>Other financial asset</td>
<td>11,812</td>
<td>27,822</td>
<td>21,796</td>
</tr>
<tr>
<td>Loan receivables</td>
<td>4,500</td>
<td>5,864</td>
<td>15,976</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>27,547</td>
<td>32,962</td>
<td>52,406</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>662,709</td>
<td>576,186</td>
<td>729,081</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>3,311</td>
<td>17,006</td>
<td>3,528</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>80,366</td>
<td>130,346</td>
<td>185,161</td>
</tr>
<tr>
<td>Prepayments, deposits and other receivables</td>
<td>91,861</td>
<td>120,589</td>
<td>151,379</td>
</tr>
<tr>
<td>Due from related parties</td>
<td>137,502</td>
<td>161,262</td>
<td>135,872</td>
</tr>
<tr>
<td>Pledged deposit</td>
<td>85,000</td>
<td>19,000</td>
<td>19,588</td>
</tr>
<tr>
<td>Available-for-sale investments</td>
<td>–</td>
<td>–</td>
<td>55,780</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,953,770</td>
<td>2,416,259</td>
<td>4,481,188</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>2,351,810</td>
<td>3,065,083</td>
<td>5,075,252</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>16,568</td>
<td>23,089</td>
<td>32,463</td>
</tr>
<tr>
<td>Interest-bearing bank loans</td>
<td>346,655</td>
<td>413,559</td>
<td>15,724</td>
</tr>
<tr>
<td>Other payables and accruals</td>
<td>219,400</td>
<td>298,827</td>
<td>498,964</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>161,210</td>
<td>185,462</td>
<td>202,105</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>17,221</td>
<td>11,022</td>
<td>39,338</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>761,054</td>
<td>931,959</td>
<td>788,594</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td>1,590,756</td>
<td>2,132,371</td>
<td>4,286,658</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liability component of convertible bonds</td>
<td>–</td>
<td>–</td>
<td>1,037,587</td>
</tr>
<tr>
<td>Liability component of redeemable convertible preferred shares</td>
<td>–</td>
<td>–</td>
<td>77,982</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>–</td>
<td>–</td>
<td>7,401</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>20,321</td>
<td>14,252</td>
<td>31,533</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>20,024</td>
<td>19,373</td>
<td>30,545</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>40,345</td>
<td>33,625</td>
<td>1,185,048</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>2,213,120</td>
<td>2,674,932</td>
<td>3,830,691</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity attributable to owners of the parent</td>
<td>2,119,833</td>
<td>2,514,829</td>
<td>3,380,221</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>93,287</td>
<td>160,103</td>
<td>450,470</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>2,213,120</td>
<td>2,674,932</td>
<td>3,830,691</td>
</tr>
</tbody>
</table>
RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information contained in this Offering Circular before making an investment decision. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition, results of operations, future profitability and growth prospects. If any of the possible events described below occur, our business, financial condition, results of operations, profitability and prospects could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Bonds, and you could lose all or part of your investment.

Risks Related to Our Business

We may not be able to successfully manage our current and potential future growth and address the risks relating to such growth.

We offer a wide range of internet services and innovative applications such as internet security, office applications, interactive entertainment, cloud computing services and other software applications. We intend to continue to expand in size and increase the number and variety of products and services we provide. Our anticipated future growth will place significant demands on our management and operations. Our success in managing this growth will depend to a significant degree on the ability of our executive officers and other members of senior management to continue operating effectively as a team, and on our ability to develop and improve our financial and management information systems, controls and procedures. In addition, we will need to adapt our existing systems and introduce new systems, expand, train and manage our workforce, and improve and expand our sales and marketing capabilities. Furthermore, one of our growth strategies is to expand our overseas business, which may detract from the amount of our management resources available to address our core market in China. Mismanagement of any of our products or services in new or existing markets or the deterioration of the quality of our products or services could significantly damage our brand names and reputation and adversely impact our ability to expand our user base. Any of these factors could materially and adversely affect our business, financial condition and results of operations.

We may not be able to respond to future changes in the revenue models for our products in China or our overseas markets.

The revenue models for our various software and service offerings have changed and are continuing to change. For instance, our consumers have historically needed to pay the retail price to purchase our internet security and office applications software either through online or offline means. In line with our growth strategies and market trends, we recently began offering free internet downloads of our Duba Anti-virus software and WPS Office for individual users. We primarily rely on revenues from online marketing services, which is supported by a growing user base. Our revenues from advertising have gradually increased in the past. The strength of our advertising measures largely depends on our ability to maintain and expand our user base, which in turn requires us to continuously invest significant resources in such products and services that retain and attract users. However, we cannot assure you that our investments will maintain or expand our user base or we will be able to continue generating sustainable advertising and other revenues based on this business model. Any failure to do so may have a material adverse effect on our business, financial condition and results of operations. In addition, when we entered the online games market in December 2003, we adopted the traditional pay-to-play revenue model where we required users to purchase our prepaid virtual currencies to pay for playing time. In early 2006, consistent with a shift in the online games market in China, we adopted an item-billing revenue model. Under this revenue model, users can play our MMORPGs for free but have the option to purchase in-game...
virtual items and value-added services to enhance their overall game playing experience. If any new revenue models for the online games industry develop in China or in our overseas markets, we may be unable to launch games utilising such new models in a timely manner or at all. In addition, we may be required to expend significant resources to launch such games. In either case, our business, financial condition and results of operations could be materially and adversely affected.

If we are unable to achieve or maintain economies of scale with respect to our interactive entertainment software and other software application businesses, our future profitability and growth prospects may decline.

In order to respond to the rapid developments in the markets for different types of internet services and other applications software business, we incur substantial research and development costs and will be required to continue to do so in the future. The markets for our internet security, office applications and cloud computing services are characterised by intense competition, rapid industry change and developments and the frequent launch of new products and services. It is critical that we maintain the capability to develop new products that offer up-to-date functions, accessibility, security and reliability. If we are unable to achieve and maintain sufficient economies of scale, our ability to recover research and development costs will be adversely affected. In addition, if we are unable to develop new software products with up-to-date features, our business, results of operations, financial condition, future profitability and growth prospects may be adversely affected as well.

Similarly, the market for our interactive entertainment software is characterized by rapid technological developments, frequent launches of new products and services, the introduction of new business models, changes in user needs and behaviour, intense competition and evolving industry standards. New technologies in online game programming or operations could render online games which we are currently offering, or online games that we are developing or expect to develop in the future, obsolete or unattractive to users. In order to respond to such developments, we may be required to undertake substantial efforts and incur significant costs. Therefore, our ability to realize our desired margins in our interactive entertainment software business depends largely on our success in generating and maintaining a high and steady volume of usage to generate sufficient revenue to offset associated fixed costs. Our inability to compete with new technologies could limit our ability to achieve and maintain sufficient economies of scale in our interactive entertainment and overall software and information applications, which could adversely affect our business, financial condition and results of operations.

Certain versions of our products focus on user experience and satisfaction first and acting for the long-term which may conflict with the short-term operating results of our business.

Certain versions of our products, such as Duba Anti-virus are complimentary and rely on advertising revenues, and focus on user experience and satisfaction, instead of generating non-advertising revenues and contributing to the short-term operating results of our business. We believe that developing our user base is essential to our ongoing success and development, and better serves our long-term interests. Accordingly, we have made, and may continue to make, significant investments in the future and will adjust our strategy in a manner that we think will benefit our users. Such strategy may include additional complimentary product offerings and related measures which involve uncertainties and risks, including:

- potential ongoing financial obligations and unforeseen or hidden liabilities;
- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities;
- costs and difficulties of integrating acquired businesses and managing a larger business;
costs and difficulties of integrating acquired technologies into our existing products and services; and

• diversion of resources and management attention.

Our failure to address these risks successfully may have a material adverse effect on our financial condition and results of operations. If we are unable to capture the expected long-term benefits, our business, financial condition and results of operations could be materially and adversely affected.

Our limited operating history in the cloud computing businesses may not serve as an adequate basis upon which to assess our future prospects.

We commercially launched our cloud computing services in May 2011. Our limited operating history with respect to cloud computing services could make it difficult for you to evaluate our future prospects in this particular business segment. In addition, China’s cloud computing service providers and related infrastructure are still at a developmental stage. We may also experience technical, developmental and other difficulties while providing such services. Any material adverse effect to these third-party storage providers and related infrastructure may have a material adverse effect on our cloud computing services which, may in turn, have a material adverse effect on our business, financial condition, results of operations, reputation and future prospects in this business segment.

We rely on third-party service providers to maintain our network infrastructure and any unexpected network interruptions or performance lags could adversely affect our business operations.

We rely on third-party service providers to maintain our network infrastructure for internet security and software application offerings. Major risks involved in such a network infrastructure include: (i) any breakdowns or system failures resulting in a sustained shutdown of all or a material portion of our servers, including failures which may be attributable to power shutdowns, or efforts to gain unauthorised access to our systems causing loss or corruption of data or malfunctions of software or hardware; and (ii) any disruption or failure in the national backbone telecommunication network, which would prevent our users from logging on to any of our servers. In the past, our server network has experienced unexpected outages for several hours and occasional lags in performance in a number of locations in China as a result of temporary problems experienced by our third-party service providers. We rely on affiliates of China Netcom and China Telecom to provide us with bandwidth and server custody service for our online services. We are unlikely to have any access to alternative networks or services in the event of disruptions, failures or other problems with China’s internet infrastructure or these service providers’ fixed telecommunications networks, or if these service providers or their affiliates otherwise fail to provide such services. In addition, we have no control over the cost of the services provided by these service providers or their affiliates. If they fail to provide these services or if the prices that we are required to pay for internet services rise significantly, our business, financial condition and results of operations could be adversely affected.
If major mobile application distribution channels change their standard terms and conditions in a manner that is detrimental to us, or terminate their existing relationship with us, our business, financial condition and results of operations may be materially and adversely affected.

We rely on third party mobile application distribution channels such as Google Play and iOS App Store to distribute most of our mobile applications to users. In China, where Google Play is not available, we collaborate with similar local distribution channels to distribute our mobile applications. We expect a substantial number of downloads of our mobile applications will continue to be derived from these distribution channels. As such, the promotion, distribution and operation of our applications are subject to such distribution platforms’ standard terms and policies for application developers, which are subject to the interpretation of, and frequent changes by, these distribution channels. If Google Play, iOS App Store or any of the major distribution channels change their standard terms and conditions in a manner that is detrimental to us, or terminate their existing relationship with us, our business, financial condition and results of operations may be materially and adversely affected.

As most of our mobile applications are created for Android devices, a decrease in the popularity of the Android ecosystem may materially and adversely affect our mobile business.

Most of our mobile applications are created for Android devices. Any significant downturn in the overall popularity of the Android ecosystem or the use of Android devices could materially and adversely affect the demand for and revenues generated from our mobile applications. Although the Android ecosystem has grown rapidly in recent years, it is uncertain whether it will continue to grow at a similar rate in the future. In addition, due to the constantly evolving nature of the mobile industry, another operating system for mobile devices may eclipse Android and decrease its popularity. To the extent that our mobile applications continue to mainly support Android devices, our mobile business would be vulnerable to any decline in popularity of the Android operating system.

Product liability and related claims may be asserted against us, and our reputation and brand names could be damaged as a result of errors or other problems with our products.

An error, failure or bug in our products, including security vulnerability, could disrupt or cause damage to the data and networks of our users. Failure of our products to perform to specifications (including the failure of our internet security products to identify or block a virus), disruption of our users’ network traffic, damages to our users’ networks or loss of data caused by our software products, could result in product liability claims by our users. New malware and malicious websites are continuously being created and modified, and the detection technologies underlying our software may not detect all forms of malware or malicious websites that our users are exposed to. Failure to detect malware or malicious websites or defects in our software may result in security breaches, disruption or damage to our users’ computers or networks and theft of confidential information or other negative consequences. Any such event may damage our brand reputation, decrease our user and customer base, require large research and development and marketing expenditures to remedy and may otherwise materially and adversely affect our business and results of operations.

Furthermore, our internet security software may falsely identify programs or websites as malicious or otherwise undesirable. False detection of viruses is common to all virus detection programs, as virus detection programs scan files for tell-tale signs of certain known viruses by looking for a given pattern of bytes within the file which, by coincidence, may appear in a file that does not contain the virus at all. Parties whose programs are incorrectly blocked by our software, or whose websites are incorrectly identified as unsafe or malicious, may seek redress against us for labelling them as malicious and interfering with their businesses. In addition, falsely identifying programs or websites as malicious may adversely affect our users’ confidence and trust in our products. The occurrence of errors or other problems may also cause us to lose market share and injure our reputation and brand names.
We are subject to risks relating to our information technology systems.

We increasingly depend on our information technology systems to process a large number of transactions on an accurate and timely basis and to store and process critical business and operating data. The proper functioning of our financial control, billing, accounting, customer service and other information technology systems is critical to our business and our ability to compete effectively. The performance of our information technology systems also depends on accurate and reliable data and other system input, which is subject to human errors. Our network systems are vulnerable to damage from fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, wars, terrorist acts or similar events. Any of the foregoing events may:

- cause server interruptions, breakdowns, system failures, technology platform failures and internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware;
- cause interruptions in the availability of our online services or applications, or deterioration in the quality of access to our online services or applications; and
- prevent users from downloading our applications software over the internet.

Our ability to remain competitive will, to a certain extent, depend on our ability to upgrade our information technology systems on a timely and cost-effective basis. In addition, the information available to and received by us through our existing information technology systems may not be timely or sufficient for us to manage risks and plan for, and respond to, market changes and other developments in our current operating environment. Any substantial failure to improve or upgrade our information technology systems effectively or on a timely basis could materially and adversely affect our competitiveness, business, financial condition and results of operations.

We may not be able to protect or promote our brand names and reputation.

If we fail to generate a high volume of purchases and users, or fail to undertake effective marketing and promotional activities for our products and services, we may not be successful in protecting or promoting our brand names, including but not limited to “Kingsoft,” “Duba Anti-virus,” “WPS Office,” “Seasun Entertainment,” “Kingsoft Cloud,” “Kingsoft Duba,” “Cheetah Browser,” “Kingsoft Office Writer,” “Kingsoft Office Spreadsheet,” “Kingsoft Office Presentation,” “Docer (稻殼兒),” “Mission Against Terror (反恐行動),” “ROG (神之選徒),” “JX Online” series, “The First Myth (封神榜),” “Kuaipan (快盤),” “Kingsoft PowerWord”, “ICIBA” and “Clean Master”, as well as our brand name and reputation, in a cost-effective manner or at all. We may be required to dedicate significantly greater resources in the future to advertising, marketing and other promotional efforts aimed at building awareness of our products, services and brands. Any significant damage to our reputation, the perceived quality of our brand names, products or services, or any significant failure on our part to promote and protect our brand names and reputation could make it more difficult for us to successfully attract users for our existing products and services, launch new products and services or retain qualified personnel, which may have a material adverse effect on our business, financial condition and results of operations.
Our interactive entertainment business depends on certain online games, particularly the JX Online series, which represents a significant portion of our interactive entertainment software revenue.

68%, 60% and 50% of our total revenue was further derived from our interactive entertainment software business in years ended 31 December 2011, 2012 and 2013, respectively. Furthermore, 85%, 80% and 77% of our revenue from interactive entertainment software business for these years was specifically derived from our JX Online series. JX Online was commercially launched in December 2003, and JX Online III was commercially launched in September 2009. Given this revenue concentration, our overall business, financial condition and results of operations could be materially and adversely affected if any of the following were to occur:

- any reduction in the JX Online series user base, a change in playing behavior of such user base or any decrease in their popularity in China and other markets due to intensifying competition or other factors;
- failure to make improvements or enhancements to, or launch new generations of, the JX Online series in a timely manner;
- any prolonged server interruption due to network failures or other factors or any other adverse developments specific to our JX Online series;
- any new regulatory restrictions regarding the establishment or operation of internet cafes or government regulations limiting the time users are allowed to play our games; or
- discontinuation of the operation of any game due to intellectual property rights disputes, regulatory actions or any other reason.

We may experience unauthorized use of our intellectual property by third parties, and may incur significant expenses to protect our intellectual property rights.

We regard our copyrights, trademarks, trade secrets, patents and other intellectual property as critical to our success. Unauthorized use of the intellectual property used in our business, whether owned by us or licensed to us, may materially and adversely affect our business, financial condition and results of operations.

We rely on trademark, patent and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Our intellectual property has been, and will continue to be, subject to various forms of theft and misappropriation. For example, our trademarks “FSZB (封神争霸)” and “The First Myth (封神榜)” has been used by third parties in online games. In addition, there are third parties using our trademark “Kingsoft Mobile Security (金山手機衛士)”. Moreover, we believe the name “Jinshan School (金山學校)” used by third parties is similar to our Chinese brand name.

The validity, enforceability and scope of protection of intellectual property in software development and internet-related industries are uncertain and still evolving. In particular, the legal protection of trademarks, trade names, copyrighted material, domain names, trade secrets, know-how and other forms of intellectual property in the PRC is significantly more limited than in many other countries and may offer us little or no effective protection. Preventing unauthorized use of our intellectual property is difficult, time-consuming and expensive, and may divert significant management and staff resources from our business operations, and yield limited and uncertain results. In addition, we also had pending intellectual property applications as of the date of this Offering Circular. Our ability to protect such intellectual property rights largely depends on our
negotiations with third parties. Misappropriation of our content, trademarks and other intellectual property could divert significant business to our competitors, damage our brand names and reputation, and may require us to initiate litigation that could be expensive and require us to divert management resources from the operation of our businesses.

We may be exposed to infringement or misappropriation claims by third parties, which, if successful, could require us to pay significant damage awards.

We cannot assure you that our various software products and internet services do not or will not infringe upon patents, copyrights or other intellectual property rights held by third parties. For example, we allow users of our cloud storage service to share documents and content stored in our server with third parties, and may be exposed to the risk of copyright infringement liability in the event that such documents or content have not been duly licensed to our users. We may be subject to legal proceedings and claims from time to time alleging infringement of patents, trademarks or copyrights, or misappropriation of creative ideas or formats, or other infringement of proprietary intellectual property rights. Any such claims, regardless of merit, may involve us in time consuming, costly litigation or investigation, divert significant management and staff resources, require us to enter into expensive royalty or licensing arrangements, prevent us from using important technologies, business methods, content or other intellectual property, result in monetary liability, prevent us from distributing our products through the use of injunctions or other legal means, or otherwise disrupt our operations. As of the date of this Offering Circular, our Directors are not aware of any material claims or imminent claims against us alleging infringement of proprietary intellectual property rights that may materially and adversely affect our business, financial condition and results of operations. We expect the likelihood of such claims may increase, as the number of competitors in our markets grow and as related patents and trademarks are registered or copyrights are obtained by such competitors. In addition, as we are expanding our business into overseas markets, we may be exposed to such claims in jurisdictions other than the PRC and the scope of intellectual property protection in these overseas jurisdictions may be different from or greater than that in the PRC. The intellectual property laws in overseas jurisdictions may also impose more stringent compliance requirements or potential damages or penalties than those in the PRC. Such claims in overseas jurisdictions, if successful, could require us to pay significant compensatory and punitive damage awards as well as expose us to costly and time-consuming litigation or investigations.

We rely heavily on our Chairman and co-founder LEI Jun, and the loss of any of his services or our inability to attract and retain other qualified personnel could severely disrupt our business.

Our future success depends highly on the ongoing efforts of our Chairman and co-founder, Mr. LEI Jun, upon whom we currently rely for the strategic direction and operational execution of our business. Mr. Lei has been employed by us since 1992 and has played a key role in developing and expanding our business, primarily as our chief executive officer from 1998 to 2007, and as Chairman from 2011 to the present.

If Mr. Lei is unable or unwilling to continue in his present positions, we may not be able to easily replace him and our business, results of operations and financial condition may be materially and adversely affected. We do not maintain key man life insurance for Mr. Lei. In addition, if Mr. Lei joins a competitor or forms a competing company, we may have difficulty competing against this competitor and may lose business opportunities or partners, as well as other key professionals and staff members. We may also incur additional expenses to recruit and train new personnel to replace Mr. Lei.

Furthermore, since our industry is characterised by high demand and intense competition for talent, we may need to offer higher compensation and other benefits in order to attract and retain qualified personnel in the future. We cannot assure you that we will be able to attract or retain the qualified personnel that we will need to achieve our business objectives. In particular, successful
expansion of our business depends on a dedicated team of designers, programmers and salespeople with expertise in developing, maintaining, expanding and marketing our various software products and services. If we are unable to attract or retain critical personnel, our business, financial condition and results of operations may be materially and adversely affected.

**Allegations or lawsuits against us or our management may harm our reputation and have a material and adverse impact on our business, results of operations and cash flows.**

We have been, and may become, subject to allegations or lawsuits brought by our competitors, customers or other individuals or entities, including claims of breach of contract or unfair competition. Any such allegation or lawsuits, with or without merit, or any perceived unfair, unethical, fraudulent or inappropriate business practice by us or perceived malfeasance by our management could harm our reputation and user base and distract our management from our daily operations. We cannot assure you that neither we nor our management will be subject to allegations or lawsuits in the future. Allegations or lawsuits against us may also generate negative publicity that may significantly harm our reputation, which may materially and adversely affect our user base and our ability to attract advertisers. In addition to the related cost, managing and defending litigation and related indemnity obligations can significantly divert management’s attention. We may also need to pay damages or settle the litigation with payment of a substantial amount of cash. All of these could have a material adverse impact on our business, results of operation and cash flows.

**We may be the subject of anti-competitive, harassing or other detrimental conduct that could harm our reputation and cause us to lose users and customers and adversely affect the price of the Bonds.**

In the future we may be the target of anti-competitive, harassing, or other detrimental conduct by third parties. Allegations, directly or indirectly against us or any of our executive officers, may be posted in internet chat-rooms or on blogs or websites by anyone, whether or not related to us, on an anonymous basis. The availability of information on social media platforms and devices is virtually immediate, as is its impact. Social media platforms and devices immediately publish the content their subscribers and participants post, often without filters or checks on the accuracy of the content posted. Information posted may be inaccurate and adverse to us, and it may harm our business, prospectus or financial performance. The harm may be immediate without affording us an opportunity for redress or correction. In addition, such conduct may include complaints, anonymous or otherwise, to regulatory agencies. We may be subject to regulatory or internal investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Additionally, our reputation could be harmed as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose users and customers and adversely affect the price of the Bonds.

**We may not be able to successfully implement our corporate strategies.**

We are pursuing a number of corporate strategies, including expanding our internet service offerings and applications, building our user bases for our various products, continuously enhancing our market penetration of information security and browser across devices, developing our cloud computing services and interactive entertainment, as well as enhancing our computing-related offerings and expanding our business into certain overseas markets. Some of these strategies relate to new services or products for which there are no established markets in China, or relate to services or products in which we may lack experience and expertise, or relate to markets outside China for which we have limited operating experience. We cannot assure you that we will be able to deliver new products or services on a commercially viable basis or in a timely manner, or at all, or achieve any or all of these corporate strategies. If we are unable to successfully implement our corporate strategies, our business, financial condition and results of operations may be materially and adversely affected.
Our current or future acquisitions, strategic investments or alliances may expose us to additional risks.

We intend to enhance our business development, including our online games content offerings and mobile application offerings, by acquiring other businesses that complement our business or that may benefit us in terms of expanding our user base or our product or content offerings, and by making strategic investments in, or entering into strategic alliances with, selected industry players. For instance, our Cayman Islands subsidiary, Cheetah Mobile Inc. (formerly known as Kingsoft Internet Software Holdings Limited, “Cheetah Mobile”) entered into a share purchase agreement with TCH, a subsidiary of Tencent and our substantial shareholder and other parties in June 2013, pursuant to which Cheetah Mobile agreed to issue and our Company and TCH agreed to subscribe for two separate tranches of preferred shares for a consideration of US$5.2 million and US$47.0 million, respectively. Our ability to grow through this acquisition is uncertain, and subject to a variety of factors, some of which are beyond our control. In addition, the benefits of this transaction and other transactions may take considerable time to develop, and we cannot assure you that any particular transaction will produce the intended benefits. Furthermore, additional risks associated with acquisitions, strategic investments and alliances may include the following:

- it may be difficult to assimilate the operations and personnel of an acquired business into our own business;
- management information and accounting systems of an acquired business may be incompatible with our current systems;
- our management may devote its attention to assimilating an acquired business, which could divert its attention from other business concerns, including the management of our core interactive entertainment and applications software businesses;
- we may make acquisitions in markets in which we have limited prior experience; and
- we may lose key employees and clients of an acquired business.

In addition, any future acquisitions, investments and alliances will depend on the availability of suitable acquisition candidates at an acceptable cost, our ability to compete effectively to attract and reach agreement with acquisition candidates or investee companies on commercially reasonable terms, the availability of financing to complete larger acquisitions, investments or alliances as well as our ability to obtain any required governmental approvals. In addition, we may not have sufficient experience in identifying, financing and completing large acquisitions, investments or alliances. Furthermore, the identification and completion of these transactions may require us to expend significant management and other resources. Any such transaction may require that we expend a significant portion of our cash reserves and/or issue a substantial amount of new equity, which may adversely affect our business, financial condition, results of operations and liquidity, which may adversely affect our ability to consummate further acquisitions, investments or alliances. Any of the foregoing may have a material adverse effect on our business, financial condition and results of operations.

We do not maintain adequate property and business insurance coverage.

We do not maintain any insurance for our properties or business, except for our automobiles and property insurance for our office facilities in Beijing and Zhuhai. In particular, we do not maintain insurance policies covering losses related to our information systems or potential product liability, and we do not have business interruption insurance. Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business interruption insurance. Any property damage, business disruption, litigation or natural disaster might result in substantial costs and diversion of our resources.
We may not be able to successfully complete the proposed spin-off and listing of Cheetah Mobile.

We submitted a spin-off application to Hong Kong Stock Exchange for the spin-off listing of our information security software business on the NASDAQ Global Market ("NASDAQ") or the New York Stock Exchange ("NYSE") in December 2013. Our subsidiary, Cheetah Mobile made its initial confidential filing with the United States Securities and Exchange Commission ("SEC") in January 2014 and subsequently made its public filing with SEC in April 2014 for the proposed initial public offering and listing of its securities on the NASDAQ or NYSE. See “Business – Recent Development – Proposed Spin-off and Listing of Cheetah Mobile.” Our failure to successfully complete this proposed spin-off and listing as planned may negatively affect the execution of our mobile strategy, which may in turn materially and adversely affect our business, financial condition and results of operations.

In addition, if Cheetah Mobile can be successfully spun-off and listed on the NASDAQ or NYSE, we are required by the Listing Rules to have due regard to the interests of our existing shareholders by providing them with an assured entitlement to shares in Cheetah Mobile by way of making a distribution in specie or taking other steps as permitted by the Hong Kong Stock Exchange. There is no assurance that we will be able to complete this proposed spin-off and listing and to provide the relevant assured entitlement as planned.

Risks Relating to Our Industry

We face significant competition in several of our main markets which could reduce our market share and adversely affect our business, financial condition and results of operations.

We face significant competition. Many of our current or future competitors in our various business lines have longer operating histories, and may have greater financial, management, technological development, sales, marketing and other resources than we do. Furthermore, any of our current or future competitors in our various business segments may be acquired by, receive investments from or enter into other commercial relationships with larger and better-financed companies and therefore obtain significantly greater financial, marketing, licensing and development resources than we have. As a result of competition, we may experience reduced earnings, loss of market share or decreased use of our products and services by our existing users. We cannot assure you that current or future competitors will not develop or offer products and services that provide significant performance, pricing, functionality or other improvements over our products and services. If we are unable to compete effectively with current or future competitors as a result of these or other factors, we may lose market share and our business, financial condition and results of operations may be materially and adversely affected.

Our internet security products face competition from a number of domestic and international companies, including Rising Tech. Corp. Ltd., Qihoo 360 Technology Co., Ltd., Trend Micro Incorporated and Symantec Corporation. Our WPS Office products face competition primarily from Microsoft Corporation, which offers a broad range of highly sophisticated products and has significantly greater resources and brand recognition than our Company and our Cheetah internet browser product primarily faces competition from Microsoft Corporation, Google, Qihoo 360 Technology Co., Ltd. and Sohu.com Inc. Our cloud computing services and related products face competition primarily from Dropbox, Microsoft Corporation, Aliyun Cloud and Qihoo 360 Technology Co., Ltd. In addition, we face competition primarily from Baidu, Tencent, Sina, Sohu and Lenovo with respect to our Kingsoft Kuaipan and related information storage offerings. Such competition will likely continue to intensify as other major software companies expand their product lines into these and additional product categories. We also face potential competition from network equipment and computer hardware manufacturers and large operating system providers which are increasingly developing and incorporating data protection and internet security features into their products which may compete with some of our internet security product offerings. Our
competitive position could be adversely affected if our users perceive that features incorporated into
the products of our competitors reduce or replace the need for our products. The online games
market in China and other jurisdictions in which we operate have become increasingly competitive,
and we face competition in this market from well-established and newly-formed entities, including
Shanda Interactive Entertainment Limited, NetEase, Inc., The9 Limited, Giant Interactive Group
Inc. and Beijing Perfect World Co., Ltd. Our competitors may offer online games with better game
performance, more attractive pricing, more developed storylines, enhanced game experiences or
other improvements over the games offered by us. These competing online games may achieve
greater market acceptance than our online games and weaken our brand name. In addition, increased
competition in the online games industry in China could make it difficult for us to retain existing
users and attract new users or cause us to reduce our fee rates, and could reduce the average number
of hours played or the amount spent on purchases of in-game virtual items by our users.

The continued growth of the Chinese internet market depends on the establishment of adequate
telecommunications infrastructure.

Although private sector internet service providers currently exist in China, almost all access
to the internet is maintained through networks owned by China Telecom and China Netcom and
under the administrative control and regulatory supervision of the Ministry of Industry and
Information Technology (the “MIIT”). In addition, the national networks in China connect to the
internet through government-controlled international gateways. These international gateways are
the only channel through which a domestic user can connect to the international internet network.
We rely on this infrastructure and China Telecom and China Netcom to provide data
communications capacity, primarily through local telecommunications lines. We have no access to
alternative networks or services, on a timely basis if at all, in the event of disruptions, failures or
other problems with China’s internet infrastructure or telecommunications networks. The internet
infrastructure in China may not support the demands associated with continued growth in internet
usage. We cannot assure you that this infrastructure will be continually developed to adequately
support the rapidly growing internet usage in China.

Our internet security software products may become obsolete due to rapid technological changes.

The internet security software market is characterised by: (i) rapid technological changes; (ii)
the proliferation of new and changing computer viruses; (iii) frequent product introductions and
updates; and (iv) changing user needs. As such, these characteristics of the internet security market
create significant risks and uncertainties for our business. For example, our competitors might
introduce internet security products that are technologically superior to our products. Additionally,
new industry standards for software operating systems, network systems or internet security
software could emerge. Our existing products may, in the future, be incompatible with some or all
of these standards. Our business, financial condition and results of operations could be adversely
affected unless we are able to respond quickly and effectively to these developments.

Unexpected website or network security breaches, including “hacking” or computer virus attacks,
may cause delays or interruptions of service, result in reduced use and performance of our
websites for transactions, online games and damage our reputation and brands.

Our online businesses depend heavily on the performance and reliability of China’s internet
infrastructure, the continual accessibility of bandwidth and servers on our service providers’
networks, and the continuing performance, reliability and availability of our technology platform.
Any failure to maintain the satisfactory performance, reliability and availability of our network
infrastructure may cause significant harm to our reputation and our ability to attract and maintain
users. In particular, computer viruses and hacking may cause delays or other service interruptions.
In addition, the inadvertent transmission of computer viruses could expose us to a material risk of
loss or litigation and possible liability. Hacking and computer viruses could result in significant
damage to our hardware, software systems and databases, disruptions to our business activities, such as to our e-mail and other communication systems, breaches of security and inadvertent disclosure of confidential or sensitive information, and interruptions in access to our website through the use of denial-of-service or similar attacks. One particular form of hacking involves the creation of computer-generated and controlled “robot” players that operate without having to be monitored by a user. These “robot” players detract from the experience of our paying users by “harvesting” valuable in-game virtual items and artificially enhancing their powers in the game. Furthermore, certain cheating programs could cause users to lose legitimately acquired superior features for their characters. We may incur significant costs to protect our systems and equipment against the threat of, and to repair any damage caused by, computer viruses and hacking. Moreover, if hacking or a computer virus affects our systems and is highly publicized, our reputation and brand names could be materially and adversely affected and may decrease use of our services.

In addition, currently a substantial portion of our internet services and transactions are conducted through our websites. In such internet services and transactions, secured transmission of confidential information, including customer credit card numbers and expiration dates, personal information and billing addresses, over public networks is essential to maintain consumer confidence. Our current security measures may not be adequate to protect such information. Since 2003, we have implemented a security firewall system and an intrusion inspection system, as well as steadily enhanced our security protection measures in our software systems to protect our data and network systems. It is a common industry risk that computer systems and network systems are susceptible to breaches by computer hackers. We have implemented periodic checks on our security firewall system and existing security measures and strategy. Upon evaluation, hardware and software are updated to mitigate potential risks. Security breaches could expose us to litigation and potential liability for failing to secure confidential user information and could harm our reputation and ability to attract users.

The operation of illegal game servers and the expenses incurred in protecting our intellectual property rights may adversely affect our business, financial condition and results of operations.

We face risks associated with illegal game servers, which are game servers that operate unauthorized copies of online games and permit users to play those games without purchasing pre-paid game cards or virtual currencies from the game developer. Certain of our competitors have reported that their games have been illegally operated on local game servers, and we could experience similar problems in the future.

The intellectual property enforcement regime in China, Japan, Taiwan, Singapore, Malaysia, Vietnam, Thailand, Cambodia, Indonesia and Australia are not as robust as that of many other countries such as the United States, and we face considerable challenges when attempting to enforce our intellectual property rights. Enforcement actions generally require cooperation from local authorities, which are not always willing to use their limited resources to enforce the intellectual property rights of national corporations against individuals or companies in their districts. In addition, detailed comparisons of software codes and litigation proceedings are often necessary to enforce intellectual property rights, which sometimes result in substantial costs. The operation of our leading games by illegal game servers may materially and adversely affect our business, financial condition and results of operations.
The PRC government may prevent us from distributing, and we may be subject to liability for, content that it believes is inappropriate.

China has enacted laws and regulations governing internet access and the distribution of news, information or other content, as well as products and services, through the internet. For example, the Ministry of Culture (the “MOC”) has promulgated the Provisional Administrative Measures of Online Games on 3 June 2010 (the “Online Game Measures”), which prohibits online games from being distributed through the internet if they contain content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise state security. In addition, certain PRC social organisations have recently discussed the possibility of implementing a rating system for online games. The effect that such a system could have on our business is unclear.

If any online games we offer or will offer through our networks are deemed to violate any of such content restrictions, we would not be able to continue such offerings and could be subject to penalties, including confiscation of income, fines, suspension of business and revocation of our licence for operating online games, which would materially and adversely affect our business, financial condition and results of operations.

Laws or regulations in the PRC governing virtual items and cloud related businesses are still under development and therefore, it is not clear what liabilities, if any, online game and cloud business operators may have for virtual items, cloud computing services.

In the course of playing online games, some virtual items, such as special equipment, user experience grades and other features of our users’ game characters, are acquired and accumulated. Such virtual items can be important to online game users and in some cases are traded between users for monetary values. In practice, virtual items can be lost for various reasons, such as data loss caused by delay of network service or by a network crash. Currently there are no PRC laws and regulations governing virtual item property rights or the proper methods of valuing such items. As a result, it is unclear who the legal owner of virtual items is, whether the ownership of virtual items is protected by law and what, if any, intrinsic value such items have. In case of a loss of virtual items, we may be sued by online game users and may be held liable for damages, which may negatively affect our business, financial condition and results of operations.

In addition, as our strategic new business in the “Three Plus One” model, Kingsoft Cloud was established in early 2012 to capture opportunities in cloud computing services. We also cooperate with certain smart devices developers, smart TV manufacturers and internet companies in China to expand our cloud computing services businesses. However, there are no current PRC laws and regulations specifically governing cloud related businesses. If new regulatory restrictions on, or requirements to obtain licences or approvals for, are enacted, we will be required to adhere to such restrictions and obtain such licences and approvals. If we are unable to do so for whatever reason, our cloud computing services operations could be materially and adversely affected, which could have a material adverse effect on our financial condition, results of operations profitability and growth prospects.
Our licensed interactive entertainment software and applications software operations in certain overseas markets may be affected by local market risks and regulatory issues.

In recent years, we have expanded our interactive entertainment software and applications software operations to new overseas markets. For example, we license our internet security products for distribution in Japan and our interactive entertainment software in Vietnam, Taiwan, Malaysia, South Korea, Thailand, Singapore, Cambodia, Indonesia and North America. Revenue generated from the overseas markets represented 20.6%, 16.0% and 10.4% of our total revenue in 2011, 2012 and 2013, respectively. We do not operate directly in these new markets, except for Japan, and the success of our overseas expansion strategy is to a large extent dependent on our local partners. Our overall operations may be affected by the performance of our selected local licensees as well as respective local market business risks and regulatory issues. If our local partners are unable to operate the licensed online games effectively or provide poor customer service, or if there are new local regulations adversely affecting the operations of our licensed online games in these markets, the amount of our royalty payments may be affected, which could in turn materially and adversely affect our business, financial condition and results of operations.

The PRC government’s regulating of the playing time and players’ age of online games may detrimentally affect our business and results of operations.

In April 2007, the PRC government issued the Notice Regarding the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors, annexed to the Standards Regarding the Development of Anti-addiction System on Online Games and the Proposal Regarding the Authentication of Real Names for Anti-addiction System on Online Games. According to the Anti-addiction Notice, all online game operators are required to implement an anti-fatigue system in all existing and future online games in the PRC from 16 July 2007. We have implemented the anti-fatigue system in all material online games operated by us, including all client-end and web-based games which collectively contributed almost all of our domestic game-related revenue in 2013, and will continue to implement such system in other online games operated by us. However, despite we believe that our practices are in line with applicable laws, regulations and the market practice, we cannot assure you that our anti-fatigue system will be deemed as sufficient by relevant government authorities in the PRC. Our failure to comply with the Anti-addiction Notice may subject to penalties, such as suspension of operation of online games, revocation of licences and approvals for operations, rejection to or suspension of our application for any future approvals, licences, or filings for any new online game, or prohibition from operating any new online game, which may materially and adversely affect our business, financial condition and results of operations.

Failure to comply with data privacy and protection laws and regulations could damage our reputation, deter current and potential users from using our applications and subject us to fines and damages, which could have material adverse effects on our business and results of operations.

We are subject to the data privacy and protection laws and regulations adopted by PRC and foreign governmental agencies. Data privacy laws restrict our storage, use, processing, disclosure, transfer and protection of non-public personal information provided to us by our users. In December 2012 and July 2013, new laws and regulations were issued by the standing committee of the PRC National People’s Congress and MIIT to enhance the legal protection of information security and privacy on the internet. The laws and regulations also require internet operators to take measures to ensure confidentiality of user information. In addition, we may also be subject to regulation under foreign laws and regulations regarding the publication and dissemination of our privacy policy with respect to user data, the use of personal information or privacy-related matters, and become subject to additional laws and regulations which may conflict with, or be more stringent than, the regulations to which we are currently subject. Complying with any additional or new regulatory requirements could force us to incur substantial costs or require us to change our business practices.
While we strive to protect our users’ privacy and comply with all applicable data protection laws and regulations, any failure or perceived failure to do so may result in proceedings or actions against us by government entities or others, and could damage our reputation, deter current and potential users from using our applications and subject us to fines and damages. User and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is used by, accessible to or shared with advertisers or others may adversely affect our ability to share certain data with advertisers, which may limit certain methods of targeted advertising. Concerns regarding the collection, use or disclosure of personal information or other data privacy-related matters, even if unfounded, could damage our reputation and results of operations. Negative publicity in relation to our applications regardless of its veracity, could seriously harm our reputation, which in turn may deter current and potential users from using our applications, which could have material adverse effects on our business and results of operations.

Risks Relating to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating our value-added telecommunications businesses and online culture businesses in the PRC do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties, including the shutting down of our websites.

PRC law currently limits foreign ownership of companies that provide internet content services (a type of value-added telecommunications services and include the operation of online games, cloud computing services and online advertising) to 50% and requires that any foreign investor contributing 30% or more of the foreign capital investment in a value-added telecommunication enterprise must be in good standing and have the relevant experience in operating a value-added telecommunication business. In addition, foreign-invested enterprises are currently not permitted to apply for licences to engage in online culture business in China, including the operation of online games. We are registered by way of continuation in the Cayman Islands as an exempted company with limited liability, and we conduct our operations through our major operating subsidiaries, including those subsidiaries that are primarily based in the PRC, Hong Kong and the Cayman Islands. Due to the level of foreign ownership of our PRC operating entities, we are not eligible to apply for a licence to operate value-added telecommunications businesses and online culture businesses. In order for us to be able to carry on our business in China, we entered into a series of structure contracts with ten variable interest enterprises such as Beijing Kingsoft Qijian Digital Technology Co., Ltd., Zhuhai Westhouse Shiyou Technology Co., Ltd., Zhuhai Qiwen Office Software Co., Ltd., Beike Internet (Beijing) Security Technology Co., Ltd., Beijing Kingsoft Network Technology Co., Ltd. and Zhuhai Kingsoft Cloud Technology Co., Ltd. in China (collectively, the “VIE Companies”) and their respective shareholders, which enable us to exercise control over such companies and to consolidate these companies’ financial results in our results. Such VIE Companies and their subsidiaries (collectively, the “VIE Subsidiaries”) hold the licences and approvals required to operate our value-added telecommunications businesses and online culture businesses, and own a major portion of our physical assets. As a result of these structure contracts, we are the beneficiary of the economic benefits of the business operations of our VIE Companies and VIE Subsidiaries.

On 13 July 2006, the Ministry of Information Industry, the predecessor of the MIIT, issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (關於加強外商投資經營增值電信業務管理的通知, or the “MIIT Notice”), which reiterated restrictions on foreign investment in telecommunications businesses. Under the MIIT Notice, a domestic company that holds a value-added telecommunications licence (typically known as the “ICP Licence”) is prohibited from leasing, transferring or selling the licence to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to provide
value-added telecommunications services illegally in China. Due to a lack of interpretative materials from the authorities, we cannot assure you that the MIIT will not consider our corporate structure and the contractual arrangements as a kind of foreign investment in telecommunications services, in which case we may be found in violation of the MIIT Notice.

On 28 September 2009, the GAPP, the National Copyright Administration (國家版權局) and the National Office of Combating Pornography and Illegal Publications (國家掃黃打非辦公室) jointly published the Notice Regarding the Consistent Implementation of the Stipulations on Three Provisions of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games (關於貫徹落實國務院《“三定”規定》和中央編辦有關解釋,進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知, or the “GAPP Notice”). The GAPP Notice prohibits foreign investors from participating in online game operating businesses through foreign-invested enterprises in China, and from controlling and participating in such businesses of domestic companies indirectly through other forms of joint ventures or contractual or technical support arrangements. As no detailed interpretation of the GAPP Notice has been issued to date, it is not clear how the GAPP Notice will be implemented. Furthermore, as some other primary government regulators, such as the Ministry of Commerce (the “MOFCOM”), the MOC and the MIIT, did not join the GAPP in issuing the GAPP Notice, the scope of the implementation and enforcement of the GAPP Notice remains uncertain. According to Regulations on the Main Functions, Internal Organization and Staffing of GAPP (國家新聞出版總署(國家版權局)主要職責內設機構和人員編制規定) issued by the General Office of the State Counsel on 11 July 2008 and its interpretation circulars, the GAPP is authorized to approve online games before their launch on the internet, while the MOC is authorized to administer and regulate the overall online game industry. Once an online game is launched on the internet, it will be regulated only by the MOC, and if an online game is launched on the internet without the prior approval of the GAPP, the MOC is the authority responsible for investigating the matter. We thus believe that the GAPP is unlikely to take action against our contractual arrangements with our VIE Companies and VIE Subsidiaries based solely on the GAPP Notice and without participation from other PRC governmental authorities, including the MOC.

We are of the opinion that: (i) our ownership structure does not violate existing PRC laws and regulations; and (ii) the contractual arrangements are valid and legally binding and do not result in any violation of existing PRC laws and regulations. However, there are substantial uncertainties regarding the interpretation and application of existing and future PRC laws and regulations (including the MIIT Notice and GAPP Notice described above). In or around September 2011, various media sources reported that the China Securities Regulatory Commission (the “CSRC”), had prepared a report proposing regulating the use of variable interest entity structures, such as ours, in industry sectors subject to foreign investment restrictions in China and overseas listings by China-based companies. However, it is unclear whether the CSRC officially issued or submitted such a report to a higher level government authority or what any such report provides, or whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. We cannot assure you that the PRC government or judicial authorities would agree that our corporate structure or the contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future or that the PRC government or judicial authorities will not interpret existing PRC laws, rules and regulations in a manner contrary to our views. PRC laws and regulations governing the validity of the contractual arrangements are uncertain and the relevant government authorities and arbitration commissions have broad discretion in interpreting these laws and regulations. If the PRC government, judicial authorities or an arbitration tribunal determine that we are not in compliance with applicable laws and regulations, it could have broad discretion in dealing with such non-compliance, including:

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  requiring the nullification of the contractual arrangements;
levying fines and/or confiscating the proceeds generated from the operations under the contractual arrangements;

• revoking the business licences or operating licences of our subsidiaries, the VIE Companies and the VIE Subsidiaries;

• discontinuing or placing restrictions or onerous conditions on the business operations of our subsidiaries, the VIE Companies and the VIE Subsidiaries;

• imposing conditions or requirements which we may not be able to comply with or satisfy;

• requiring us to undergo a costly and disruptive restructuring; and

• taking other regulatory or enforcement actions that could be harmful to or even shut down our business.

The imposition of any of these penalties could result in a material adverse effect on our ability to conduct our business. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of the VIE Companies and the VIE Subsidiaries or our right to receive its economic benefits, we would no longer be able to consolidate the VIE Companies and the VIE Subsidiaries.

We rely on the contractual arrangements to control and obtain the economic benefits from the VIE Companies and the VIE Subsidiaries, our operating entities in China, which may not be as effective in providing operational control as direct ownership.

Due to PRC legal restrictions on foreign investment in the value-added telecommunications business and online culture business, we control, through the contractual arrangements rather than equity ownership, the VIE Companies and the VIE Subsidiaries, our operating entities in China and the holder of the key licences required to operate our businesses in China. However, the contractual arrangements may not be as effective in exercising control over the VIE Companies and the VIE Subsidiaries as equity ownership. For example, the VIE Companies, the VIE Subsidiaries and their respective shareholders could breach or fail to perform their obligations under the contractual arrangements. If we had direct ownership of the VIE Companies and the VIE Subsidiaries, we would be able to exercise our rights as a shareholder to effect changes in its board of directors, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management and operational level. In addition, the shareholders of the VIE Companies and VIE Subsidiaries may change from time to time. Under the contractual arrangements, we would need to rely on our PRC subsidiaries’ rights under the contractual arrangements to effect such changes, or designate new shareholders for the VIE Companies and the VIE Subsidiaries under the contractual arrangements.

If the VIE Companies, the VIE Subsidiaries or their respective shareholders breached their obligations under the contractual arrangements, we would need to bring a claim against them under the terms thereof. The contractual arrangements are governed by PRC law and provide that any dispute arising from these arrangements will be submitted to the China International Economic and Trade Arbitration Commission for arbitration, the ruling of which will be final and binding. Furthermore, personal liabilities of the shareholders of the VIE Companies and the VIE Subsidiaries may also subject the equity interest they hold in the VIE Companies and the VIE Subsidiaries to court preservation actions or enforcement. The legal framework and system in China, particularly those relating to arbitration proceedings, is not as developed as other jurisdictions such as Hong Kong or the United States. As a result, significant uncertainties relating to the enforcement of legal rights through arbitration, litigation and other legal proceedings remain in China, which could limit
our ability to enforce the contractual arrangements and exert effective control over the VIE Companies and the VIE Subsidiaries. If the VIE Companies, the VIE Subsidiaries or any of their respective shareholders fails to perform its respective obligations under the contractual arrangements, and we are unable to enforce the contractual arrangements, or suffer significant delay or other obstacles in the process of enforcing the contractual arrangements, our business could be severely disrupted, which could materially and adversely affect our financial condition and results of operations.

*The shareholders of the VIE Companies and the VIE Subsidiaries may have conflicts of interest with us, which may materially adversely affect our business.*

Some of our management personnel and their family members are also the shareholders of the VIE Companies. In particular, (i) Ms. Weiqing Qiu, the sister of PAK Kwan Kau, and Ms. Peili Lei, an aunt of LEI Jun, hold a majority of the equity interest in Zhuhai Qiwen Office Software Co., Ltd., Beike Internet (Beijing) Security Technology Co., Ltd., Beijing Kingsoft Qijian Digital Technology Co., Ltd. and Zhuhai Westhouse Shiyou Technology Co., Ltd., and (ii) management personnel in Westhouse, Kingsoft Internet Securities, Kingsoft Office Software and Kingsoft Cloud hold certain equity interest in respective VIE Companies. Conflicts of interest between their dual roles in our Company and in the VIE Companies may arise.

We have some existing protections over potential conflicts of interest between these individuals and us. Pursuant to the an exclusive option agreement, we have the option to purchase or to designate a third party to purchase the equity interests of the existing shareholders of the VIE Companies when and to the extent permitted by law. Each of the VIE Companies’ shareholders has executed a power of attorney to appoint a person designated by us to vote on his or her behalf and exercise the full voting rights as the shareholder of the VIE Companies. In addition, each of our directors owes a duty of loyalty and a duty of care to us and shareholders as a whole under Cayman Islands law.

We cannot assure you, however, that when conflicts of interest arise, these individuals will act in the best interests of our Company or that conflicts of interest will be resolved in our favour. In the event of any such conflicts of interest, these individuals may breach or cause the VIE Companies to breach or refuse to renew the contractual arrangements that allow us to effectively control and receive economic benefits from the VIE Companies and the VIE Subsidiaries. If we cannot resolve any conflict of interest or dispute between us and such shareholders of the VIE Companies should it arise, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede our ability to enforce the contracts we have entered into with the VIE Companies and their respective shareholders. If we are unable to resolve any such conflicts, or if we suffer significant delays or other obstacles as a result of such conflicts, our business could be severely disrupted, which could materially and adversely affect our financial condition and results of operations and damage our reputation.

*We may lose the ability to use and enjoy assets held by the VIE Companies and the VIE Subsidiaries that are important to the operation of our business if the VIE Companies and the VIE Subsidiaries declare bankruptcy or become subject to a dissolution or liquidation proceeding.*

The VIE Companies and the VIE Subsidiaries hold certain assets that are important to our business operations. Our contractual arrangements with the VIE Companies contain terms that specifically obligate their respective shareholders to ensure the valid existence of the VIE Companies and the VIE Subsidiaries and that it may not be voluntarily liquidated. However, in the event the shareholders breach this obligation and voluntarily liquidate any VIE Company or VIE Subsidiary, or any VIE Company or VIE Subsidiary declares bankruptcy, and all or part of its assets
become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business operations, which could materially and adversely affect our business, financial condition and results of operations. Furthermore, if any VIE Company or VIE Subsidiary undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

The contractual arrangements may be subject to scrutiny by the PRC tax authorities and any finding that we or the VIE Companies owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Under the contractual arrangements among the PRC Subsidiaries, the VIE Companies and their respective shareholders, the VIE Companies will transfer substantially all of their before-tax profits to the PRC Subsidiaries as service fees and other payments, which will substantially reduce the VIE Companies’ taxable income and increase the taxable income of the PRC Subsidiaries. These arrangements and transactions are related party transactions which must be conducted on an arm’s length basis under applicable PRC tax rules. In addition, under PRC laws and regulations, arrangements and transactions among related parties may generally be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. As a result, the determination of service fees and other payments to the PRC Subsidiaries by the VIE Companies under the contractual arrangements may be challenged and deemed not in compliance with such tax rules. We could face material adverse tax consequences if the PRC tax authorities determine that the contractual arrangements were not entered into on an arm’s length basis and therefore adjust the taxable income of the VIE Companies in the form of a transfer pricing adjustment, which refers to the prices that one member of a group of affiliated corporations charges to another member of the group for goods, assets, services, financing or the use of intellectual property. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by the VIE Companies, which could in turn increase the VIE Companies’ tax liabilities. Any such adjustment could result in a higher overall tax liability of the Group. In addition, the PRC tax authorities may impose late payment fees and other penalties on the VIE Companies for any unpaid taxes. Our consolidated net income may be materially adversely affected if the VIE Companies’ tax liabilities increase or if it is subject to late payment fees or other penalties.

Risks Relating to the PRC and Our PRC Operations

Substantially all of our assets are located in China and most of our revenue is derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to a slowdown or other adverse developments in the PRC economy.

Substantially all of our operations are conducted in China and most of our revenue is generated from providing the products and services of our main business lines in China. Our financial results have been, and are expected to continue to be, affected by the growth in the Chinese economy and the internet and telecommunications industries. Although the PRC economy has grown significantly in recent years, we cannot assure you that such growth will continue. The cloud computing services and online games industries, in particular, are a relatively new industries in China, which makes it difficult for us to assess how sensitive we would be to a slowdown in economic growth or other adverse changes in the PRC economy. In response to adverse economic developments and a corresponding reduction in disposable income, our users may reduce their use of our online games and our applications software products, or otherwise modify their behaviour in ways that may have a significant negative impact on our business. As a result, a slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in China may materially reduce the demand for our online games as well as our applications software and materially and adversely affect our business, financial condition, results of operations and prospects.
Our business could be affected by changes in China’s economic, political or social conditions or government policies.

The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, uniformity in the implementation and enforcement of laws, control of foreign exchange, control over capital investment and allocation of resources.

While the PRC economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. Furthermore, our business, financial condition and results of operations may be adversely affected by:

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including changes in policies affecting the information technology and software industry;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures that may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad; and
- reduction in tariff protection and other import restrictions.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government could also decide whether to develop and support government owned or controlled human resource enterprises in direct competition with us. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In particular, the PRC government could decide to more closely regulate the online games industry, which could impose additional regulatory costs and burdens on us.
Fluctuation in the value of RMB may have a material adverse effect on our business and on your investment.

Although substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi, we are required to convert RMB to foreign currency for payment of dividends, if any, to holders of the Shares, and for satisfaction of our obligations under the Bonds. The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China’s political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On 21 July 2005, the PRC government changed its policy of pegging the value of RMB to the U.S. dollar. Under the new policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Further, from 18 May 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of RMB against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on 21 May 2007. The floating band was further widened to 1.0% on 16 April 2012. These changes in currency policy resulted in RMB appreciating against the U.S. dollar and the H.K. dollar by approximately 30.2% from 21 July 2005 to 30 June 2012. Effective 15 March 2014, the floating band was further widened to 2%. The PRC government may adopt further reforms of its exchange rate system, including making the RMB freely convertible in the future. Any significant further appreciation of RMB may materially and adversely affect our cash flow, earnings and financial position, and the value of, and any dividends payable on, the shares in foreign currency terms.

Our PRC entities may fail to obtain or maintain all applicable permits and approvals.

The internet industry, including the operation of online games and the offer and sale of software via the internet, in China is highly regulated by the PRC government. Various regulatory authorities of the central PRC government, such as the State Council, the MIIT, the SAIC, the MOC, the GAPP, and the Ministry of Public Security, are empowered to issue and implement regulations governing various aspects of the internet and online games industries.

Our PRC entities may be required to obtain applicable permits or approvals from different regulatory authorities in order to provide its services. For example, an internet content provider must obtain an ICP Licence from the MIIT or its local counterparts in order to engage in any commercial internet information services within China. In addition, an online games operator must also obtain an Internet Culture Business Operation Licence from the MOC and an Internet Publishing Licence from the GAPP in order to distribute games through the internet, in addition to filing its online games with the GAPP and the MOC, and shall comply with laws and regulations in connection with the issue and distribution of virtual currencies for online games. If any of our PRC entities fail to obtain or maintain any of the required permits or approvals, or if we do not operate our businesses in full compliance with applicable PRC laws and regulations, our PRC entities may be subject to various penalties, including fines and the discontinuation or restriction of its operations. Any such disruption in our PRC entities’ operations would materially and adversely affect our business, financial condition and results of operations.

The MIIT and other relevant government authorities are proposing to take further regulatory actions to deal with illegal actions in the online games industry, including, among others, more strictly prohibiting online game products involving illegal content, shutting down companies engaged in online game operations without obtaining proper approvals and licences from relevant government authorities and taking more severe actions against hacking, “robot players” and other activities that infringe on intellectual property rights.

As the internet industry is at an ongoing stage of development in China, new laws and regulations may be adopted in the future to address new issues that arise from time to time, such as online advertising. Also, different regulatory authorities have different opinions among themselves with regard to the licensing requirements imposed on online games operators. As a
result, substantial uncertainties exist regarding the interpretation and implementation of any current and future PRC laws and regulations applicable to online businesses. We cannot assure you that we will not be found in violation of any current or future PRC laws and regulations.

**Non-compliance on the part of third parties with whom we conduct business could disrupt our business and adversely affect our results of operations.**

Our business partners, including our game developers, may be subject to regulatory penalties or punishments because of their regulatory compliance failures, which may disrupt our business. Any legal liabilities of, or regulatory actions against, our business partners may affect our business activities and reputation and, in turn, our results of operations. For example, we cooperate with online game developers to publish their games through our mission critical applications. The online game industry is highly regulated in China and many other jurisdictions, and online game operators are generally required to obtain licenses and permits, to complete filing procedures for specific online games and to comply with various requirements when conducting business. We require our partners in the online game industry to provide their licenses, permits or filing documents relating to the relevant online games before entering into cooperation arrangements with them, but we cannot assure you that such commercial partners or other developers will continue to maintain all applicable permits and approvals, and any noncompliance on their part may cause potential liabilities to us and disrupt our operations.

**PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may adversely affect our business operations.**

In October 2005, the State Administration of Foreign Exchange (the “SAFE”) issued the Notice Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (the “SAFE Circular 75”), which became effective on 1 November 2005. The SAFE Circular 75 requires PRC residents, including both legal and natural persons, to register with the local SAFE branch before establishing or controlling any company outside of China (an “offshore special purpose company”) for the purpose of acquiring any assets of or equity interest in a PRC company and raising funds offshore. In addition, any PRC resident who is the shareholder of an offshore special purpose company is required to update its SAFE registration with the local SAFE branch in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment or creation of any security interest over any assets located in China. Failure to comply with the required SAFE registration and updating requirements described above may result in restrictions being imposed on the foreign exchange activities of the PRC subsidiaries of that offshore special purpose company, including the increase in registered capital, the payment of dividends and other distributions or payments to the offshore special purpose company and capital inflows from the offshore entity. Failure to comply may also subject relevant PRC residents or the PRC subsidiaries of that offshore special purpose company to penalties under PRC foreign exchange administration regulations for evasion of applicable foreign exchange restrictions.

Our Chairman and co-founder, Mr. LEI Jun, who is a PRC resident, made his individual overseas investment registration with the Guangdong Branch of the SAFE in September 2006 and has been updating such registration from time to time as required under the SAFE Circular 75. Mr. Lei will further update such registration after the completion of this Offering. In addition, certain beneficial owners of our offshore subsidiaries, including Kingsoft Cloud Holdings Limited, Kingsoft Office Software Holdings Limited, Westhouse Holdings Limited, Kingsoft Jingcai Online Game Holdings Limited and Cheetah Mobile, have complete the initial registration for their individual overseas investment with their respective local counterpart of the SAFE, respectively, and are in the process of updating such registrations to reflect the latest financings. However, if Mr. Lei or any other beneficial owner fails to update such individual overseas investment registration
as required by the Notice, or if the SAFE promulgates clarifications or regulations in the future
deeem any other ultimate shareholders to be PRC residents and thus shall comply with the
registration procedures and update requirements described above and if such beneficial owners
and/or shareholders are unable or fail to comply with such procedures, the beneficial owners may
be subject to fines and legal sanctions, the consequence of which may affect our business
operations, particularly with respect to the ability of our PRC subsidiaries to remit foreign currency
payments out of China, which could affect our ability to service our offshore indebtedness,
including the Bonds.

Failure to comply with PRC regulations regarding the registration requirements for employee
stock incentive plans may subject the PRC plan participants or us to fines and other legal or
administrative sanctions.

In February 2012, the SAFE promulgated the Notices on Issues Concerning the Foreign
Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of
Overseas Publicly-Listed Companies (關於境內個人參與境外上市公司股權激勵計劃外匯管理有關
問題的通知, the "Stock Option Rules"), which replaced the relevant regulations issued by the
SAFE in March 2007. Under the Stock Option Rules, PRC residents who participate in stock
incentive plan in an overseas publicly-listed company are required to register with the SAFE or its
local branches and complete certain other procedures. Participants of a stock incentive plan who are
PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas
publicly-listed company or another qualified institution selected by such PRC subsidiary, to conduct
the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its
participants. Such participants must also retain an overseas entrusted institution to handle matters
in connection with their exercise of stock options, the purchase and sale of corresponding stocks or
interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration
with respect to the stock incentive plan if there is any material change to the stock incentive plan,
the PRC agent or the overseas entrusted institution or other material changes.

We and our PRC resident employees who participate in the employee stock incentive plans
have been subject to these regulations since our company became a publicly-listed company on the
Hong Kong Stock Exchange in 2007. We have been assisting our PRC option grantees to complete
the required registrations and procedures since 2007. If we or our PRC option grantees fail to
comply with these regulations, we or our PRC option grantees may be subject to fines and other
legal or administrative sanctions.

 Preferential tax treatments currently available to us in the PRC may be discontinued.

We have structured and located our PRC subsidiaries in order to benefit from preferential tax
treatments offered to companies located in designated economic zones and/or operating high
technology or software-related businesses. Some of these tax treatments are subject to the continued
satisfaction of conditions specified in relevant regulations. For example, some of our PRC entities
are entitled to preferential tax treatment because they are recognised as high and new technology
enterprises.

However, the current criteria for high and new technology enterprises may be amended or
changed in the future, and we cannot assure you that our current qualified PRC subsidiaries will
continue to satisfy the amended or changed standards. We cannot assure you that our PRC
subsidiaries will continue to enjoy these preferential tax treatments in the future. In addition, there
can be no assurance that preferential tax treatments granted to our PRC subsidiaries by local
governmental authorities may not be reviewed, challenged or even revoked by the central
government in the future. The discontinuation of this preferential tax treatments could materially
and adversely affect our business, financial condition and results of operations.

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There are significant uncertainties under the Enterprise Income Tax Law (the “EIT Law”) relating to the PRC enterprise income tax liabilities of the Company.

Under the EIT Law, the profits of a foreign invested enterprise arising in 2008 and onwards that are distributed to its immediate holding company outside the PRC will be subject to a withholding tax rate of 10% pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (the “Hong Kong Tax Treaty”), such rate is lowered to 5% if a Hong Kong resident enterprise is a beneficial owner directly owning at least 25% of the capital of the PRC company which pays the dividends. Furthermore, according to the Circular on State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties, which became effective on 1 October 2009, the 5% tax rate does not automatically apply. Approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under relevant taxation treaties. However, according to a tax circular issued by the State Administration of Taxation in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate enjoyed by the relevant offshore entity. Moreover, on 27 October 2009, the State Administration of Taxation issued a new circular (“Circular 601”) with respect to the determination of beneficial ownership under various tax treaties entered into by the PRC, including the Hong Kong Tax Treaty. It is unclear at this stage whether Circular 601 applies to dividends paid by the Company’s PRC subsidiaries which are considered as foreign invested enterprises to their respective immediate holding companies outside the PRC, especially those incorporated in Hong Kong. If Circular 601 applies and such immediate holding companies outside the PRC are not regarded as the “beneficial owner” for the purposes of such dividend payments, despite that most of such immediate holding companies are incorporated in Hong Kong, the Group may not be able to benefit from the preferential rate applicable under the relevant PRC treaties, especially the Hong Kong Tax Treaty, and may be subject to an income withholding tax of 10% for such dividend payments.

In addition, under the EIT Law, enterprises established under the laws of jurisdictions outside of China with their “de facto management bodies” located within PRC may be considered to be PRC tax resident enterprises for tax purposes.

Under current PRC laws and regulations, it is uncertain whether the Company would be deemed to be a PRC tax resident enterprise as a substantial portion of the members of the Company’s management team are located in China. If the Company is deemed to be a PRC tax-resident enterprise, the global income of the Company will be subject to PRC enterprise income tax at the rate of 25%, which would have a material adverse effect on the financial condition and results of operations of the Group.

Interest (if any) payable by us to our foreign investors and gain on the sale of our Bonds may become subject to taxation under PRC tax laws.

Under the EIT Law, if we are deemed as a “resident enterprise” in the PRC, PRC withholding tax at the rate of 10% (or lower treaty rate, if any) might be applicable to interest (if any) payable by us to investors that are “non-resident enterprises” if such “non-resident enterprise” investors do not have an establishment or place of business in China or if, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realized on the transfer of the Bonds by “non-resident enterprise” investors would be subject to a 10% PRC tax if we were treated as a PRC “resident enterprise” and such gain is regarded as income derived from sources within China. Furthermore, under the Individual Income Tax Law, if we are deemed as a “resident enterprise” in the PRC, PRC withholding tax at the rate of 20% (or lower treaty rate, if any) might be applicable
to interest (if any) payable by us to investors that are “non-resident individuals.” If we were a PRC “resident enterprise” and were required under the EIT Law to withhold PRC income tax on interest payable to our Bondholders that are “non-resident enterprises” or “non-resident individuals”, we would be required to pay such additional amounts as would result in receipt by a holder of a Bond of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Bonds, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Bonds, as well as our profitability and cash flow. In addition, if you are required to pay PRC income tax on the transfer of our Bonds, the value of your investment in our Bonds may be materially and adversely affected. It is unclear whether, if we are considered a PRC “resident enterprise,” holders of our Bonds might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

The PRC legal system has inherent uncertainties that could materially and adversely affect us.

The PRC legal system is based upon written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited value as precedents. Since 1979, the PRC legislative bodies have promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, the PRC has not developed a fully integrated legal system and the array of new laws and regulations may not be sufficient to cover all aspects of economic activities in the PRC. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, published government policies and internal rules may have retroactive effect. As a result, we may be unaware of our violation of these policies and rules until some time later. Our structure contracts with the VIE Companies and their respective shareholders are governed by the laws of the PRC. The enforcement of these contracts and the interpretation of the laws governing these relationships are subject to uncertainty. See “– Risks Relating to Our Company Structure.”

Inflation in China could negatively affect our profitability and growth.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products and services rise at a rate that is insufficient to compensate for the rise in our costs, our business may be materially and adversely affected. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austere policy can lead to a slowing of economic growth and could materially and adversely affect our business and prospects.

The PRC national economy and economies in different regions of the PRC may be adversely affected by natural disasters, acts of God, and occurrence of epidemics.

Our business is subject to general economic and social conditions in the PRC, in particular, in regions where our operations are located. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including certain cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome (“SARS”), H5N1 avian flu, H7N9 avian flu or the human swine flu, also known as Influenza A (H1N1). In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as the H5N1 avian flu, the H7N9 avian flu or the human swine flu, especially in the cities where we have operations, may result in material disruptions to our business and operations, which in turn may adversely affect our financial condition and results of operations.
The PRC government’s control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares.

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licences to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

Under existing foreign exchange regulations, we are able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially and adversely affected.

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定，或“M&A Rules”) and other recently adopted regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex. For example, the M&A Rules require that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds a famous trademark or PRC time-honoured brand. Moreover, the Anti-Monopoly Law (反壟斷法) promulgated by the Standing Committee of the National People’s Congress on 30 August 2007 and effective as of 1 August 2008 requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds (i.e., during the previous fiscal year, (i) the total global turnover of all operators participating in the transaction exceeds RMB10 billion and at least two of these operators each had a turnover of more than RMB400 million within China, or (ii) the total turnover within China of all the operators participating in the concentration exceeded RMB2 billion, and at least two of these operators each had a turnover of more than RMB400 million within China) must be notified and cleared by MOFCOM before they can be completed. In addition, on 3 February 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於建立外國投資者併購境內企業安全審查制度的通知, or “Circular No. 6”), which officially established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under Circular No. 6, a security review is required for mergers and acquisitions by foreign investors having “national defence and security” concerns and mergers and acquisitions by which foreign investors may acquire the “de facto control” of domestic enterprises with “national security” concerns.

In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining
approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defence and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our worldwide income.

Under the EIT Law, which came into effect on 1 January 2008, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and their global income will generally be subject to the uniform 25% corporate income tax rate. Under the Implementation Rules for the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. On 22 April 2009, the SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (關於境外註冊中資控股企業依據實際管理機構標準確定為居民企業有關問題的通知, or “Circular 82”), which provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in China. In addition, on 3 August 2011, the SAT issued Administrative Measures on Income Taxes of Resident Enterprises Incorporated outside Mainland China and Are Controlled by Chinese Enterprises (Trial Implementation) (境外註冊中資控股居民企業所得稅管理辦法(試行), or “Resident Enterprise Administrative Measures”), which became effective as of 1 September 2011. The Resident Enterprise Administrative Measures provide clarification for resident status determination, post-determination administration, as well as competent tax authorities. However, Circular 82 and the Resident Enterprise Administrative Measures apply only to offshore enterprises controlled by PRC enterprises, not those invested in or controlled by PRC individuals, like our Company. Currently there are no further detailed rules or precedents applicable to us regarding the procedures and specific criteria for determining “de facto management body” for the company of our type. We do not believe we are a resident enterprise defined and regulated by the aforesaid regulation, as none of our shareholders is a PRC company or PRC corporate group. However, it remains unclear how PRC tax authorities will determine the tax residency status of companies like us. If the PRC authorities were to subsequently determine, or any future regulation provides, that we should be treated as a PRC resident enterprise, we would be subject to a 25% enterprise income tax on our global income, which will significantly increase our tax burden and could materially and adversely affect our financial condition and results of operations.

It may be difficult to serve process within the PRC or to enforce any judgments obtained from non-PRC courts against us.

Most of our operating subsidiaries are incorporated in the PRC, and most of our assets are located within the PRC. The PRC does not currently have treaties providing for the reciprocal recognition or enforcement of judgments of courts located in the United Kingdom, Singapore, Japan and most other western countries. An Arrangement between China and the Hong Kong Special Administrative Region on Reciprocal Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdictions as Agreed to by the Parties Concerned was signed on 14 July 2006 and came into effect on 1 August 2008. However, there are many restrictions on such arrangement. As a result, it may not be possible for investors to effect service of process upon our subsidiaries pursuant to the authority of non-PRC courts. Further, the recognition and enforcement in the PRC of judgments of courts outside the PRC might be difficult or impossible, and it may be
inevitable to relitigate at a competent PRC court in order to seek available remedies. Furthermore, since both the United Kingdom and the PRC are contracting states to the Hague Convention on Service Abroad of Judicial and Extra-Judicial Documents in Civil and Commercial Matters, or the Hague Convention, judicial documents of court proceedings in the England could be served upon our subsidiaries in the PRC, following the service procedure under the Hague Convention and corresponding domestic procedure in the United Kingdom and China. However, such service procedure could be lengthy and consuming as all documents to be served upon defendants in another contracting state should be transmitted, with corresponding translation, through the Central Authorities designated by the two countries, respectively.

Risks Relating to the Bonds, the Shares and the Offering

_There may not be a liquid market for the Bonds, and Bondholders may not be able to sell their Bonds at an attractive price or at all._

The Bonds are a new issue of securities for which there is currently no trading market. Although approval in-principle has been received for the listing and quotation of the Bonds on the Official List of the SGX-ST, we cannot assure investors as to the liquidity of the Bonds, that an active trading market will develop, or that we will be able to maintain a listing on the Official List of the SGX-ST. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial price depending on many factors, including prevailing interest rates, our operating and financial results and the market for similar securities. The Joint Bookrunners are not obligated to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Bookrunners. Accordingly, we cannot assure you that a liquid trading market for the Bonds will develop or be sustained. If an active trading market for the Bonds does not develop or is not sustained, the market price and liquidity of the Bonds may be adversely affected.

Even if an active trading market were to develop, the Bonds could trade at prices that may be lower than the initial offering price. Future trading prices of the Bonds will depend on many factors, including, but not limited to:

- prevailing interest rates and interest rate volatility;
- the market for similar securities;
- our operating and financial results;
- the publication of earnings estimates or other research reports and speculation in the press or the investment community;
- the market price of the Bonds; or
- changes in our industry and competition; and general market and economic conditions.

Accordingly, Bondholders may not be able to sell their Bonds at an attractive price or at all, and may incur losses on their investments.
The Bonds may not be a suitable investment for all investors.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor’s currency;

- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolio. A potential investor should not invest in the Bonds which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds and the impact this investment will have on the potential investor’s overall investment portfolio.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Bonds are legal investments for it; (ii) the Bonds can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

Securities law restrictions on the resale and conversion of the Bonds and the resale of Shares issuable upon their conversion may impact Bondholders’ ability to sell the Bonds.

The Bonds and the Shares into which the Bonds are convertible have not been registered under the Securities Act, any state securities laws or the securities laws of any other jurisdiction. Unless and until they are registered, the Bonds and the Shares issuable upon conversion may not be offered, sold or resold except pursuant to an exemption from registration under the Securities Act and applicable state laws or in a transaction not subject to such laws. The Bonds are being offered and sold only outside the United States in reliance on Regulation S under the Securities Act. We are not required to register the Bonds and the Shares into which the Bonds are convertible under the terms of the Bonds. Hence, future resales of the Bonds and the Shares into which Bonds are convertible may only be made pursuant to an exemption from registration under the Securities Act and applicable state laws or in a transaction not subject to such laws.
Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us.

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries to satisfy our obligations, including our obligations under the Bonds. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws and restrictions contained in the debt instruments of such companies. We cannot assure you that our subsidiaries will have distributable earnings or will be permitted to distribute their distributable earnings to us as we anticipate, or at all. In addition, dividends payable to us by these companies are limited by the percentage of our equity ownership in these companies. Furthermore, if any of these companies raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Bonds. These factors could reduce the payments that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Bonds.

PRC regulation of loans to, and direct investments in, PRC entities by offshore holding companies may delay or prevent us from using the proceeds of this Offering or other financing activities to make loans or capital contributions to our PRC operating subsidiaries, which could impair our ability to make timely payments of principal, under the Bonds, and materially adversely affect our liquidity and ability to fund and expand our business.

According to the existing PRC rules and regulations relating to supervision of foreign debt, loans by foreign companies to their subsidiaries in China, such as our PRC subsidiaries established as foreign-invested enterprises in China, are considered foreign debt, and such loans must be registered with the relevant local branches of SAFE. Such rules and regulations also provide that the total outstanding amount of such foreign debt borrowed by any foreign-invested enterprise may not exceed the difference between its total investment and its registered capital, each as approved by the relevant PRC authorities. Therefore, the proceeds of this Offering may only be transferred to our PRC subsidiaries as equity investments and not as loans. We would therefore have to rely on dividend payments from our PRC subsidiaries, and we cannot assure you that dividend payments will be available, on the maturity date to pay the principal of the outstanding Bonds or at the time of the occurrence of any change of control to make purchases of outstanding Bonds.

In addition, equity contributions by us and our non-PRC subsidiaries to our PRC subsidiaries will require approvals from the commerce department of the local government and registration with the MOFCOM, which may take considerable time and delay the actual contribution to the PRC subsidiaries. This may adversely affect the financial condition of the PRC subsidiaries and may cause delays to the development undertaken by such PRC subsidiaries. We cannot assure you that we have obtained or will obtain in a timely manner all relevant necessary approval certificates or registration for all our operating subsidiaries in the PRC to comply with this regulation. Furthermore, we cannot assure you that the PRC government will not introduce new policies that further restrict our ability to deploy, or that prevent us from deploying, in China the funds raised outside of China. Therefore, we may not be able to use all or any of the capital that we may raise outside China to finance our projects in a timely manner or at all.

On 29 August 2008, SAFE promulgated the Circular on the Relevant Operational Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知, or “SAFE Circular 142”), which regulates the conversion by a foreign invested enterprise of foreign currency into Renminbi by restricting the usage of converted Renminbi. SAFE Circular 142 provides that any Renminbi capital converted from registered capital...
in foreign currency of a foreign invested enterprise may only be used for purposes within the business scope approved by PRC governmental authority and such Renminbi capital may not be used for equity investments within the PRC unless otherwise permitted by the PRC law. In addition, SAFE strengthened its oversight of the flow and use of the Renminbi capital converted from registered capital in foreign currency of a foreign invested enterprise. The use of such Renminbi capital may not be changed without SAFE approval, and such Renminbi capital may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been utilised. As a result, we are required to apply Renminbi funds converted from the net proceeds we expect to receive from the Offering within the business scope of the PRC subsidiaries. SAFE Circular 142 may significantly limit our ability to transfer the net proceeds from the Offering to the PRC Subsidiaries or invest in or acquire any other companies in the PRC. Furthermore, the SAFE promulgated SAFE Circular 59 on 9 November 2010, which tightens the regulation over settlement of net proceeds from offshore offerings. In particular, it is specifically required that any net proceeds settled from offshore offerings shall be applied in the manner described in the offering documents. The SAFE also promulgated SAFE Circular 45 in November 2011, which, among other things, restricts a foreign-invested enterprise from using Renminbi funds converted from its registered capital to provide entrusted loans or repay loans between non-financial enterprises. Violations of these circulars could result in severe monetary or other penalties. SAFE Circulars 142, 59 and 45 may significantly limit our ability to convert, transfer and use the net proceeds from this Offering and any offering of additional securities in China, which may adversely affect our business, financial condition and results of operations.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from those of any other jurisdiction with which holders of the Bonds are familiar.

Because we are registered by way of continuation under the laws of the Cayman Islands, an insolvency proceeding relating to us, even if brought in other jurisdictions, would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law in other jurisdictions. We conduct most of our business operations through PRC-incorporated entities in China. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of other jurisdictions with which the holders of the Bonds are familiar. You should analyse the risks and uncertainties carefully before you invest in the Bonds.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Bonds primarily depend upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us and, if applicable, to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorised branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on shareholder loans, which may affect our ability to satisfy our debt obligations including the Bonds.

Bondholders may be subject to tax.

Prospective investors of the Bonds are advised to consult their own tax advisors concerning the overall tax consequences of the purchase, ownership, disposition or conversion of the Bonds or the Shares. See “Taxation” for a discussion of tax consequences in certain jurisdictions.
If we are unable to comply with the restrictions and covenants in our debt agreements, there could be a default under the terms of these agreements, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Bonds, or result in a default under our other debt agreements. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favourable or acceptable to us.

Claims by holders of the Bonds are structurally subordinated to creditors of our subsidiaries and associated companies.

Our ability to make payments in respect of the Bonds depends largely upon the receipt of dividends, distributions, interest of advances from our subsidiaries. The ability of our subsidiaries to pay dividends and other amounts to us may be subject to their profitability and applicable laws. Payments under the Bonds are structurally subordinated to all existing and future liabilities and obligations of each of our subsidiaries. Claims of creditors of such companies will have priority as to the assets of such companies over us and our creditors, including holders of the Bonds.

We may not have the ability to redeem the Bonds.

Bondholders may require us, subject to certain conditions, to redeem for cash some or all of their Bonds on a certain date or upon a transaction or event constituting a change of control, a delisting or a change in law as described under “Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption at the Option of the Bondholders” and “Terms and Conditions of the Bonds – Redemption, Purchase and Cancellation – Redemption for Relevant Event.” We may not have sufficient funds or other financial resources to make the required redemption in cash at such time or the ability to arrange necessary financing on acceptable terms, or at all. Our ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by us would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness held by us.

Bondholders will bear the risk of fluctuations in the price of Shares.

The market price of the Bonds at any time will be affected by fluctuations in the price of the Shares. The Shares are currently listed on the Hong Kong Stock Exchange. There can be no certainty as to the effect, if any, that future issues or sales of Shares, or the availability of such Shares for future issue or sale, will have on the market price of the Shares prevailing from time to time and therefore on the market price of the Bonds.

Sales of substantial numbers of Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Shares and the Bonds. Our financial condition, results of operation, future prospects and business strategy could also affect the value of the Shares. The market price of the Shares will be influenced by our operational results (which in turn are subject to the various risks to which our businesses and operations are subject) and by other factors such as changes in the regulatory environment that may affect the markets in which we operate and the capital markets in general. Corporate events such as share sales, reorganisations, takeovers or share buy-backs may also adversely affect the market price of the Shares. Any decline the market price of the Shares could adversely affect the market price of the Bonds.
Short selling of the Shares by Bondholders could materially and adversely affect the market price of the Shares.

The issuance of the Bonds may result in downward pressure on the market price of the Shares. Investors in convertible securities may seek to hedge their exposure in the underlying equity securities, often through short selling of the underlying equity securities or similar transactions. Any short selling and similar hedging activity could place significant downward pressure on the market price of the Shares, thereby having a material adverse effect on the market value of the Shares owned by an investor as well as on the trading price of the Bonds.

Bondholders have limited anti-dilution protection.

The Conversion Price will be adjusted in the event that there is a consolidation, sub-division or reclassification, capitalisation of profit or reserves, rights issue, bonus issue, reorganisation, capital distribution or other corporate or other event including an offer or scheme which affects the Shares, or change of control but only in the situations and only to the extent provided in the “Terms and Conditions of the Bonds – Conversion – Adjustments to Conversion Price”. There is no requirements that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the market price of the Shares and, therefore, adversely affect the market price of the Bonds.

Bondholders will have no rights as holders of the Shares prior to conversion of the Bonds.

Unless and until the Bondholders acquire the Shares upon conversion of the Bonds, they will have no rights with respect to the Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Shares. Upon conversion of the Bonds, these holders will be entitled to exercise the rights of holders of the Shares only as to actions for which the applicable record date occurs after the date of conversion.

Conversion of the Bonds and the exercise of the subscription or conversion rights in respect of our other equity-linked securities will dilute the ownership interest of existing shareholders and future issuances of our securities could dilute your ownership.

The conversion of some or all of the Bonds and the exercise of the subscription or conversion rights in respect of other equity-linked securities that we have issued will dilute the ownership interest of existing shareholders. Any sales in the public market of the Shares issuable upon such conversion or exercise, or the perception that such sale may occur could adversely affect prevailing market prices of the Shares and the Bonds. In addition, the existence of the Bonds may encourage short selling by market participants because the conversion of the Bonds could depress the price of the Shares.

Bondholders are bound by decisions of defined majorities in respect of any modification, waivers and substitution.

The terms and conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.
The Trustee may request that the Bondholders provide an indemnity and/or security and/or pre-funding to its satisfaction.

In certain circumstances (including without limitation the giving of notice pursuant to “Terms and Conditions of the Bonds – Events of Default” and instituting proceedings pursuant to “Terms and Conditions of the Bonds – Enforcement”), the Trustee may (at its sole discretion) request the Bondholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes any action on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to any indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions notwithstanding the provision of an indemnity or security or pre-funding to it, in breach of the terms of the Trust Deed (as defined in “Terms and Conditions of the Bonds”) and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.
CAPITALISATION AND INDEBTEDNESS

As at the date of the Offering Circular, the authorised share capital of the Company was US$1,200,000 divided into 2,400,000,000 shares of US$0.0005 each.

The following table sets forth the unaudited consolidated capitalisation and indebtedness of the Company as at 31 December 2013 and as adjusted to give effect to the issue of the Bonds.

<table>
<thead>
<tr>
<th></th>
<th>Actual (in RMB thousands)</th>
<th>Adjusted (in RMB thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current portion of borrowings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion of unsecured interest-bearing bank borrowings</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Current portion of secured interest-bearing bank borrowings</td>
<td>15,724</td>
<td>15,724</td>
</tr>
<tr>
<td>Total current portion of borrowings</td>
<td>15,724</td>
<td>15,724</td>
</tr>
<tr>
<td><strong>Non-current portion of borrowings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liability component of 2013 convertible bonds</td>
<td>1,037,587</td>
<td>1,037,587</td>
</tr>
<tr>
<td>Liability component of 2013 redeemable convertible preferred shares</td>
<td>77,982</td>
<td>77,982</td>
</tr>
<tr>
<td>Bonds to be issued</td>
<td>–</td>
<td>1,844,962</td>
</tr>
<tr>
<td>Total non-current portion of borrowings</td>
<td>1,115,569</td>
<td>2,960,531</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued capital</td>
<td>4,718</td>
<td>4,718</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>450,470</td>
<td>450,470</td>
</tr>
<tr>
<td>Total equity</td>
<td>3,830,691</td>
<td>3,830,691</td>
</tr>
<tr>
<td><strong>Total capitalisation</strong>(1)</td>
<td>4,946,260</td>
<td>6,791,222</td>
</tr>
</tbody>
</table>

*Note:*

(1) Total capitalisation represents the sum of non-current portion of borrowings and total equity.

Other than as disclosed in this Offering Circular, there has been no material adverse change in the capitalisation of the Company since 31 December 2013.
CORPORATE STRUCTURE

The following chart sets forth our simplified corporate structure as at the date of this Offering Circular.
BUSINESS

Overview

We are a leading software application and internet services provider in China. We leverage our comprehensive software development platform to develop and offer a wide range of products and services in internet security, office applications, interactive entertainment and cloud computing. In particular, we commercially launched cloud computing services in May 2011 to take advantage of the accelerated growth of our mobile internet user base and usage of smart devices in China. We believe we have one of the largest internet security, office applications, interactive entertainment and cloud computing research and development teams in China, dedicated to the development of such software and internet products and services, with 2,892 research and development personnel as of 31 December 2013. We have self-developed substantially all of our internet security, office applications and cloud computing products, as well as a majority of our interactive entertainment offerings.

Our product development and support operations are focused on enhancing user experience. We also increasingly utilise the internet as an efficient and relatively secure channel to market and distribute our existing and new software and internet products and services. While our users are primarily located in China, we also offer internet security products and services in Japan, and certain interactive entertainment products and services in Vietnam, Taiwan, Malaysia, South Korea, Thailand, Singapore, Cambodia, Indonesia and North America.

Our core applications under our information security software business line primarily include Duba Anti-virus, Clean Master, Battery Doctor, Cheetah Browser and Photo Grid. We aim to provide global internet and mobile users a faster, safer and easier experience. To achieve this, we have developed a platform that offers mission critical applications for our users and global content distribution channels for our business partners, both of which are powered by its proprietary cloud-based data analytics engines. For our users, our diversified suite of mission critical applications optimizes internet and mobile system performance and provides real time protection against known and unknown security threats. Our information security software business line had approximately 330 million monthly active users for all of its applications in December 2013 and our applications have been installed on 346.6 million mobile devices as of December 31, 2013. We commercially launched Duba Anti-virus in 2000 and update and provide new versions of Duba Anti-virus from time to time. We have invested heavily in mobile business and have launched a series of mission critical applications including Clean Master and Battery Doctor. In addition, on 19 June 2012, we officially launched our internet browser, Cheetah Browser, which is expected to create synergies with our other products and further enhance our monetisation potential in the coming years. There were more than 400 games on the Kingsoft Internet Cheetah game platform as of 31 December 2013.

Our primary office application is WPS Office, which is sold overseas under the name of Kingsoft Office. This software provides word processing, spreadsheet and presentation functions and is the leading domestically developed office application product in China. Its predecessor, WPS 1.0, launched in 1989, was one of the first Chinese-language word processing software products to be available in China. In May 2011, we launched WPS Mobile Office for the Android operating system. In February 2013, WPS Mobile Office for the Apple iOS system was launched and received positive feedback. Currently, WPS Mobile Office has approximately 40 million monthly active users. We sell WPS Office to government agencies, state-owned enterprises, financial institutions and SMEs in the PRC. We also provide limited edition free downloads on the internet by individual users on both PCs and mobile devices with the Android and Apple iOS operating systems. We provide WPS Office for free for individual users to nurture the user base of Kingsoft. In 2013, we began measures to monetise our increasing user base of the free WPS Office.
Our interactive entertainment portfolio includes various MMORPGs, which allow thousands of users to interact online through personalised role-playing characters, as well as first-person shooter and mobile games. We have a proven track record in the development of popular interactive entertainment products for the PRC market. As a testament to the success of our interactive entertainment products, we received the “Top Ten Brand Game Developers 2011”, “Top Ten Most Popular Chinese Cultural Online Games 2011” and “Top Ten Game Operators for Overseas Expansion 2011” awards at the inaugural China Game Industry Annual Conference held in January 2012, which was sponsored by the GAPP. As of 31 December 2013, we offered a total of 12 MMORPGs, all of which were in-house developed.

Our in-house research and development team is currently developing three additional MMORPGs. We are also actively expanding and developing our mobile games. We launched Pets Castle (寵物城堡) and Candy Ninja Cat (糖果忍者貓) in 2012, and released new mobile games in 2013, such as Pop of Pet (微寵) and FSZB (封神爭霸). Our research and development team focuses on developing online games featuring cultural themes which appeal to the PRC market. These games include new virtual items and value-added services that users can purchase to enhance their game experience. Our MMORPGs (including the MMORPGs we licensed from third parties and MMORPGs we developed and licensed overseas) had an aggregate of 0.63 million daily average peak concurrent users and approximately 1.87 million monthly average paying users for the fourth quarter of 2013.

Our cloud computing services currently include Kuaipan Series products and cloud computing platform services for both business enterprises and individual consumers. Our cloud computing platform services primarily include cloud storage, cloud computing, cloud hard disk and cloud database. We established Kingsoft Cloud in early 2012 to capture opportunities in cloud computing services. We established strategic collaborations with Xiaomi and Skyworth TV in 2012 to leverage on the accelerated growth of mobile internet users and smart devices in China. We further expanded into enterprise data storage services and cloud computing platform services in 2013 and established cooperative relationship with www.letao.com and www.bitauto.com. Through our product innovation and strategic collaboration with Xiaomi and smart TV producers, our registered storage services user base has increased to approximately 52 million as of 31 December 2013.

In addition, we also offer certain other internet and mobile products and services. Our in-house developed Kingsoft PowerWord is one of the most widely used dictionary software products in China. We provide Kingsoft PowerWord for individual users for free on the internet and for the Android and Apple iOS mobile systems, which enables us to continue to build on our user base.

We have experienced steady overall growth. We had revenues of RMB1,055.7 million and RMB1,095.9 million from our application software business (including internet security and office application business) and interactive entertainment businesses, in 2013, respectively, representing 48.6% and 50.4% of our total revenues, respectively. Our revenues for the years ended 31 December 2011, 2012 and 2013 was RMB1,020.5 million, RMB1,411.2 million and RMB2,173.3 million, respectively. Our net profit attributable to owners of the parent for the same periods was RMB324.7 million, RMB432.6 million and RMB670.7 million, respectively.
Our Products and Services

We organise our operations according to the “Three Plus One” model, encompassing three major existing product and service lines and a new strategic new business line:

- **Internet Security.** Information security software and web browser, provision of information security service across devices, and provision of online advertising services.

- **Office Applications.** Essential office applications, including WPS office packages for PC and mobile platforms as well as Kingsoft PowerWord.

- **Interactive Entertainment.** Development and provision of online games, mobile games and casual game services.

- **Cloud computing.** Research, development and distribution of cloud computing services.

**Internet Security**

Our core applications under information security software business line primarily include Duba Anti-virus, Clean Master, Battery Doctor, Cheetah Browser and Photo Grid. Duba Anti-virus is one of the leading domestically produced internet security software products in China which offers free secure content management functions, such as anti-virus, anti-spyware and anti-spam, incorporated into a single and easy-to-use platform. We aim to provide global internet and mobile users a faster, safer and easier experience. To achieve this, we have developed a platform that offers mission critical applications for our users and global content distribution channels for our business partners, both of which are powered by our proprietary cloud-based data analytics engines. For our users, our diversified suite of mission critical applications optimizes internet and mobile system performance and provides real time protection against known and unknown security threats. Our information security software business line had approximately 330 million monthly active users for all of its applications in December 2013 and its applications have been installed on 346.6 million mobile devices as of December 31, 2013. We maintain www.duba.net, a website dedicated to Duba Anti-virus, which offers online customer service, provides information regarding Duba Anti-virus and allows users to download Duba Anti-virus and communicate with other users on various topics regarding internet security. By generating a large population of viewers and users through www.duba.com, we are able to increase consumer awareness of Duba Anti-virus software and our other products and services while generating online advertising revenue.

In addition to Duba Anti-virus, we have launched a series of mission critical applications, including Clean Master, Battery Doctor, Cheetah Browser and Photo Grid. Clean Master was the fourth largest application worldwide excluding games on Google Play in terms of monthly downloads in January 2014 according to App Annie. Battery Doctor was the top one mobile utility application in China in terms of monthly active users in December 2013, according to iResearch. Cheetah Browser, integrating the functionality of both the Chromium open-source rendering engine and the Internet Explorer rendering engine, provides users with high browsing speed and secure browsing experience. Photo Grid was the third largest application in terms of monthly downloads in the Photography category worldwide on Google Play in December 2013 according to the App Annie.

We are now the largest mobile application publisher in the Google Play Tools category based on worldwide downloads in January 2014 according to App Annie and the second-largest internet security software provider in China according to iResearch in December 2013.
Office Applications

Our office application includes WPS Office (WPS) and Kingsoft PowerWord. WPS Office (WPS), is the leading brand of office software in China. With word processing, spreadsheet and presentations functions, this office suite software is compatible with Microsoft Office. Kingsoft PowerWord is the leading brand of translation software in China with the function of English translation, learning and training. Since we design such software and write our own source code, we do not have the same degree of legacy source code from prior software versions as some of our competitors, which enable our software to run smoother and occupy less memory. Accordingly, WPS Office installation package has a smaller application size than similar peer products and, as such, makes it easier and more efficient to download and install. As of 31 December 2013, our WPS Personal Edition had monthly active users of over 61 million. We released the latest version, WPS Office 2013, in May 2013, which is compatible with Windows 8 and provides improved functionality for word processing, spreadsheet and presentation. In addition, we have integrated Easy-Office feature into QWPS and WPS Office 2013 Personal Edition, which simplifies file sharing and user collaboration. The accelerated growth of mobile internet and use of smart devices in China will provide further growth opportunities for Kingsoft office application. In 2013, the global monthly active users of WPS Mobile Office exceeded approximately 34 million users. In August 2013, the Chinese State Council issued a policy requiring government agencies to use genuine software for the IPR protection, which established the long-term scheme of using genuine software. Both office and antivirus software have been put on the routine software purchase list of the Chinese government agencies. We believe this policy represents a milestone in the IPR protection history, and we will be able to benefit in the long term, especially WPS Office business. We expect to also provide cloud-based, cross platform office application services and to further improve the user experience in document editing, document reading, document conversion, file synchronisation and file sharing across devices.

Interactive Entertainment

MMORPGs

A MMORPG creates a virtual environment within which thousands of users can interact. Our games feature various styles of graphics including realistic and cartoon-style animation. Many of our games are set in ancient China and incorporate themes based on traditional Chinese literature and mythology.

As of 31 December 2013, we offered a total of 12 MMORPGs, all of which were developed in-house. We expect to launch a number of expansion packs for JX Online series and Mission Against Terror (反恐行動) in 2014 to further enhance the games experience, which could in turn stimulate and consolidate our gaming population.

<table>
<thead>
<tr>
<th>Game Title</th>
<th>Commercial Launch</th>
</tr>
</thead>
<tbody>
<tr>
<td>JX Online I 劍俠情緣一</td>
<td>December 2003</td>
</tr>
<tr>
<td>JX Online II 劍俠情緣二</td>
<td>November 2005</td>
</tr>
<tr>
<td>JX Online III 劍俠情緣三</td>
<td>September 2009</td>
</tr>
<tr>
<td>JX Online World 劍俠世界</td>
<td>June 2008</td>
</tr>
<tr>
<td>CQ 春秋Q傳</td>
<td>July 2007</td>
</tr>
<tr>
<td>Legend of Holy World 聖道傳奇</td>
<td>March 2012</td>
</tr>
<tr>
<td>Ma La Jiang Hu 麻辣江湖</td>
<td>June 2012</td>
</tr>
<tr>
<td>Legend of Moon 月影傳說</td>
<td>September 2011</td>
</tr>
<tr>
<td>The First Myth I 封神榜一</td>
<td>January 2005</td>
</tr>
<tr>
<td>The First Myth II 封神榜二</td>
<td>April 2008</td>
</tr>
<tr>
<td>The First Myth III 封神榜三</td>
<td>October 2010</td>
</tr>
<tr>
<td>Jiutian Myth (九天神話)</td>
<td>December 2013</td>
</tr>
</tbody>
</table>
To play our MMORPGs on home computers, users must install client-end software for the MMORPG, which can be downloaded from our various websites as well as our network of internet website partners. Users may also purchase packaged game software from certain software and online game retail stores for a nominal fee.

First-Person Shooter Games

A first-person shooter game is a video game genre centred on gun and projectile weapon-based combat from a first-person perspective. We launched our first-person shooter games Mission Against Terror (反恐行動) and Rush Team (熱血戰隊) in 2009 and 2010, respectively, which were developed by our Kingsoft Dalian Studio.

Mobile Games

We are also actively expanding and developing our mobile games, which generally tend to be less complex and easier to play than MMORPGs. In 2012, we launched our new games Pets Castle (寵物城堡) and Candy Ninja Cat (糖果忍者貓). We further released new mobile games in 2013, such as Pop of Pet (征龍) and FSZB (封神爭霸).

We believe mobile games will complement our current product portfolio and may provide us with certain benefits and opportunities not typically available through MMORPGs, such as:

- providing less-experienced online games users with a means to become familiar with both game playing and the online games culture without making substantial time and resources commitments; and

- convenient for use anytime and anywhere due to their shorter duration and reduced demand for a user’s full attention for long period of time as compared to MMORPGs.

In February 2014, our subsidiary, Westhouse Holdings Limited (“Westhouse”) introduced Xiaomi Ventures Limited (“Xiaomi Ventures”), a wholly owned subsidiary of Xiaomi, as its strategic investor. Having Xiaomi as a shareholder and an important business partner, We believe our mobile game business will benefit from such cooperation in the near future.

Cloud Computing

Our cloud computing operations were commercially launched in May 2011 to provide cloud storage services, and primarily include Standard Storage Service and Kingsoft Kuaipan. In addition, we have expanded into enterprise data storage services and cloud computing platform services in 2013. Our cloud computing platform services primarily include cloud storage, cloud computing, cloud hard disk and cloud database. Cloud computing is a newer model of networked data storage where data is stored not only on the user’s computer, but in virtual storage pools that are generally hosted by cloud computing services providers. We conduct data visualisation through servers hosted by third-party internet data centres.

Standard Storage Service is an online storage service designed for most internet applications, and has been used for Kingsoft’s self-branded products, such as Kingsoft Kuaipan, as well as our collaborative storage applications with other companies. In order to leverage the accelerated growth of our mobile internet user base and the growing use of smart devices in China, we established strategic collaborations with Xiaomi and Skyworth TV in 2012. We further expanded into enterprise data storage services and cloud computing platform services in 2013 and established cooperative relationship with www.letao.com and www.bitauto.com. Through our product innovation and strategic collaboration with Xiaomi and smart TV producers, our storage services user base has increased to approximately 52 million as of 31 December 2013.
Kingsoft Kuaipan is a cloud computing service that we commercially released in 2011, and currently has two editions. Kingsoft Kuaipan (Individual) is a synchronized cloud computing service that is now most frequently used by mainland China users, while the Business Edition of Kingsoft Kuaipan provides business enterprises with a comprehensive and secure computing service. We have received positive market response after the release of both editions.

Internet Security Segment

Internet Security Development

We have significant experience in the in-house development of our internet security products. Substantially all of our internet security products were developed in-house. This enables us to be independent of licences and other agreements with third parties relating to the development of our products. This internal development also allows us to maintain closer technical control over our products and gives us the freedom to decide which modifications and enhancements are most important and when they should be implemented. We strive to obtain information at the earliest possible time about any changing usage patterns and hardware advances that may affect software design. Our internet security products research and development activities are primarily undertaken at our facilities in Beijing, Zhuhai, Guangzhou, Zhengzhou and Hangzhou.

We aim to provide global internet and mobile users a faster, safer and easier experience. To achieve this, we have developed a platform that offers mission critical applications for our users and global content distribution channels for our business partners, both of which are powered by our proprietary cloud-based data analytics engines. For our users, our diversified suite of mission critical applications optimizes internet and mobile system performance and provides real time protection against known and unknown security threats.

We commercially launched Duba Anti-virus in 2000 and adopted the freeware model for individual users in November 2010. We update and provide new versions of Duba Anti-virus from time to time, which are all designed to operate on Microsoft Windows and mobile operating systems. We are now the second-largest internet security software provider in China according to iResearch in December 2013.

In addition to Duba Anti-virus, we have launched a series of mission critical applications, including Clean Master, Battery Doctor, Cheetah Browser and Photo Grid. In January 2014, Clean Master was the fourth most downloaded application globally (excluding games) on Google Play, in terms of monthly downloads according to App Annie. In December 2013, Battery Doctor ranked as the top utility application in terms of monthly active users in China, according to iResearch. Cheetah Browser, integrating the functionality of both the Chromium open-source rendering engine and the Internet Explorer rendering engine, provides users with high browsing speed and secure browsing experience. Photo Grid was the third largest application in terms of monthly downloads in the Photography category worldwide on Google Play in December 2013 according to the App Annie.

Operations Management

We have a separate, dedicated team responsible for the management and development of our key internet security products. The team is responsible for the research and development, sales and marketing and customer service of the product it is assigned.

Overseas Licensing

We also licence our internet security products for distribution in Japan. We enter into multi-year licensing arrangements with certain original equipment manufacturer customers to allow them to install unlimited copies of our internet security over a period of one to three years for a fixed cash consideration or for free. During the licensing period, we are required to provide when-and-if-available upgrades, technical support and training to OEM customers.
We work with local partners in Japan to leverage their local market expertise and benefit from their close proximity to users in those markets, which is particularly important for customer service quality.

**Business Model**

Our Duba Anti-virus products are provided for free on the internet for individual users. With respect to sales of Duba Anti-virus to stated-owned and private enterprises and governmental or non-governmental agencies, prices are negotiated on a contract-by-contract basis.

Historically, to use our internet security products, users would need to pay the retail price to purchase it either through online or offline means. However, more recently, in line with our growth strategies described above, we began offering free internet downloads of our Duba Anti-virus software for individual users with revenue from advertising and other value-added services, supported by a growing user base. All of the other applications we have launched are also provided for free for our users. We believe free downloads for such users will increase consumer awareness of our brand and facilitate the establishment of a large user pool from which we are able to provide our other products and secure a recurring source of revenue. We maintain www.duba.net to sell and distribute our Duba Anti-virus software. Our shift towards an online sales and distribution system significantly reduces the risk of piracy of our internet security products and allows easier access by our users to software upgrades and other new services. This model also enables us to distribute our software directly to our users, integrate our distribution channels and reduce our packaging and distribution costs. We have also introduced our Kingssoft “passport” system, which allows users to register for internet security and online game user accounts in one common database. This system enhances our ability to cross-sell our products between our internet security products users and our online gaming users.

We have developed platform products, such as Duba.com personal start page, Cheetah personalized recommendation engine, game centers, mobile app stores and Kingmobi mobile advertising network, to monetize the massive user base of our internet security and other mission critical applications. Such platform products are able to provide our business partners multiple user traffic entry points and global content distribution channels capable of delivering targeted content to the population.

Our internet security segment generates revenues from our online marketing services by referring traffic from our platform to e-commerce companies and search engine providers and by selling advertisements. We share revenue with our business partners based on cost-per-time, cost-per-click or cost-per-sale for actions that originate from our platform. Our internet security segment has over 380 online marketing business partners in 2013, including major Chinese internet companies Alibaba, Baidu and Tencent.

Our internet security segment also generates revenues by providing IVAS, currently mainly from online games.

**Office Application Segment**

**Office Application Development**

We have significant experience in the development of WPS Office. We primarily develop WPS Office by ourselves. We also use authorised function developed by third parties and some open source code. This enables us to be independent of licences and other agreements with third parties relating to the development. Internal development also allows us to maintain closer technical control over our products and gives us the freedom to decide which modifications and enhancements are most important and when they should be implemented. We strive to obtain information at the earliest possible time about any changing usage patterns and hardware advances that may affect software design. Our WPS Office research and development activities are primarily undertaken at our facilities in Zhuhai and Beijing.
We began offering Kingsoft WPS Office in 1989, and introduce and update new versions of WPS Office from time to time. After Microsoft Windows was officially launched, all of our WPS Office products are designed to operate on Microsoft Windows. In addition, WPS Office can operate on the Linux platform and mobile platforms such as Android and iOS since May 2011 and February 2013, respectively.

**Operations Management**

We have a separate, dedicated team responsible for the management and development of Kingsoft WPS Office. The team is responsible for research and development, sales and marketing and customer service.

**Overseas Licensing**

We also licence Kingsoft WPS Office PC Edition for distribution in other Asian markets. We currently have licence arrangements in Hong Kong, Taiwan and Macau. We entered into multi-year licensing arrangements with certain OEM customers to allow them to install unlimited copies of Kingsoft WPS Office for mobile devices over a period of one to three years for free. During the licensing period, we are required to provide when-and-if-available upgrades, technical support and training to OEM customers.

We work with local partners in each of our overseas markets to leverage their local market expertise and benefit from their close proximity to users in those markets, which is particularly important for customer service quality.

**Sales and Distribution**

We sell and distribute Kingsoft WPS Office PC Edition primarily through licensing to third parties, which include sales to state-owned and private enterprises and governmental or non-governmental agencies through our distributors and direct sales. In Japan, Kingsoft WPS Office is distributed by our non-wholly owned subsidiary in Japan. In addition, our WPS Office is provided for free on the internet for individual users in China. With respect to sales of WPS Office to state-owned and private enterprises and governmental or non-governmental agencies, prices are negotiated on a contract-by-contract basis.

We utilise our network of internet website partners to sell and distribute Kingsoft WPS Office. We offer our WPS Office product information and service support through [www.wps.cn](http://www.wps.cn). Our shift towards an online sales and distribution system significantly reduces the risk of piracy of Kingsoft WPS Office and allows easier access by our users to software upgrades and other new services. This model also enables us to distribute our software directly to our users, integrate our distribution channels and reduce our packaging and distribution costs.

We also sell and distribute Kingsoft WPS Office through various offline channels, including sales to our distributors and distributes through bundled installations on mobile devices sold by our OEM customers, such as Lenovo, Hewlett-Packard and Haier. We work closely with our distributors to manage the flow of orders, inventory levels and sales to customers and closely monitor user feedback to identify our users’ future product needs and preferences to establish research priorities for new product design and development by holding periodic meetings and conferences with selected distributors and end-users and conducting surveys with our end-users. We also work closely with them to execute marketing promotions and activities. Our agreements with these distributors are generally non-exclusive as they also distribute similar products for other vendors. We also grant exclusive selling rights to certain distributors to sell Kingsoft WPS Office in certain authorised scope. These agreements are usually for one-year terms. These distributors are independent third parties, are not within our control and are not obligated to purchase products from us.
We have a direct sales team responsible for Kingsoft WPS Office. Our direct sales team is mainly responsible for sales to small, medium and large state-owned and private enterprises and governmental or non-governmental agencies. For these customers, we sell Kingsoft WPS Office in accordance with our sales price setting system, which specifies different prices based on customers’ type and their procurement scale.

Historically, to use Kingsoft WPS Office, users would need to pay the retail price to purchase it either through online or offline means. However, more recently, in line with our growth strategies, we began offering free internet downloads of our Kingsoft WPS Office for individual users with revenue from advertising and other value-added services, supported by a growing user base. We believe free downloads for such users will increase consumer awareness of our brand and facilitate the establishment of a large user pool from which we may be able to provide our other products and secure a recurring source of revenue.

Through our cooperation with Alipay and arrangements with third-party payment channel, Kingsoft WPS Office users can pay the purchase price, upgrade fees and service fees online. We maintained distribution relationships with over 220 regional distributors in China for our WPS Office in 2013.

Interactive Entertainment Segment

Game Development

For our interactive entertainment business, we have four game design studios located in Zhuhai, Beijing, Chengdu and Dalian. Each of these game design studios has a different area of focus and is responsible for the overall research, development and testing of each assigned product.

The development process of MMORPGs, from the evaluation committee’s approval of a new game proposal to the commencement of closed beta testing, generally requires one to four years. Following the commercial launch of a game, we continuously implement improvements and upgrades to our games. We believe these improvements and upgrades will facilitate the development of user loyalty to our games, to online communities among users and, ultimately, to us. Increased user loyalty will increase the longevity and revenue-generating potential of our games and allow us to use our existing games to cross-sell new games in the “open beta” testing stage.

Operations Management

Our operations centres, located in Beijing and Zhuhai, are staffed with experienced operations management personnel. We have a separate, dedicated game operations management team for internal coordination of the operations of each of our games.

Overseas Licensing

We licence our in-house developed games for distribution in other markets, most of which have a similar cultural background to China. We currently have licence arrangements in Vietnam, Taiwan, Malaysia, South Korea, Thailand, Singapore, Cambodia, Indonesia and North America. Overseas licensing generates additional revenue for us and is an important way to extend the life of our existing games.

We work with local partners in each of our overseas markets to leverage their local market expertise and benefit from their close proximity to users in those markets, which is particularly important for customer service quality. We enter into licence agreements with our overseas licensees and these licence agreements contain similar terms. Pursuant to these licence agreements, the licensees are required to operate the licenced games, provide customer service, sell game points and other relevant products, pay us a periodic royalty equal to a percentage of their revenue derived from operating our games.
An up-front licensing fee is generally determined based on our management’s view of each game’s popularity and negotiation between the licensee and us. The up-front licence fee is usually paid in instalments and the timing of payment differs case-by-case while the periodic royalties are usually paid on a monthly or quarterly basis. In addition, we as the licensor are required to provide materials relating to the licensed game, including but not limited to logos, designs and official game guides, to the licensee and the licensee has the right to use those materials in advertisements, promotional materials and official websites. Furthermore, the licensee is not allowed to amend any of the materials provided by us without our written consent, and the retail prices of products related to the licensed game, including but not limited to game points, offered in the local market are subject to our approval. Upon request by the licensees, we will provide technical support.

Revenue Model

We sell our prepaid game cards for our online game products to the distributors which, in turn, sell them to end users, or sell prepaid online points to end users at our website or online stores. We apply a pay-to-play subscription-based model and an item-billing model on our online game services.

For the pay-to-play subscription-based model, both prepaid game cards and prepaid online points provide end users with a pre-specified length of gameplaying time within a specified period of time. For this revenue model, we generally set our prices based on the level of sophistication of our games and the prices of competing games in the market, and offer a variety of choices to provide users with flexibility. For the item-billing model, end users can play the game for free with limited basic functions, but have the option to purchase in-game virtual items and value-added services designed to enhance their overall game playing experience.

Sales and Distribution

We sell and distribute our prepaid game points for our online games through two principal channels: (i) our internet-based distribution system; and (ii) our offline physical card distribution system. A small fraction of our sales and distribution are conducted by telecommunication network operators and their service providers. Prices for the virtual items in our item-billing games range from RMB0.01 to RMB2,400 depending on its features and scarcity. For our pay-to-play games, we sell game cards and game point cards which allow our users to play a certain amount of time.

To encourage and facilitate direct online sales of our game points to users, beginning May 2012, we began offering online payment services by cooperating with www.tmall.com, an online payment service provider, with access to bank cards issued by PRC commercial banks. Since online payment systems in China are currently rapidly developing, we are working closely with commercial banks to continue to improve this payment system in order to increase our direct sales.

In 2013, approximately 93% of our game point card sales for online games were made through our internet-based distribution system, approximately 4% were made through our offline physical card distribution system and approximately 3% were made through telecommunication network operators and their service providers. As our internet-based distribution systems offer more flexibility and greater convenience to our users, we expect an increasing number of users to purchase our game points through these means.

Technology Infrastructure

We have developed an extensive technology infrastructure to support operations of our online games across China. As of 31 December 2013, our server network for our game operations consisted of over 2,589 servers, including over 1,533 game servers, with the capacity to accommodate up to over one million concurrent online users.
We own substantially all of the servers in the server network for our game operations and rent the remaining servers under either fixed or variable rate one-year leases. We have exclusive access to the data and software on the servers in our server network. In order to introduce new games into our portfolio, we believe we will need to add additional servers to service additional game users in more localities and accommodate a larger user base. In our past experience, we have generally been able to add as many additional servers as we require within a matter of several days.

**Kingsoft Cloud Segment**

**Kingsoft Cloud Development**

We began development of our cloud computing services in 2007 and commercially launched our product offerings in 2011. In addition, we have expanded into enterprise data storage services and cloud computing platform services in 2013. Our cloud computing platform services primarily include cloud storage, cloud computing, cloud hard disk and cloud database. Our cloud computing service has generally been used for our internal products and by our external business partners. We believe we have developed a strong foundation and accumulated significant in-house experience for the development of our cloud computing services. Our research and development activities for cloud computing services are primarily undertaken at our facilities in Beijing. We believe we are able to provide secure safe cloud computing services that are cost-effective for our customers.

**Operations Management**

We have a separate, dedicated team responsible for the management and development of our cloud computing services. This team is responsible for the research and development, sales and marketing and customer service of Kingsoft Cloud. In order to introduce new cloud related services, we believe we will need to add additional servers to service additional users in more localities and accommodate a larger user base. In our past experience, we have generally been able to add as many additional servers as we require within a matter of several days.

**Sales and Distribution**

We sell and distribute our cloud computing services mainly through online top-up. We offer different online top-up packages for our customers. Customers can visit our websites, www.ksyun.com, e.kuaipan.cn and www.kuaipan.cn, and purchase their preferred top-up packages online. For Kingsoft Kuaipan Business Edition, we are also recruiting sales agents to broaden our sales channels.

**Customers and Marketing**

The key customers of Kingsoft WPS Office are government agencies, state-owned enterprises, financial institutions and SMEs in China. The key customers of our internet security and cloud computing products and services are business enterprises and individual customers in China. We also provide interactive entertainment and online games to individual customers that are mostly located in China, but also in other Asia countries.

**Sales and Marketing Activities**

Our sales and marketing activities for internet security, office application and cloud computing products and services generally include:

- advertising in consumer, trade, technical and business publications;
- online advertising;
• production of brochures, sales tools and multimedia product demonstrations;

• targeted user communications through our Kingsoft websites and other media and social networking channels, such as Weibo and WeChat;

• cooperative marketing with distributors, resellers and industry partners;

• direct e-mails to existing and prospective users;

• participation in focused trade and computer shows and hosting of seminars and user group conferences; and

• primary market research to understand evolving user needs and buying behaviours.

The focus of our marketing strategy for internet security, office application and cloud computing products is an internet-focused online marketing method. We employ a variety of online marketing programs and promotional activities. For example, we have established an incentive plan for website owners, under which we pay them commissions based on the download volume of Kingsoft WPS Office from their websites. Further, our websites, such as www.kingsoft.com, www.duba.com, www.wps.cn, www.ksyun.com, e.kuaipan.cn and www.kuaipan.cn, provide an efficient platform for generating internet page views by potential users. We strive to convert such page views into trial or free users through the online promotion of our products by offering free initial downloads for the majority of our products, downloadable upgrades for certain of our internet security or WPS Office and value-added services for our online games and online customer service support. We then encourage trial and free users to convert into paying users by utilising our centralised user billing system. This centralised billing system also enables us to conduct targeted cross-selling of our internet security and online games products across our user base.

We also conduct sales and marketing activities for our in-house developed games, as well as games developed by third parties which enter into marketing and profit sharing agreements with us. Similar to our internet security, office application and cloud computing products and services, our marketing strategy for online games is an internet-based online marketing method that focuses on enhancing user experience and word-of-mouth promotion of our games across our large user base. We employ a variety of online marketing programs and promotional activities, including in-game events, in-game marketing and open beta testing to attract new users and promotions through our online game websites such as www.xoyo.com. In addition, we have established an incentive plan for certain website owners and operators that have entered into cross-marketing and sales arrangements with us. Under this affiliate program, we pay website owners and operators a commission for users who are directed to us through links on their websites. We also frequently organise in-game events for our users to encourage the development of virtual communities among our users, to increase user interest in our games and to introduce users to new features of our games. Moreover, we frequently post announcements in the game environment of our MMORPGs to promote in-game events, new features and other improvements to the games.

Customer Service and Support

We regard customer service as key to the success of all of our products. We are committed to providing superior quality service to our users, and we strive to achieve the fastest response times and highest customer satisfaction levels in the industry. We have a separate team of dedicated customer service staff responsible for substantially each of our internet security, WPS Office, interactive entertainment and cloud computing products and services.
For our internet security products and WPS Office, we provide service to our users through three principal channels: (i) telephone call operators, who serve our users seven to eight hours a day, five days a week; (ii) online communications with users through websites, such as bbs.wps.cn and in the case of our Duba Anti-virus, also through www.duba.net, where users may complete and submit enquiry forms; and (iii) we commit ourselves to replying to enquiries from our users within one working day, including by email reply. We engage commissioned computer services centres covering over 30 provinces and municipalities in China. These computer service centres are selected based on certain criteria and are independent third parties. We pay service commissions to them for services rendered to our users. Certain of our agents and distributors who have been trained by our customer service team also provide services to our users.

Furthermore, for our enterprise customers of internet security products and WPS Office, our customer service staff also conducts site visits and offers free installation, testing and training services. We also provide membership services, including a package of services such as data restore, remote technical support, computer maintenance and other privileges, to individual users of the Group’s information security software. The individual user subscribes for membership services on a monthly basis or for a period of up to several years.

For our interactive entertainment customers, we provide customer service and player support to our users through our call centre in Chengdu, and through two principal means: (i) telephone call operators, which serve our users 24 hours a day, seven days a week; and (ii) online communications with our game masters, such as e-mail, instant messaging and blog services, which save our users long distance calling fees.

For our cloud computing service customers, we provide service to our users through three principal channels: (i) telephone call operators, who serve our users eight hours a day, five days a week; (ii) online communications with users through our website, www.kuaipan.cn/feedback.htm or e.kuaipan.cn; and (iii) for Kingsoft Kuaipan individual edition users, through kuaipan@kingsoft.com, and for Kingsoft Kuaipan Business Edition users, through ekuaipan@kingsoft.com. Users may complete and submit enquiries through both email addresses. For our enterprise customers, our customer service staff also conducts site visits and offers free testing and training services.

Suppliers

We depend on our suppliers to provide us with bandwidth and hosting services. The credit terms provided by our suppliers range from 60 days to 90 days. We typically settle our outstanding vendor invoices within 90 days from the date of the invoices. For the year ended 31 December 2013, our top five suppliers accounted for 22% of our total purchases and our single largest supplier accounted for approximately 9% of our total purchases.

Intellectual Property and Proprietary Rights

Our intellectual property rights are an essential element of our business operations. We rely on copyright, trademark, trade secret and other intellectual property law, as well as non-competition, confidentiality and licence agreements with our employees, suppliers, business partners and others to protect our intellectual property rights. Our employees are generally required to execute a standard employment contract, which includes a clause acknowledging that all inventions, trade secrets, works of authorship, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, it may be possible for third parties to obtain and use intellectual property that we own or licence without our consent. Unauthorised use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business. Our Directors cannot quantify the impact of each incident of infringement of our intellectual property rights, but can confirm that no single incident of infringement has had a material adverse impact on our Group.
As of 31 December 2013, we were the registered owner of 404 software copyrights, each of which we have registered with the State Copyright Bureau of the PRC. As of 31 December 2013, we had 287 registered domain names, including our official website and domain names registered in connection with each of the games we offer.

As of 31 December 2013, we owned 885 trademarks registered with the China Trademark Office, including “Kingsoft” in English and Chinese, and had approximately 492 trademark applications pending with the China Trademark Office. We have also registered 133 trademarks in overseas countries or regions such as United States, United Kingdom, Taiwan, Hong Kong, Singapore, Canada, France, Germany and Japan. As of 31 December 2013, we had 170 patents for our products and have 516 product-related patent applications pending in China. In addition, as of 31 December 2013, we had seven patents for our products in the United States and Japan and have 12 product-related patents applications pending in overseas countries.

Our intellectual property agents in China and overseas generally notify us when they become aware of any infringement of our intellectual property rights in China or overseas. We have not experienced and are not aware of any material infringement of our intellectual property rights overseas.

**Research and Development**

The internet security, office applications, interactive entertainment and cloud computing industries are characterised by rapid technological advances, changes in consumer requirements and frequent introduction of new products, services and platforms. Strong research and development capabilities and the ability to introduce new products and services and to enhance our existing products and services on a timely basis are crucial to our success. We intend to continue expanding our research and development team and to ensure that our research and development personnel have the relevant experience to support our internet security, office application, interactive entertainment and cloud computing initiatives. Our internet security research and development activities are primarily undertaken at our facilities in Beijing, Zhuhai, Guangzhou, Zhengzhou and Hangzhou.

For our WPS Office, we have a research and development center in Zhuhai and, in 2013, we have established a new development center in Beijing. In developing WPS Office, we have been following a multiple-platform strategy, whereby we try to enable WPS Office users to modify, transfer, review and protect their documents in all of their electronic devices. In the past three years, we have developed WPS Office for mobile devices using the Android operating system, and this Android version had 32 million monthly active users as of 31 December 2013. It is also listed as the number one office software in the Google Play business sector among our competitors. In addition, in our WPS Office’s spreadsheet and presentation function, we have newly designed the chart and diagram, which are now compatible with Microsoft Office 2010. Our current WPS Office research projects include WPS Office 2013 Professional Version V9, WPS Office for Linux, WPS Office for Android Version V6 and WPS Office for Apple iOS.

For our interactive entertainment business, we have four game design studios located in Zhuhai, Beijing, Chengdu and Dalian. Each of these game design studios has a different area of focus and is responsible for the overall research, development and testing of each product that it is assigned. Our game design studios are generally responsible for the following:

- **Zhuhai.** Swordsman games (such as the JX Online series) and mobile phone games;
- **Beijing.** Mythology games, such as the First Myth (封神榜) series and mobile phone games;
- **Chengdu.** Cartoon-style games, such as CQ (春秋Q傳) and Ma La Jiang Hu (麻辣江湖); and
- **Dalian.** First-person shooter games, such as Mission Against Terror (反恐行動) and Rush Team (熱血戰隊).

We actively encourage knowledge sharing among our game design studios through formal rotation programs for our experienced game design staff. Our subsidiary, Kingsoft Guangzhou, also operates a game design studio and is developing webpage games that are targeted towards game players.

In addition, we are currently developing four MMORPGs in-house, Hu Li San Guo (孤秦皇國), Mo Ri Tu Long (末日屠龍) and another two games temporarily named Liu Jie (六界) and Lie Mo Ying Xiong (鬍魔英雄). In preparation for the commercial launch of each new MMORPG, we conducted “closed beta testing” of the game with a select group of users to eliminate any technical problems. During this “closed beta testing” period, we operated the game under controlled conditions with a limited user base to test the receptivity of various game features. The user feedback gained was used to update and enhance the games. The “closed beta testing” was followed by “open beta testing”, during which we operated our games under open market conditions and closely monitored the performance, consistency and stability of operational systems for the game.

For our cloud computing, our research and development is primarily undertaken at our facilities in Beijing. We focus on developing our cloud storage and computing capabilities and enhancing the stability, security and size of our storage resources. We expect to continue working closely with Xiaomi and Skyworth TV, other smart TV manufacturers, www.letao.com and www.bitauto.com and other internet companies, to develop this line of business and offer enhanced products.

As of 31 December 2013, we had approximately 2,892 employees engaged in research and development activities. Most of our software programmers and testing engineers have undergraduate and/or graduate degrees. Our research and development costs, net of government grants were RMB303.8 million, RMB385.4 million and RMB596.5 million for the years ended 31 December 2011, 2012 and 2013, respectively. These amounts represented 29.8%, 27.3% and 27.4%, respectively, of our revenue in each of those periods.

**Employees**

As of 31 December 2013, we employed approximately 4,163 full-time employees, inclusive of all our staff in Mainland China and overseas offices, most of whom are based at the Company’s offices in Beijing, Zhuhai, Dalian and Chengdu. In compliance with the relevant PRC labour laws, we have entered into labour contracts with all of our full-time employees in the PRC.

We enter into a standard confidentiality and non-competition agreement with all employee stock option holders. These contracts include a covenant that prohibits each employee stock option holder from engaging in any activities that compete with our business during, and for no more than two years after, the period of their employment with our Company. We believe we have maintained a good working relationship with our employees and have not experienced any significant labour disputes or any difficulty in recruiting staff for our operations.

**Real Properties**

Our principal executive offices are located in approximately 17,175.04 and 26,824.55 square meters of office space owned by us in Beijing Kingsoft Tower in Beijing and Zhuhai Kingsoft Tower in Zhuhai, respectively. We lease approximately 10,284 square meters of office space in Beijing, approximately 3,451.03 square meters of office space in Chengdu, approximately 4,258 square meters of office space in Dalian, approximately 1,300.42 square meters in Guangzhou and an aggregate of approximately 1,709.78 square meters in Zhengzhou, Hangzhou, Zhuhai, Shenzhen,
Wuhan, Shenyang and Shanghai. We also established offices in Japan, Malaysia, Hong Kong and the United States to support our sales and marketing activities in those countries and regions. We lease an aggregate of approximately 950, 245, 142 and 44 square meters office space in Japan, Malaysia, Hong Kong and the United States, respectively. We believe that our existing facilities are adequate for our current requirements, and we believe that additional space can be obtained on commercially reasonable terms to meet our future requirements. As of the date of this Offering Circular, our offices had a total gross floor area of approximately 66,383.82 square meters. We do not anticipate any difficulty in renewing our leases upon their expiration.

Insurance

We do not carry any property insurance, product liability insurance or any business interruption insurance except for our automobiles, the machinery damage insurance and the property insurance for our office facilities in Beijing and Zhuhai. See “Risk Factors – Risks Relating to Our Business – We do not maintain adequate property and business insurance coverage.”

Legal Proceedings

From time to time, we may initiate legal proceedings in order to protect our contractual and property rights. Our intellectual property is subject to theft and other unauthorised use, and our ability to protect our intellectual property is limited. In addition, we may be subject to claims that we have infringed the intellectual property rights of others, as well as other litigation that may arise in the ordinary course of business. Moreover, our directors, officers and senior management has been and may, from time to time, be involved in legal proceedings in the future. However, as of the date of this Offering Circular, we are not involved in any litigation which would have a material adverse effect on our business, results of operations, financial condition or this offering of Bonds. There are no material legal proceedings, regulatory inquiries or investigations pending or, to our best knowledge, threatened against us.

Recent Developments

Proposed Spin-off and Listing of Cheetah Mobile

We submitted a spin-off application to the Hong Kong Stock Exchange on 20 December 2013 pursuant to Practice Note 15 of the Listing Rules for the spin-off listing of our information security software business on the NASDAQ or NYSE. The information security software business is currently carried on by Cheetah Mobile, a company incorporated in the Cayman Islands, and its subsidiaries. On 27 January 2014, Cheetah Mobile made its initial confidential filing with the SEC for the proposed initial public offering and listing of its securities on the NASDAQ or NYSE. Subsequently on 2 April 2014 (New York Time), Cheetah Mobile made its initial public filing with the SEC for the proposed initial public offering and listing of its securities on the NASDAQ or NYSE. Electronic public filings that Cheetah Mobile made are publicly available through the SEC’s website at www.sec.gov. We believe that these activities will help us to strengthen and accelerate the execution of our mobile strategy.

Subscription of Xunlei Series E Preferred Shares by King Venture

Our wholly owned subsidiary, King Venture entered into a share purchase agreement on 3 April 2014 with Xunlei and certain of its subsidiaries as specified therein, Vantage Point Global Limited, Aiden & Jasmine Limited, Morningside China TMT Special Opportunity Fund, L.P., Morningside China TMT Fund III Co-Investment, L.P. and IDG Technology Venture Investment V, L.P. Pursuant to the share purchase agreement, Xunlei agreed to issue an aggregate of 39,037,382 Xunlei Series E Preferred Shares at the purchase price of US$2.81781192 per Xunlei Series E Preferred Share, among which, King Venture agreed to subscribe for 31,939,676 Xunlei Series E Preferred Shares for a total consideration of US$90 million.
Upon completion of this subscription, we will own 31,939,676 Xunlei Series E Preferred Shares through King Venture, representing 29.03% of the total Xunlei Series E Preferred Shares in issue and 9.98% of the total outstanding shares of Xunlei assuming all preferred shares of Xunlei are converted into its common shares and all share options granted and to be granted under the share incentive plans of Xunlei are exercised.

If we consider it appropriate to do so, we may develop further business cooperation with Xunlei in the future.

Investors are advised to refer to our announcements published on the website of the Hong Kong Stock Exchange at http://www.hkex.com.hk for any future development with respect to our proposed spin-off and listing of Cheetah Mobile and subscription of Xunlei Series E Preferred Shares by King Venture after the date of this Offering Circular.