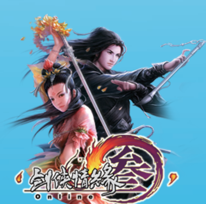
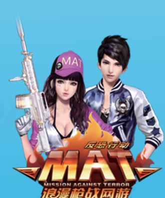
KINGSOFT®

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

KINGSOFT CORPORATION LIMITED
2013 ANNUAL REPORT

猎豹清理大師　　猎豹瀏覽器





WPS Office　　金山雲服務平台

Beijing / Zhuhai / Chengdu / Dalian / Japan / Malaysia / America

Kingsoft Corporation Limited

Contents

Corporate Information	2
Financial Highlights	4
Chairman's Statement	6
Management Discussion and Analysis	8
Directors and Senior Management	13
Corporate Governance Report	18
Directors' Report	28
Independent Auditors' Report	69
Consolidated Statement of Profit or Loss	70
Consolidated Statement of Comprehensive Income	71
Consolidated Statement of Financial Position	72
Consolidated Statement of Changes in Equity	74
Consolidated Statement of Cash Flows	75
Statement of Financial Position	77
Notes to Financial Statements	78

CORPORATE INFORMATION

Legal Name of the Company

Kingsoft Corporation Limited (the "Company")

Stock Code

03888

Date of Listing

9 October 2007

Head Office and Principal Place of Business

Kingsoft Tower No.33, Xiaoying West Road

Haidian District

Beijing 100085

PRC

Principal Place of Business in Hong Kong

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

Registered Office

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman KY1-1108

Cayman Islands

Executive Directors

Mr. HongJiang ZHANG

Mr. Yuk Keung NG

Mr. Tao ZOU

Non-executive Directors

Mr. Jun LEI (Chairman)

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

Independent Non-executive Directors

Mr. Guangming George LU

Ms. Wenjie WU

Mr. David Yuen Kwan TANG

Audit Committee

Ms. Wenjie WU

Mr. Guangming George LU

Mr. David Yuen Kwan TANG

Remuneration Committee

Mr. Guangming George LU

Mr. Jun LEI

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Nomination Committee

Mr. Guangming George LU

Mr. Chi Ping LAU

Ms. Wenjie WU

Board Secretary/Company Secretary

Mr. Yuk Keung NG

Authorised Representatives

Mr. Pak Kwan KAU

Mr. Yuk Keung NG

Principal Share Registrar and Transfer Office

Appleby Trust (Cayman) Ltd.

Clifton House

75 Fort Street

P.O. Box 1350 GT George Town

Grand Cayman KY1-1108

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17/F.

Hopewell Centre

183 Queen's Road East

Hong Kong

Auditors

Ernst & Young

Certified Public Accountants

22th Floor, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

Legal Advisers on Hong Kong law

Baker & Mckenzie

23rd Floor, One Pacific Place 88 Queensway

Hong Kong

Principal Bankers

Industrial and Commercial Bank of China (Asia) Limited

Bank of Communications Co., Ltd. — Hong Kong Branch

China Construction Bank — Shangdi Branch

Hang Seng Bank (China) Limited

The Bank of East Asia, Limited

The Bank of East Asia (China) Limited — Beijing Branch

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

Australia and New Zealand Bank (China) Company Limited Beijing Branch

China Merchants Bank Beijing — Beijing Dayuncun sub-branch

Bank of Communications — Zhuhai Jida Branch

Investor and Media Relations

Tel: (86) 10 82325515

Fax: (86) 10 82335757

Email: ir@kingsoft.com

Website: www.kingsoft.com

FINANCIAL HIGHLIGHTS

Consolidated Statement of Profit or Loss

	Year ended 31 December				
	2009 RMB'000	**2010 RMB'000**	**2011 RMB'000**	**2012 RMB'000**	**2013 RMB'000**
Revenue:					
Online game	684,242	640,917	689,519	851,402	**1,095,913**
Application software	338,170	330,480	326,098	544,064	**1,055,716**
Others	—	—	4,891	15,695	**21,640**
	1,022,412	971,397	1,020,508	1,411,161	**2,173,269**
Cost of revenue	(128,467)	(130,998)	(147,812)	(186,939)	**(297,104)**
Gross profit	893,945	840,399	872,696	1,224,222	**1,876,165**
Research and development costs, net of government grants	(199,611)	(271,046)	(303,848)	(385,409)	**(596,491)**
Selling and distribution expenses	(171,634)	(129,216)	(125,873)	(234,115)	**(382,848)**
Administrative expenses	(101,630)	(111,143)	(127,498)	(147,954)	**(192,245)**
Share-based compensation costs	(41,312)	(42,119)	(17,266)	(48,472)	**(61,387)**
Other income and gains	26,867	31,528	44,051	28,609	**45,949**
Other expenses	(2,598)	(38,203)	(10,747)	(22,971)	**(7,263)**
Operating profit	404,027	280,200	331,515	413,910	**681,880**
Fair value (loss)/gain on financial instruments at fair value through profit or loss	—	13,785	(1,973)	16,010	**(10,355)**
Gain on disposal of an associate	—	105,189	—	—	**—**
Gain on disposal of a subsidiary	—	—	—	—	**47,452**
Finance income	25,523	33,162	65,130	97,973	**129,462**
Finance costs	—	(721)	(3,461)	(8,702)	**(24,466)**
Share of profits and losses of:					
Joint ventures	(6,952)	(6,360)	(1,945)	9,532	**4,827**
Associates	25,715	14,433	(4,070)	(930)	**(3,748)**
Profit before tax	448,313	439,688	385,196	527,793	**825,052**
Income tax expense	(59,459)	(65,155)	(50,162)	(61,359)	**(71,178)**
Profit for the year	388,854	374,533	335,034	466,434	**753,874**
Attributable to:					
Owners of the parent	387,224	372,480	324,729	432,589	**670,746**
Non-controlling interests	1,630	2,053	10,305	33,845	**83,128**
	388,854	374,533	335,034	466,434	**753,874**
Proposed final and special dividends	141,575	376,000	92,241	102,132	**109,387**
	RMB	RMB	RMB	RMB	**RMB**
Earnings per share attributable to ordinary equity holders of the parent					
Basic	0.3638	0.3416	0.2886	0.3785	**0.5812**
Diluted	0.3368	0.3213	0.2790	0.3715	**0.5519**

Consolidated Statement of Financial Position (Selected items)

	As at 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
Cash and cash equivalents	1,268,098	1,656,157	1,953,770	2,416,259	**4,481,188**
Credit-linked deposit	—	—	—	—	**—**
Pledged deposit	—	—	85,000	19,000	**19,588**
Assets of a disposal group classified as held for sale	—	—	—	200,621	**—**
Total assets	2,040,870	2,444,813	3,014,519	3,641,269	**5,804,333**
Total equity	1,604,310	1,934,061	2,213,120	2,674,932	**3,830,691**

Consolidated Statement of Cash Flows (Selected Items)

	Year ended 31 December				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
Net cash flows from operating activities	446,874	391,336	451,768	555,946	**938,124**
Net cash flows (used in)/from investing activities	(503,721)	390,305	(616,353)	(1,063,120)	**(44,019)**
Net cash flows from/(used in) financing activities	(153,411)	464	179,199	9,943	**1,121,716**
Net increase/(decrease) in cash and cash equivalents	(210,258)	782,105	14,614	(497,231)	**2,015,821**

CHAIRMAN'S STATEMENT

2013 was a critical year of transformation for Kingsoft. If the year 2012 was marked by the transformation of Kingsoft into an internet company, then the year 2013 would be the first year when we started to transform our core businesses into mobile businesses. We continue to see a rapid growth in our mobile monthly active users ("MAU"), posted over 210 million in December 2013, which is a significant milestone in our mobile strategy.

Business Review

In 2013, all of our three major business lines delivered outstanding performance. JX Online III, a flagship game of our online game business, recorded a revenue growth of 92%, following a 99% growth in the year 2012, which significantly outpaced the growth rate of MMO gaming market in China. Mobile MAU of Kingsoft Internet Software Holdings Limited ("KIS")* has increased almost 4 folds from 46 million in March 2013 to 166 million in December 2013. It took only six months for Clean Master, a mission-critical utility application to reach 84 million MAU in December 2013 from 13 million in June 2013. Clean master was the #1 Chinese-published application excluding games on Google Play in terms of monthly downloads in January 2014 according to App Annie Limited ("App Annie"). In December 2013, over 50% of our mobile MAU were from overseas markets. KIS is now the #1 mobile application publisher in the Google Play Tools category based on worldwide downloads in January 2014 according to App Annie and the #2 internet security software provider in China according to iResearch as of December 2013. In the fourth quarter, approximately 11% of KIS revenue came from mobile services, representing a fast and strong ramp-up of KIS mobile monetization capabilities, compared with approximately 8% in the third quarter of 2013. Also, our global MAU of WPS mobile office has also expanded quickly to 34 million in December 2013 from 13 million a year ago.

I am extremely pleased with the outstanding results, particularly the great success of Clean Master in the global market, the expansion of Kingsoft footprints in new markets and the substantial progress we have achieved in KIS mobile monetization. These trends showcase that Kingsoft has embraced a right set of strategies and successfully adopted the internet trends and methodologies. The measures we have taken since 2011, focusing on core businesses and user experiences, adopting MBOs, and shifting to mobile internet services, have all paid off. As we continue to execute our strategy and business plan, we believe we are well positioned for tremendous opportunities for gaming and mission critical applications brought by the explosive growth of mobile internet.

We are thrilled to deliver a 54% annual growth in our revenue in 2013, well above the 38% annual revenue growth in 2012. All of our three major business lines have set new records in terms of revenue and operating metrics.

With a more than doubled year-over-year growth rate, KIS achieved an all-time record revenue of approximately RMB700.0 million in the year of 2013. This strong growth momentum was supported by the significant increase in traffic from Duba.com personal start page, Cheetah Browser, and the tremendous growth of its game platform. Through our persistent efforts, there were more than 400 games on the KIS game platform in December 2013. Revenue from KIS internet value added services ("IVAS") for the year increased 3,367% to RMB83.2 million from RMB2.4 million a year ago. We believe that the evolution of KIS game platform will further enhance our monetization capabilities in the coming years.

The past year marked another year of strong growth for KSO. Revenue from Kingsoft WPS Office for the year of 2013 grew 47% year-over-year to RMB288.8 million, 51% of which came from enterprise users. In August 2013, the Chinese State Council issued a policy on government agencies to use genuine software in order to improve IPR protection. Both office and antivirus software have been put on the routine software purchase list of the Chinese government agencies. We believe that this policy represents a milestone in the IPR protection history, and it will benefit our enterprise businesses in the long run, especially Kingsoft WPS Office. In the past year, we have completed milestone contracts with globally renowned financial institutions, which manifest the high quality and competiveness of our product and services, and also signal our deeper and broader penetration to the enterprise markets. In addition, we are glad to see that online marketing revenue from WPS is becoming our growth catalyst supported by the expanded user traffic of WPS Personal Edition.

In the year of 2013, online game business continued to grow at an annual rate of 29%, which outpaced the growth rate of MMO gaming market in China. Revenue of our flagship game, JX Online III, following an annual revenue growth of 99% in 2012, increased 92% year-over-year to RMB456.7 million with the release of a series of expansion packs in 2013. In November 2013, JX Online III achieved a new record in terms of revenue and APA with the launch of a new expansion pack. The revenue of MAT for the year of 2013 also increased 43% year-over-year to RMB88.6 million. The significant

* *The name of Kingsoft Internet Software Holdings Limited has been changed to Cheetah Mobile Inc. on 25 March 2014. All references to Kingsoft Internet Software Holdings Limited or KIS in this annual report shall mean Cheetah Mobile Inc.*

revenue growth of JX online III and MAT in the past two years demonstrated the success of our strategy to provide better than expected game experiences and services through consistent efforts in games' innovation and development. In February 2014, Westhouse introduced Xiaomi Ventures Limited ("Xiaomi") as its strategic investor. Having Xiaomi as a shareholder and an important business partner, Westhouse will benefit in the development of our mobile game business in the coming years.

We have expanded into enterprise data storage services and cloud storage platform services in 2013. The growth of user base of Kingsoft Cloud accelerated to 52 million in December 2013 through product innovation and strategic collaboration with Xiaomi and smart TV producers.

In 2013, we have included globally renowned fund and internet companies as strategic investors of our major subsidiaries, and the Company issued Convertible Bonds of HKD1,356.0 million in July 2013. On 27 January 2014, KIS made its initial confidential filing with the U.S. Securities and Exchange Commission for the proposed initial public offering and listing of its securities on the NASDAQ Global Market or the New York Stock Exchange. We believe that these activities will help us to strengthen and accelerate the execution of our mobile strategy.

Prospects

Looking forward, KIS will continue to invest aggressively in product innovation and big data analytic research, in order to expand its worldwide user penetration in both PC and mobile internet markets. On the PC end, we expect revenue from online marketing and web game operation to keep its strong growth momentum, supported by the expanded user base of Duba.com personal start page, Cheetah Browser, as well as broader collaboration with our business partners. On the mobile end, Clean Master will maintain its strong growth momentum to be KIS' flagship mobile application as it continues to deliver innovative and better than expected mobile experiences. Also, leveraging the fast development of mobile internet market, the user base of Cheetah Browser, Battery Doctor, and other KIS mobile applications will continue to expand rapidly. We are excited to see the promising and rapid growth in mobile game and marketing revenue, mainly supported by the soaring user base of KIS mission critical mobile applications. We expect that KIS mobile platform will continue to attract user activities, game developers, and business partners, so the revenue from KIS mobile monetization will become our growth catalyst in the coming years.

JX Online III, a leading domestic 3D MMO game, will maintain its growth momentum as we continue to provide innovative and improved of service and game experiences to its players. A number of expansion packs for JXs and MAT will be launched in 2014 to further enhance the games experience, and to stimulate and consolidate our gaming population. For now, more than five mobile games are under full swing development, of which two to three games are in the pipeline for release. We expect that the revenue from our online game business will achieve double-digits growth rate in 2014.

We expect that the enterprise sales from Kingsoft Office will maintain its strong growth momentum benefitting from the improved IPR protection policies and user experiences. In addition, Kingsoft Office will actively explore the monetization of its free user traffic of WPS Personal Edition, and this will become a growth catalyst for Kingsoft Office in the coming year. More importantly, Kingsoft Office will focus and invest aggressively on the mobile office applications, and expand its worldwide mobile user base.

Looking ahead, Kingsoft will continue to invest heavily in mobile and cloud services. As discussed above, we expect the top line of the Group to maintain its fast growth momentum and to reach new high in 2014. Kingsoft will always embrace the internet trends and strive to deliver products and services that exceed users' expectations. We are confident that, by focusing on products and services innovation, exceptional user experiences, and being responsive to the fast changing market, we will continue to increase shareholders' value in the coming years.

Jun Lei
Chairman

The PRC, 18 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	31 December 2013	**30 September 2013**	**30 June 2013**	**31 March 2013**	31 December 2012	30 September 2012	30 June 2012	31 March 2012
Online Games								
Daily Average Peak Concurrent Users	**632,171**	**614,263**	**616,285**	**631,098**	633,084	611,474	615,221	6 31,485
Monthly Average Paying Accounts	**1,869,433**	**1,791,194**	**2,002,414**	**1,768,190**	1,650,636	1,524,761	1,459,883	1,330,868
Monthly Average Revenue per Paying User (RMB)	**49**	**48**	**43**	**47**	48	46	47	47

For the Year Ended 31 December 2013

The following table sets forth the comparative numbers for the years ended 31 December 2013 and 31 December 2012, respectively.

	Year ended 31 December	
	2013 RMB'000 (Audited)	2012 RMB'000 (Audited)
Revenue		
Online game	**1,095,913**	851,402
Application software	**1,055,716**	544,064
Others	**21,640**	15,695
	2,173,269	1,411,161
Cost of revenue	**(297,104)**	(186,939)
Gross profit	**1,876,165**	1,224,222
Research and development costs, net of government grants	**(596,491)**	(385,409)
Selling and distribution expenses	**(382,848)**	(234,115)
Administrative expenses	**(192,245)**	(147,954)
Share-based compensation costs	**(61,387)**	(48,472)
Other income and gains	**45,949**	28,609
Other expenses	**(7,263)**	(22,971)
Operating profit	**681,880**	413,910
Fair value (loss)/gain on financial instruments at fair value through profit or loss	**(10,355)**	16,010
Gain on disposal of a subsidiary	**47,452**	—
Finance income	**129,462**	97,973
Finance costs	**(24,466)**	(8,702)
Share of profits and losses of:		
Joint ventures	**4,827**	9,532
Associates	**(3,748)**	(930)
Profit before tax	**825,052**	527,793
Income tax expense	**(71,178)**	(61,359)
Profit for the year	**753,874**	466,434
Attributable to:		
Owners of the parent	**670,746**	432,589
Non-controlling interests	**83,128**	33,845
	753,874	466,434
Earnings per share attributable to ordinary equity holders of the parent	**RMB (Audited)**	**RMB (Audited)**
Basic	**0.5812**	0.3785
Diluted	**0.5519**	0.3715

Revenue

Revenue for the year of 2013 increased 54% year-over-year to RMB2,173.3 million. Approximately 50% of the revenue was generated from the online game and 49% of the revenue was generated from the application software.

— Online game

Revenue from the online game for the year of 2013 increased 29% year-over-year to RMB1,095.9 million. The significant increase was primarily attributable to the continued rapid growth in revenue from JX Online III. The revenue from JX Online III almost doubled that of 2012 driven by the Company's continuous optimization and innovation of the game through expansion packs.

— Application Software

Revenue from the application software business for the year of 2013 increased 94% year-over-year to RMB1,055.7 million. The strong increase was mainly attributable to: i) the strong growth in revenue from online marketing and game platform of KIS as a result of strengthened monetization capability; ii) the emerging and accelerated growth of mobile marketing revenue and mobile game operation revenue as a result of initial success of KIS mobile monetization; and iii) strong sales of WPS Office stimulated by favorable IPR protection environment and emerging value-added revenue derived from the monetization of free user traffic of Kingsoft WPS Office.

Cost of Revenue and Gross Profit

Cost of revenue for the year of 2013 increased 59% year-over-year to RMB297.1 million. The increase was largely due to higher staff costs and bandwidth and server costs associated with: i) the strengthened operation team of KIS; and ii) the rapidly growing of user traffic across three major business.

Gross profit for the year of 2013 increased 53% year-over-year to RMB1,876.2 million. The Group's gross profit margin decreased by one percentage point year-over-year to 86%.

Research and Development ("R&D") Costs

R&D costs, net of government grants, for the year of 2013 increased 55% year-over-year to RMB596.5 million. This was primarily due to an increase in headcount and related staff costs resulting from our increased investment in mobile business and cloud-based data analytics engines.

The following table sets forth a breakdown of R&D costs for the year ended 31 December 2013 and 2012

	Year ended 31 December	
	2013	**2012**
	RMB'000	**RMB'000**
Staff costs	**466,005**	317,122
Depreciation & Amortisation	**39,389**	31,313
Others	**93,141**	54,718
	598,535	403,153
Less: Capitalised software costs (excluding share-based compensation costs)	**(9,368)**	(13,839)
Add: Amortisation of capitalised software costs	**14,674**	8,926
Less: Government grants for research and development activities	**(7,350)**	(12,831)
Total	**596,491**	385,409

Selling and Distribution Expenses

Selling and distribution expenses for the year of 2013 increased 64% year-over-year to RMB382.8 million. The increase was primarily due to higher marketing and promotion expenses to accelerate the expansion of global user base of mobile applications of KIS.

Administrative Expenses

Administrative expenses for the year of 2013 increased 30% year-over-year to RMB192.2 million. This was primarily attributable to higher staff costs and professional fees.

Share-based Compensation Costs

Share-based compensation costs for the year of 2013 increased 27% year-over-year to RMB61.4 million. The increase was mainly due to the options and awarded shares of certain subsidiaries granted in 2013 as we continued to strengthen our technology, product development and management capabilities.

Other Income and Gains

Other income and gains for the year of 2013 increased 61% year-over-year to RMB45.9 million. The increase was primarily attributable to certain amount of deferred government grants relating to a WPS project funded by HEGAOJI recognised in 2013 upon completion of final inspection.

Other Expenses

Other expenses for the year of 2013 decreased 68% year-over-year to RMB7.3 million.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the year of 2013 increased 61% year-over-year to RMB743.3 million as a result of the combination of above reasons. The margin of operating profit before share-based compensation costs increased by one percentage point year-over-year to 34%.

Finance Income

Finance income for the year of 2013 increased 32% year-over-year to RMB129.5 million.

Income Tax Expense

Income tax expenses for the year of 2013 increased 16% year-over-year to RMB71.2 million. The Group's effective tax rate decreased by three percentage points year-over-year to 9%. The decrease was primarily due to that certain subsidiaries of the Group were identified as the national key software enterprises and entitled to the preferential income tax policy.

Profit attributable to Owners of the Parent

For the reasons described above, profit attributable to owners of the parent for the year of 2013 increased 55% year-over-year to RMB670.7 million.

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

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

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

Profit attributable to owners of the parent before share-based compensation costs for the year of 2013 increased 52% year-over-year to RMB716.9 million.

The profit margin excluding the effect of share-based compensation costs for the year of 2013 decreased by one percentage point year-over-year to 33%.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 December 2013, the Group had major financial resources in the forms of cash and cash equivalent and time deposits with initial term of over three months amounting to RMB2,677.2 million and RMB1,803.9 million, respectively, which totally represented 77% of the Group's total assets.

As at 31 December 2013, the Group's gearing ratio, which represents total liabilities divided by total assets, was 34%, compared to 27% as at 31 December 2012. As at 31 December 2013, the Group had HKD1,319.7 million (equivalent of RMB1,037.6 million) debt of convertible bonds, USD12.8 million (equivalent of RMB78.0 million) debt of preferred shares of a subsidiary and HKD20.0 million (equivalent of RMB15.7 million) bank loan.

Foreign Currency Risk Management

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

As at 31 December 2013, RMB1,107.0 million of the Group's financials assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Deferred Revenue

Deferred revenue (including current and non-current portion) as at 31 December 2013 was RMB233.6 million compared to RMB199.7 million as at 31 December 2012. The increase was primarily due to the increased sales of prepaid cards in the year of 2013.

Net Cash Generated from Operating Activities

Cash generated by the operating activities reflects the Group's profit for the year, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalized software costs, and share-based compensation costs, as well as the effect of changes in certain items of statement of financial position, such as deferred revenue, other payables and accruals.

Net cash generated by operating activities was RMB995.6 million and RMB555.9 million for the years ended 31 December 2013 and 31 December 2012, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, property, land use right, fixed assets and intangible assets. Cash used for capital expenditures was RMB135.1 million and RMB84.8 million for the years ended 31 December 2013 and 31 December 2012, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Hong Jiang ZHANG, aged 53, is an executive director and the CEO of the Company, he is also the chief executive officer of Kingsoft Cloud, an independent subsidiary of the Company. Before joining the Company he was the chief technology officer for Microsoft Asia-Pacific Research and Development Group (ARD) and the managing director of the Microsoft Advanced Technology Center (ATC) and Microsoft Distinguished Scientist (DS). In his dual role, Dr. ZHANG led Microsoft's research and development agenda in China, including strategy, planning, R&D and incubation for products, services and solutions. Dr. ZHANG was also a member of Executive Management Committee of Microsoft (China) Limited, a committee that defines and leads Microsoft's strategy and business development in the Greater China region.

Dr. ZHANG was the deputy managing director and a founding member of Microsoft Research Asia. His outstanding leadership and achievement, illustrated by the high impact he made in academia and Microsoft's products, was critical in establishing Microsoft Research Asia into a world class basic research center in computer science, and a technology powerhouse in Microsoft, and has made him one of the 10 Microsoft Distinguished Scientists.

As a Fellow of the Institute of Electric and Electronic Engineers (IEEE) and Association of Computing Machines (ACM), Dr. ZHANG is well known in the research community for his leadership in media computing and his pioneering work in video and image content analysis and search. He was the recipient of the 2010 IEEE Computer Society Technical Achievement Award, 2012 ACM SIGMM Outstanding Technical Achievement Award, and the winner of 2008 "Asian-American Engineer of the Year" award. He holds close to 200 US and international patents, and has authored four books, and over 400 scientific papers, many of which have become classic references in their respective research areas.

Dr. ZHANG received a Ph.D. in Electrical Engineering from the Technical University of Denmark, and a Bachelor of Science degree from Zhengzhou University, China. Prior to joining Microsoft, Dr. ZHANG was a research manager at Hewlett-Packard Labs at Palo Alto, CA. He also worked at the Institute of Systems Science, National University of Singapore.

Dr. ZHANG became the CEO of the Company in October 2011 and has been an executive director of our Company since 14 December 2011.

Dr. ZHANG is also a director of certain subsidiaries of our Group.

Yuk Keung NG, aged 49, is currently an executive director and the chief financial officer of the Company. Mr. NG graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences in 1988 and obtained a Master of Science degree in Global Business Management and E-commerce in 2002. Mr. NG is a professional accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales.

Mr. NG has more than twenty years of experience in financial management, corporate finance and merger and acquisition. Before joining the Company, Mr. NG was the Executive Director, Chief Financial Officer and Company Secretary of China NT Pharma Group Company Limited, a major pharmaceutical company listed on the Stock Exchange (Stock Code: 1011). Mr. NG worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. From 2001 to 2003, Mr. NG was the Chief Financial Officer of International School of Beijing, an academic institution in Beijing, China. In 2003, Mr. NG joined Australian Business Lawyers, a law firm in Australia and was later appointed as a special consultant in 2004 responsible for advising on accounting matters. From 2004 to 2006, Mr. NG was the deputy Chief Financial Officer, a joint Company Secretary and the Qualified Accountant of IRICO Group Electronics Company Limited (Stock Code: 438), a company listed on the Stock Exchange. From 2006 to 2010, Mr. NG was the Vice President and the Chief Financial Officer of China Huiyuan Juice Group Ltd. (Stock Code: 1886), a company listed on the Stock Exchange. Mr. NG is also currently an independent non-executive director of Sany Heavy Equipment International Holdings Company Limited (Stock Code: 631), and also an independent non-executive director and the chairman of the audit committee of Beijing Capital Land Limited (Stock Code: 2868), Winsway Coking Coal Holdings Limited (Stock Code: 1733) and Zhongsheng Group Holdings Limited (Stock Code: 881), all of these companies are listed on the Stock Exchange. From 2007 to 2011, Mr. NG was also an independent non-executive director of Xinjiang Xinxin Mining Industry Company Limited (Stock Code: 3833), a company listed on the Stock Exchange.

Mr. NG was appointed as the chief financial officer of the Company in 2012 and became an executive director with the Company from 1 March 2013. Mr. NG is also a director of certain subsidiaries of the Company.

Tao ZOU, aged 38, is currently a senior vice president and the chief executive officer of Westhouse Holdings Limited who is responsible for the overall management of Westhouse Holdings Limited and its subsidiaries of our Group, including the research and development of online games of Westhouse Studios and also participates in major decision making of our Group's gaming business sector. Mr. ZOU graduated from Tianjin Nankai University in 1997. Mr. ZOU joined us in 1998 and was responsible for the development of our Kingsoft PowerWord. Mr. ZOU has been responsible for our entertainment software business since 2004. Mr. ZOU became a senior vice president of the Group in December 2007 and has been an executive director of our Company since August 2009.

Mr. ZOU is also a director of certain subsidiaries of our Group.

Non-executive Directors

Jun LEI, aged 44, is a non-executive Director, the Chairman of the Board, a member of the remuneration committee, and co-founder of our Company. Mr. LEI has been employed by us since 1992 and has played a key role in developing the operation of our Group and expanding our business operations. He had been our CEO since 1998, and under his leadership, we further expanded application software businesses into utilities software, Internet security software and online games. He also played a major role in transforming our Group from a traditional software company into an on demand software company which extensively utilizes the Internet. In December 2007, Mr. LEI relinquished his position as CEO, chief technology officer and president of the Company. In August 2008, Mr. LEI was re-designated from an executive director to a non-executive director. Mr. LEI was appointed as the Chairman of the Board of our Company on 5 July 2011. On 28 July 2011, Mr. LEI was appointed as the chairman of the remuneration committee of our Company and subsequently with effect from 30 March 2012, Mr. LEI ceased to be the chairman of the remuneration committee, but remains as a member of the remuneration committee. Mr. LEI is also a director of certain subsidiaries of our Group.

Mr. LEI co-found Xiaomi Corporation with other partners in 2010, and has taken the position of chairman and CEO. Mr. LEI is the chairman of YY Inc. (NASDAQ:YY) which was listed on NASDAQ in November 2012. Mr. LEI was co-founder of Joyo.com, which was founded in April 2000 and sold to Amazon.com in 2004. Mr. LEI was named "2013 Economic Influentials" by China central television CCTV.

Mr. LEI graduated from Wuhan University in 1991 with a bachelor degree in Computer Science. He has been a member of the board of Wuhan University since 2003.

Mr. LEI is also a famous angel investor in China.

Pak Kwan KAU, aged 49, was re-designated from an executive director to a non-executive director of our Company with effect from 24 October 2011. Mr. KAU has been employed by us since 1988. He graduated from National Defense University of Science and Technology in China in 1984 with a bachelor degree in Information Management Systems. Between 1984 and 1987, Mr. KAU worked at various Chinese companies as a software developer.

Mr. KAU started Kingsoft Software in 1988, and he was primarily responsible for the development of WPS 1.0 in 1988. Mr. KAU was named as one of the Top Ten Business Persons of the Year in 2000, one of the China Top Financial Figures of the Year in 2001 by CCTV, one of the Ten Most Influential Leaders in China's Games Industry at the inaugural China Game Industry Annual Conference in January 2005, and one of the Most Outstanding Entrepreneurs at 2009 China Game Industry Annual Conference held in December 2009. Mr. KAU has never held directorship in any other listed public companies. Mr. KAU was appointed as an acting CEO of the Company in December 2007. He was the CEO of the Company from May 2008 to 24 October 2011 when he resigned from the post. Mr. KAU was the Chairman of the board of our Company until 5 July 2011.

Mr KAU is also a director of certain subsidiaries of our Group.

Chi Ping LAU, aged 40, is a non-executive director and a member of the nomination committee of the Company. He is also an executive director and president of Tencent Holdings Limited ("Tencent") (a company listed on the Stock Exchange, Stock Code: 700), a substantial shareholder of the Company. He joined Tencent in 2005 as a chief strategy and investment officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, he was promoted as president of Tencent to manage the day-to-day operation of Tencent. In 2007, he was appointed as an executive director of Tencent. Prior to Tencent, he was an executive director at Goldman Sachs (Asia) L.L.C's investment banking division and a chief operating officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant.

Mr. LAU received his Bachelor of Science Degree in Electrical Engineering from the University of Michigan, a Master of Science Degree in Electrical Engineering from Stanford University and a MBA from Kellogg Graduate School of Management, Northwestern University. Mr. LAU was appointed as a non-executive director of the Company on 28 July 2011.

Independent Non-executive Directors

Guangming George LU, aged 49, is an independent non-executive director of our Company. He is also a member of the audit committee, the chairman of the nomination committee, and the chairman of the remuneration committee of the Company. Mr. LU graduated from Huazhong Normal University in 1984 and obtained a master degree of science from the University of Memphis in 1989.

Mr. LU founded Surfmax Corporation in November 1997, a private investment firm in the U.S. From April 2004 to December 2010, Mr. LU served as the vice chairman of Xingda International Holdings Limited (a Surfmax portfolio investment) whose shares are listed on the Stock Exchange. Mr. LU also currently serves as the chairman of 2020 Limited. From August 2006 to October 2009, Mr. LU served as the chairman and chief executive officer of a listed acquisition company — Exceed Company Limited (a 2020 portfolio investment), whose shares were listed on NASDAQ.

Since March 2008, Mr. LU has been the Chairman and group chief executive of Acquity Group Limited (a 2020 portfolio investment), whose shares were listed on NYSE, it was acquired in 2013 by Accenture and became a part of Accenture Digital, a leading digital practice in the world.

Mr. LU joined us in April 2007.

Wenjie WU, aged 39, is an independent non-executive director, the chairman of the audit committee and the member of the remuneration committee and the nomination committee of the Company. Ms. WU has been serving as the chief strategy officer of Ctrip.com International, Ltd. ("Ctrip.com", Stock Code: CTRP), a company listed on NASDAQ and China's leading online travel services provider, since November 2013. Ms. WU joined Ctrip.com as deputy CFO in December 2011, then promoted to CFO in May 2012 and CSO in November 2013. Prior to joining Ctrip.com, Ms. WU was an equity research analyst covering China Internet and Media industries in Morgan Stanley Asia Limited and in Citigroup Global Markets Asia Limited from 2005 to 2011. Prior to that, Ms. WU worked for China Merchants Holdings (International) Company Limited (Stock Code: 0144), a company listed on the Stock Exchange for three years.

Ms. WU has a Ph.D. degree in finance from the University of Hong Kong, a Master's degree in philosophy in finance from the Hong Kong University of Science and Technology, and both a Master's degree and a Bachelor's degree in economics from Nan Kai University, China. Ms. WU has been a Chartered Financial Analyst (CFA) since 2004.

David Yuen Kwan TANG, aged 59, is an independent non-executive director of our Company. He is also a member of the Audit Committee and Remuneration Committee of the Company. Mr. TANG holds a Master degree in Business Administration at the California State University, Fullerton and a Bachelor's degree in Computer Science and Engineering at the California State University, Long Beach.

Mr. TANG has over 25 years of experience in the IT industry in the global market and in the China market in the areas of sales, marketing, business development, research and development and manufacturing. Mr. TANG is a well-known business leader in China and has held various positions such as the Vice President of the European Union Chamber of Commerce in China, the Vice Chairman of the China Association of Enterprises with Foreign Investment and the Vice President of the Beijing Chamber of International Commerce. Over the years, Mr. TANG has been widely recognized in the industry and was awarded the title of "Best Professional Manager of the Decade ("十年最佳職業經理人")" by China's CEO & CIO magazine. Mr. TANG has been responsible for the management of businesses up to an annual sales turnover of USD7 billion. Mr. TANG also has worked as a consultant at UCWeb and Ganji.

Mr. TANG is currently the independent director of YY. He is also the partner and the managing director of Nokia Growth Partner ("NGP") which is a venture capital firm and he has been responsible for investment in businesses in China. Prior to joining NGP, Mr. TANG was appointed as the Corporate Senior Vice President and the President of Greater China of AMD (Greater China is the largest region of AMD with sales, marketing, research and development and manufacturing operations). During 2004 to 2010, Mr. TANG held a number of position in Nokia, including the Vice Chairman and the Vice President of Sales in Greater China. Mr. TANG was also appointed as the Chairman of Nokia Telecommunications Limited (諾基亞通信有限公司) which is a joint venture established by Nokia in China. In addition, Mr. TANG held senior positions at Apple.Inc, 3Com, DEC and AST.

Senior Management

Hong Jiang ZHANG, aged 53, is an executive director and the CEO of the Company, he is also the chief executive officer of Kingsoft Cloud, an independent subsidiary of the Company. Before joining the Company he was the chief technology officer for Microsoft Asia-Pacific Research and Development Group (ARD) and the managing director of the Microsoft Advanced Technology Center (ATC) and Microsoft Distinguished Scientist (DS). In his duals role, Dr. ZHANG led Microsoft's research and development agenda in China, including strategy, planning, R&D and incubation for products, services and solutions. Dr. ZHANG was also a member of Executive Management Committee of Microsoft (China) Limited, a committee that defines and leads Microsoft's strategy and business development in the Greater China region.

Dr. ZHANG was the deputy managing director and a founding member of Microsoft Research Asia. His outstanding leadership and achievement, illustrated by the high impact he made in academia and Microsoft's products, was critical in establishing Microsoft Research Asia into a world class basic research center in computer science, and a technology powerhouse in Microsoft, and has made him one of the 10 Microsoft Distinguished Scientists.

As a Fellow of the Institute of Electric and Electronic Engineers (IEEE) and Association of Computing Machines (ACM), Dr. ZHANG is well known in the research community for his leadership in media computing and his pioneering work in video and image content analysis and search. He was the recipient of the 2010 IEEE Computer Society Technical Achievement Award, 2012 ACM SIGMM Outstanding Technical Achievement Award, and the winner of 2008 "Asian-American Engineer of the Year" award. He holds close to 200 US and international patents, and has authored four books, and over 400 scientific papers, many of which have become classic references in their respective research areas.

Dr. ZHANG received a Ph.D. in Electrical Engineering from the Technical University of Denmark, and a Bachelor of Science degree from Zhengzhou University, China. Prior to joining Microsoft, Dr. ZHANG was a research manager at Hewlett-Packard Labs at Palo Alto, CA. He also worked at the Institute of Systems Science, National University of Singapore.

Dr. ZHANG became the CEO of the Company in October 2011 and has been an executive director of our Company since 14 December 2011.

Dr. ZHANG is also a director of certain subsidiaries of our Group.

Yuk Keung NG, aged 49, is currently an executive director and the chief financial officer of the Company. Mr. NG graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences in 1988 and obtained a Master of Science degree in Global Business Management and E-commerce in 2002. Mr. NG is a professional accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales.

Mr. NG has more than twenty years of experience in financial management, corporate finance and merger and acquisition. Before joining the Company, Mr. NG was the Executive Director, Chief Financial Officer and Company Secretary of China NT Pharma Group Company Limited, a major pharmaceutical company listed on the Stock Exchange (Stock Code: 1011). Mr. NG worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. From 2001 to 2003, Mr. NG was the Chief Financial Officer of International School of Beijing, an academic institution in Beijing, China. In 2003, Mr. NG joined Australian Business Lawyers, a law firm in Australia and was later appointed as a special consultant in 2004 responsible for advising on accounting matters. From 2004 to 2006, Mr. NG was the deputy Chief Financial Officer, a joint Company Secretary and the Qualified Accountant of IRICO Group Electronics Company Limited (Stock Code: 438), a company listed on the Stock Exchange. From 2006 to 2010, Mr. NG was the Vice President and the Chief Financial Officer of China Huiyuan Juice Group Ltd. (Stock Code: 1886), a company listed on the Stock Exchange. Mr. NG is also currently an independent non-executive director of Sany Heavy Equipment International Holdings Company Limited (Stock Code: 631), and also an independent non-executive director and the chairman of the audit committee of Beijing Capital Land Limited (Stock Code: 2868), Winsway Coking Coal Holdings Limited (Stock Code: 1733) and Zhongsheng Group Holdings Limited (Stock Code: 881), all of these companies are listed on the Stock Exchange. From 2007 to 2011, Mr. NG was also an independent non-executive director of Xinjiang Xinxin Mining Industry Company Limited (Stock Code: 3833), a company listed on the Stock Exchange.

Mr. NG was appointed as the chief financial officer of the Company in 2012 and became an executive director with the Company from 1 March 2013. Mr. NG is also a director of certain subsidiaries of the Company.

Tao ZOU, aged 38, is currently a senior vice president and the chief executive officer of Westhouse Holdings Limited who is responsible for the overall management of Westhouse Holdings Limited and its subsidiaries of our Group, including the research and development of online games of Westhouse Studios and also participates in major decision making of our Group's gaming business sector. Mr. ZOU graduated from Tianjin Nankai University in 1997. Mr. ZOU joined us in 1998 and was responsible for the development of our Kingsoft PowerWord. Mr. ZOU has been responsible for our entertainment software business since 2004. Mr. ZOU became a senior vice president of the Group in December 2007 and has been an executive director of our Company since August 2009.

Mr. ZOU is also a director of certain subsidiaries of our Group.

Sheng FU, aged 36, is currently a senior vice president and the chief executive officer of Kingsoft Internet Securities Software Holdings Limited who is responsible for the overall business of Kingsoft internet security business sector. Mr. Fu joined the Company in November 2010. Mr. Fu was the product manager of 3721 Internet Real Name and 3721 Internet Assistant, as well as the general manager of 360 Security Guard. He was the vice president of Matrix Partners China from November 2008, and chief executive officer and chairman of Conew Network Technology (Beijing) Co., Ltd. from September 2009. Mr. Fu has become a senior vice president of the Group since March 7, 2011. Mr. Fu graduated from the faculty of Information Management and Information System in Shandong Institute of Business and Technology in 1999.

Mr. Fu is also a director of certain subsidiaries of our Group.

Ke GE, aged 41, is currently a senior vice president of the Group, and the chief executive officer of Kingsoft Application Software Holdings Limited. Mr. Ge joined us in 1999 and was appointed as the assistant to our general manager in 1999. He was the chief officer in our distribution department from 2000 to 2001. He was appointed assistant president in 2001 and had overall responsibilities for our internal operations and management. He was appointed vice president in 2002, and became a senior vice president of the Company in December 2007, in charge of overall office software business of the Company. Mr. Ge graduated from the Electronic Science and Engineering Department of Nanjing University and worked at Founder Information System Engineering Company from 1995 to 1999, focusing on software development and software sales management.

Mr. Ge is also a director of certain subsidiaries of the Group.

CORPORATE GOVERNANCE REPORT

OVERVIEW OF CORPORATE GOVERNANCE PRACTICES

The Company and its subsidiaries (the "Group" or "Kingsoft") is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in Corporate Governance Code and Corporate Governance Report (the "Code") contained in Appendix 14 to the Listing Rules, except for code provision A.6.7 and C.1.2 of the Code.

Code provision A.6.7 of the Code is regarding non-executive directors' attendance to general meetings. Non-executive directors Mr. Pak Kwan KAU and Mr. Chi Ping LAU did not attend the annual general meeting of the Company held on 23 May 2013 as they were traveling at that time due to other engagements. Non-executive directors Mr. Chi Ping LAU, and independent non-executive directors Mr. To Thomas HUI and Mr. Chuan WANG did not attend the extraordinary general meeting held on 27 February 2013 due to previously arranged engagements. Non-executive directors Mr. Pak Kwan KAU and Mr. Chi Ping LAU, and independent non-executive directors David Yuen Kwan TANG and Ms. Wenjie WU did not attend the extraordinary general meeting held on 27 June 2013 due to previously arranged engagements. Code provision C.1.2 of the Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive directors overseeing the daily operation of the Group and the effective communication between the executive directors, the management and the non-executive directors (including the independent non-executive directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

The following is a summary of work performed by the Board in determining the policy for the corporate governance of the Company during the year ended 31 December 2013:

(1) Developed and reviewed the Company's policies and practices on corporate governance;

(2) Reviewed and monitored the training and continuous professional development of Directors and senior management;

(3) Reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements;

(4) Developed, reviewed and monitored the code of conduct and compliance manual applicable to employees and Directors; and

(5) Reviewed the Company's compliance with the Code and disclosure in the corporate governance report.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Code.

BUSINESS MODEL AND STRATEGY

The Group always endeavours to enhance its enterprise value, ensure the Company's long-term and stable development and benefit its shareholders and other stakeholders. The Group emphasises on long term business growth instead of short term reward by focusing on innovation and R&D to continue improving products and services. The discussion and analysis of the Group's performance for the year ended 31 December 2013 are set out on pages 8 to 12 under Management Discussion and Analysis of this annual report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Director of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code").

Specific enquiry has been made of all the Directors and each of the Directors has confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2013 and up to the date of this annual report. The designated senior management of the Company also has adopted the Model Code.

Details of security interests in the Company held by the Directors are set out in the paragraph headed "Directors' and Chief Executive's Interests in Securities" under the section of Directors' Report of this annual report.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Guidelines") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Guidelines by the employees of the Group was noted by the Company during the year ended 31 December 2013.

THE BOARD

The Responsibilities of the Board

The Board is the core function of the Company's corporate governance structure. The principal responsibilities of the Board are to set an overall framework of corporate governance within which the management conducts business and to monitor the Group's operations. The Company's overall framework of corporate governance contains many internal guidelines, internal control policies and procedures that have been formed over the years. The Board has delegated the authority and responsibility for the Group's daily management and operation to senior management of the Group which is under the supervision of the chief executive officer ("CEO") who reports to the Board.

The Board has formulated a clear written policy that stipulates the circumstances under which the management should report and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board regularly reviews our corporate governance practices and updates them as and when appropriate.

The Board oversees specific areas affecting the interests of all shareholders including the execution of resolutions, annual budget, formulation of major decisions for operations, financial proposals and policies, the Company's management system, recommendation/declaration of dividend or other distributions, notifiable and connected transactions under the Listing Rules, recommendation on appointment or reappointment of auditors and other significant operational and financial matters.

The Board is responsible for the preparation of financial statements, so that such financial statements meet the requirements of laws and regulations and applicable accounting standards, and truly and fairly reflect the financial position, the operating results and cash flows of the Group for each reporting period. The Directors also ensures the timely publication of the Group's financial statements. In preparing the financial statements for the year ended 31 December 2013, the Directors adopted appropriate accounting policies and made fair and reasonable judgments and estimates, and the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue on a going concern basis. The external auditors' responsibilities to shareholders are set out in the Independent Auditors' Report on page 69 of this annual report.

Composition of the Board

As at the date of this annual report, the Board of Directors comprises nine Directors with three executive Directors, three non-executive Directors and three independent non-executive Directors. The independent non-executive Directors constitute one-third of the Board members which complies with rule 3.10A of the Listing Rules and are possessing appropriate professional qualifications or accounting or related financial management expertise. All of the independent non-executive Directors of the Company act in diligent manner to uphold the interests of the Company and the shareholders by maintaining the independence of their opinions and providing professional advice on the long-term development of the Company.

The Company has received, from each of the independent non-executive Directors, a written annual confirmation of his/her independence to the Company pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

A list of Directors, their respective biographies and their relationship with others, if any, are set out on pages 13 to 17 of this annual report. Save for the disclosure in the biographies of the Directors set out on pages 13 to 15 of this annual report, there is no other relationship among the Board members to the best knowledge of the Board as at the date of this annual report.

During the year ended 31 December 2013, the Board comprises the following Directors:

Executive Directors:

Mr. HongJiang ZHANG

Mr. Yuk Keung NG (appointed on 1 March 2013)

Mr. Tao ZOU

Non-executive Directors:

Mr. Jun LEI

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

Independent Non-executive Directors:

Mr. To Thomas HUI (resigned on 6 May 2013)

Mr. Guangming George LU

Mr. David Yuen Kwan TANG (appointed on 6 May 2013)

Mr. Chuan WANG (resigned on 1 March 2013)

Ms. Wenjie WU (appointed on 1 March 2013)

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

On 1 March 2013, the Board considered and approved the resignation of Mr. Chuan WANG as an independent non-executive Director, the appointment of Ms. Wenjie WU as an independent non-executive Director, and the appointment of Mr. Yu Kenung NG as an executive Director, all taking effect from 1 March 2013.

On 6 May 2013, the Board considered and approved the resignation of Mr. To Thomas HUI as an independent non-executive Director and the appointment of Mr. David Yuen Kwan TANG as an independent non-executive Director, both taking effect from 6 May 2013.

Supply of and Access to Information and Resource

All the Directors have direct access to the legal counsels. Written procedures are also in place for Directors to seek, at the Company's expenses, independent professional advice in performing their duties. The Company has arranged appropriate insurance to cover the liabilities of the Directors arising from corporate activities. The insurance coverage is reviewed on an annual basis. The management supplies the Board and its committees with adequate, complete and reliable information in a timely manner to enable them to make informed decisions.

Continuing Development

Every newly appointed Director of the Company has received a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he/she has a proper understanding of the operations and business of the Company and that he/she is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

Pursuant to the applicable code provisions as set out in the "Code", all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2013, all Directors namely, the executive Directors Mr. HongJiang ZHANG, Mr. Yuk Keung NG (appointed on 1 March 2013) and Mr. Tao ZOU; the non-executive Directors Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Chi Ping LAU; and the independent non-executive Directors Mr. To Thomas HUI (resigned on 6 May 2013), Mr. Guangming George LU, Mr. David Yuen Kwan TANG (appointed on 6 May 2013), Mr. Chuan WANG (resigned on 1 March 2013) and Ms. Wenjie WU (appointed on 1 March 2013) have participated in continuous professional development by attending training course or external seminars to develop and refresh their knowledge and skills in relation to their contribution to the Board.

During the year ended 31 December 2013, the company secretary of the Company ("Company Secretary") has taken no less than 15 hours of relevant professional training in compliance with rule 3.29 of the Listing Rules.

Board Meetings

The Board meets at least 4 times a year at approximately quarterly intervals to review the financial performance of the Group, internal re-organisation plans, the overall group strategy and operations with active participation of the majority of Directors. Certain regular Board meetings held during the year ended 31 December 2013 were convened with at least 14 days' notice, in compliance with code provision A.1.3 of the Code. The Company adopted a flexible approach in convening Board meetings and ensuring that sufficient time and adequate information were given to Directors in advance.

A regular meeting does not include the practice of obtaining the consent of the Board through the circulation of written resolutions. For any ad hoc Board meetings, our Directors are given as much notice as is reasonable and practicable under the circumstances. Senior managements are invited to attend Board meetings from time to time to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for drafting meeting agenda and obtaining comments from all Directors and approval of meeting agenda by the Chairman, preparing and circulating meeting materials that contain analysis and background information to all meeting attendees at least 3 days in advance, drafting minutes of meetings of the Board and Board committees and obtaining comments from all Directors and approval of the meetings minutes by the Chairman. The approved meetings minutes are open for inspection by the Directors within reasonable advance notice.

The articles of association of the Company (the "Articles of Association") contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall not be dealt with by way of circulation or by a committee (except an appropriate Board committee set up for that purpose pursuant to a resolution passed at a Board meeting) but a Board meeting shall be held. Independent non-executive Directors who have no material interest in the transaction should be present and vote at such Board meeting.

Directors' Attendance Records

There were 5 Board meetings held during the year ended 31 December 2013. The attendance records of each Director at the Board meetings during the year of 2013 are set out below:

Name of Director	Attendance/Number of meetings
Executive Directors	
Mr. HongJiang ZHANG	5/5
Mr. Yuk Keung NG (appointed on 1 March 2013)	5/5
Mr. Tao ZOU	5/5
Non-Executive Directors	
Mr. Jun LEI	5/5
Mr. Pak Kwan KAU	5/5
Mr. Chi Ping LAU	5/5
Independent Non-executive Directors:	
Mr. To Thomas HUI (resigned on 6 May 2013)	1/1
Mr. Guangming George LU	5/5
Mr. Chuan WANG (resigned on 1 March 2013)	0/0
Ms. Wenjie WU (appointed on 1 March 2013)	5/5
Mr. David Yuen Kwan TANG (appointed on 6 May 2013)	4/4

There were 3 general meetings held during the year ended 31 December 2013. For the general meeting held on 27 February 2013, Mr. Pak Kwan KAU and Mr. Guangming George LU attended and Mr. Jun LEI, Mr. HongJiang ZHANG, Mr. Tao ZOU Mr. Chi Ping LAU, Mr. To Thomas HUI and Mr. Chuan WANG were absent from the meeting. For the general meeting held on 23 May 2013, Mr. Jun LEI, Mr. HongJiang ZHANG, Mr. Yuk Keung NG, Mr. Tao ZOU, Mr. Guangming George LU, Mr. David Yuen Kwan TANG and Ms. Wenjie WU attended and Mr. Pak Kwan KAU and Mr. Chi Ping LAU were absent from the meeting. For the general meeting held on 27 June 2013, Mr. HongJiang ZHANG, Mr. Yuk Keung NG and Mr. Guangming George LU attended and Mr. Jun LEI, Mr. Tao ZOU, Mr. Pak Kwan KAU, Mr. David Yuen Kwan TANG, Ms. Wenjie WU and Mr. Chi Ping LAU were absent from the meeting.

Chairman and Chief Executive Officer

The Company fully supports the division of responsibility between the Chairman of the Board and the CEO to ensure a balance of power and authority. Their respective responsibilities are clearly defined and set out in writing. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. The CEO focuses on implementing objectives, policies and strategies approved and delegated by the Board. As at the date of this annual report, the posts of Chairman and CEO of the Company were held by Mr. Jun LEI and Mr. HongJiang ZHANG, respectively, and there is a clear division of power and responsibility between them.

Appointment and Re-election

All the Directors including the non-executive Directors have either service contracts or formal letters of appointments setting out the major terms and conditions of their appointment. Their terms are fixed for three years.

The Company may from time to time elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at the meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting. According to the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every 3 years. A retiring Director shall be eligible for re-election at the general meeting of the Company, at which a Director who retires may fill the vacated office.

BOARD COMMITTEES

The Board has established four specialized Board committees to oversee key aspects of its affairs, namely audit committee (established on 3 September 2007), (the "Audit Committee"), remuneration committee (established on 3 September 2007), (the "Remuneration Committee"), nomination committee (established on 3 September 2007), (the "Nomination Committee"), and strategy committee (established on 20 December 2007), (the "Strategy Committee").

Written terms of reference of our Audit Committee, Remuneration Committee and Nomination Committee cover their respectively specific role, authority and functions, which are available on our website. The Audit Committee, Remuneration Committee and Nomination Committee mainly consist of the independent non-executive Directors and non-executive Directors.

In order to discharge their dedicated functions, each of our Board committees is provided with sufficient resources, including the provision of external advisors such as financial advisors and valuation firms, to provide professional advice as required at our cost.

The following lists out the membership, responsibilities and the summary of work that the Audit Committee, Remuneration Committee and Nomination Committee performed on behalf of the Board during the financial year:

Audit Committee

Membership and Responsibilities

During the year ended 31 December 2013, our Audit Committee comprised of three independent non-executive Directors, namely Mr. To Thomas HUI (resigned as chairman and member of the Audit Committee on 6 May 2013), Mr. David Yuen Kwan TANG (appointed as member of the Audit Committee on 6 May 2013), Mr. Guangming George LU, Mr. Chuan WANG (resigned as member of the Audit Committee on 1 March 2013) and Ms. Wenjie WU (appointed as member of the Audit Committee on 1 March 2013 and appointed as chairman of the Audit Committee on 6 May 2013). In compliance with rule 3.21 of the Listing Rules, both Mr. To Thomas HUI and Ms. Wenjie WU of the Audit Committee possess the appropriate professional qualifications or accounting or related financial management expertise. None of the Audit Committee members is a member of the previous or existing auditors of the Company.

The terms of reference of our Audit Committee sets out its authority, responsibilities, membership and frequency of meetings. The primary duties of the Audit Committee include:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- approving the remuneration and terms of engagement of the external auditors, and resignation or dismissal of the auditors;
- reviewing and monitoring the external auditor's independence, the objectivity and the effectiveness of the audit process in accordance with applicable standard, and reviewing financial information of the Company;
- reviewing the effectiveness and adequacy of the Company's financial reporting system, internal control procedures and risk management system;
- assessing work performed by the Company's internal audit team, and the adequacy of resources, qualifications and experience of the accounting staff of the Company;
- assisting our Board in supervising the truthfulness and completeness of the Company's financial statements;
- reviewing the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response; and
- maintaining a whistle blower system to identify and prevent frauds against the Company.

Summary of principal work performed

Principal work performed by the Audit Committee during the year ended 31 December 2013 includes reviewing and/or approving:

- the Company's unaudited quarterly results, interim consolidated financial statements and audited annual consolidated financial statements, with its recommendations to the Board;
- the accounting principles, policies and practices adopted by the Group;
- annual internal audit plan of the Group and quarterly review of internal audit and business control;
- annual audit plan of the Group and review of quarterly external audit progress report;
- the effectiveness of the internal control systems adopted by the Company;
- all connected transactions and continuing connected transactions of the Group;
- the independence, authorities and resource of the internal and external auditors; and
- the terms of engagement and fees of the Company's external auditors.

Meetings attendance

The Audit Committee held 4 meetings during the year ended 31 December 2013, the attendance records of each member of the Audit Committee are set out below:

Members	Attendance/ Number of meetings held
Mr. To Thomas HUI (resigned on 6 May 2013)	1/1
Mr. Guangming George LU	4/4
Mr. Chuan WANG (resigned on 1 March 2013)	0/0
Ms. Wenjie WU (appointed on 1 March 2013)	4/4
Mr. David Yuen Kwan TANG (appointed on 6 May 2013)	3/3

Remuneration Committee

Membership and Responsibilities

The Remuneration Committee currently consists of four Directors with three of them being independent non-executive Directors, namely, Mr. Guangming George LU (chairman of the Remuneration Committee), Mr. To Thomas HUI (resigned as member of Remuneration Committee on 6 May 2013), Mr. David Yuen Kwan TANG (appointed as member of the Audit Committee on 6 May 2013), Mr. Chuan WANG (resigned as member of Remuneration Committee on 1 March 2013), Ms. Wenjie WU (appointed as member of the Remuneration Committee on 1 March 2013) and Mr. Jun LEI.

The primary duties of the Remuneration Committee mainly include assisting the Board to formulate overall remuneration policy and structure for the Company's Directors and senior management personnel and establish formal and transparent procedures for developing such remuneration policy; review and determination of the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration policy is set to attract, motivate and retain highly performing individuals who are essential to the success of the Company. The emolument package for the executive Directors, the senior managers and key personnels includes basic salary, benefits in kind, pension rights, performance bonus and incentive stock options. The non-executive Directors and independent non-executive Directors receive director's fees.

The basic salary and director's fees depend on individual's experience, responsibilities and relevant market rate. The bonus depends on actual performance of the Company's targets and individual performance. Details for the stock option scheme and the share award scheme (the "Share Award Scheme") can be found under the subtitle of "Share Option Schemes" and "Share Award Scheme" in the Directors' Report. The awarded shares are offered to qualified employees to reward them for their high level of performance and foster loyalty with the Group. The information regarding the remuneration of the Directors during the year ended 31 December 2013 is set out in note 8 to the financial statements. When a meeting is convened to discuss certain Directors' remuneration, the Directors in discussion cannot determine his own remuneration.

Summary of principal work performed

During the year ended 31 December 2013, the Remuneration Committee performed the following summary of work:

- Reviewed and approved the service contracts and remuneration packages (including year-end bonuses, awarded shares and share options) of our executive Directors and senior management;
- Reviewed and recommended director's fee for non-executive Directors and independent non-executive Directors; and
- Reviewed and recommended performance bonus scheme of the Company to the Board.

Meetings attendance

There were 3 meetings of the Remuneration Committee held during the year ended 31 December 2013. The attendance records of each member of the Remuneration Committee are set out below:

Members	Attendance/ Number of meetings held
Mr. To Thomas HUI (resigned on 6 May 2013)	2/2
Mr. Guangming George LU	3/3
Mr. Chuan WANG (resigned on 1 March 2013)	0/0
Ms. Wenjie WU (appointed on 1 March 2013)	3/3
Mr. David Yuen Kwan TANG (appointed on 6 May 2013)	1/1
Mr. Jun LEI	3/3

Nomination Committee

Membership and Responsibilities

The Nomination Committee comprises three members, namely Mr. Guangming George LU (chairman of the Nomination Committee), Mr. Chuan WANG (resigned as a member of the Nomination Committee on 1 March 2013), Mr. Chi Ping LAU and Ms. Wenjie WU (appointed as a member of the Nomination Committee on 1 March 2013) the majority of them are independent non-executive Directors.

The Nomination Committee is accountable to the Board and regularly reports its work. The primary duties of the Nomination Committee are mainly to lead the process for board appointments, review the structure and composition of the Board regularly, identify and nominate suitable candidates for appointment to our Board, assess the independence of our independent non-executive Directors, and make recommendations to the Board on matters relating to succession planning for Directors, particularly the Chairman and the CEO.

Summary of principal work performed

The following is a summary of work performed by the Nomination Committee during the year ended 31 December 2013:

- Recommended candidates for the position of independent non-executive Directors;
- Reviewed the structure, size and composition of the Board, reviewed the Company's policies on nomination of Directors and its committees and make recommendations regarding any proposed changes; and
- Reviewed and assessed each independent non-executive Director's annual confirmation of independence pursuant to rule 3.13 of the Listing Rules.

Meetings attendance

There were 2 meetings of the Nomination Committee held during the year ended 31 December 2013. The attendance records of each member of the Nomination Committee are set out below:

Members	Attendance/ Number of meetings held
Mr. Guangming George LU	2/2
Mr. Chuan WANG (resigned on 1 March 2013)	0/0
Mr. Chi Ping LAU	2/2
Ms. Wenjie WU (appointed on 1 March 2013)	2/2

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

Ernst & Young, Certified Public Accountants, Hong Kong, were engaged as the Company's external auditors for the year ended 31 December 2013. External auditors may provide certain non-audit services to the Group as long as these services do not involve any management or decision making functions for and on behalf of the Group; or performing any self-assessments; or acting in an advocacy role for the Group. Before any engagement with external auditor for non-audit services, external auditors must comply with the independence requirements under Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 69 of this annual report.

During the year ended 31 December 2013, the remunerations paid or payable to Ernst & Young regarding to the audit and non-audit services (together with the comparative figures for 2012) are set out as follows:

	2013 RMB' Mil	2012 RMB' Mil
Audit services	**6.03**	6.91
Non-audit services	**3.06**	2.34
Total	**9.09**	9.25

INTERNAL CONTROL

Our internal control system is designed to provide reasonable assurance in safeguarding our shareholders' investment and assets, improving corporate governance and risk management, preventing and detecting frauds and irregularities, providing reliable financial information, and ensuring compliance with applicable law and regulations. The Board acknowledges its responsibility to ensure the Company to maintain a solid, complete and effective internal control system and to monitor the effective implementation of such system. The Company has established an integrated framework of internal controls which is consistent with the COSO (the Committee of Sponsoring Organizations of the Treadway Commission) framework.

The Company's internal control framework covers the setting of objectives, budgets and targets; the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets; the delegation of authority; and the establishment of clear lines of accountability. Well defined policies and procedures that are properly documented and communicated to employees are essential to the internal control system. Over the past few years, within its internal control framework, the Company has formulated manuals, implemented systems and adopted rules in relation to internal control, which are available on the Company's intranet. The Company's employees receive training of its code of conduct on a regular basis. The Company's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve our business objectives, and aims at providing a reasonable, as opposed to an absolute, assurance in this respect.

While the management is responsible for the design, implementation and maintenance of internal control system, the Board and the Audit Committee oversee the actions of the management and monitor the effectiveness of the established controls. To assist the Audit Committee in its oversight and monitoring activities, the Company has set up an independent internal audit team (the "IA") that reports to the Audit Committee directly. The IA provides independent assessment as to the existence and effectiveness of the Company's internal control system, conducts independent investigations regarding allegations of fraud and violations of our business code of conduct, and advices on managing and controlling of risks. To enable the fulfillment of its mission, the IA has unrestricted access to all corporate operations, records, data files, computer programs, property and personnel. Under the COSO framework, the IA undertakes a periodical risk assessment of the Company's overall activities and prepares its audit plan focusing on areas of the Company's operations with the greatest perceived risks. In selecting auditing projects to perform each year, the IA uses information collected throughout the year from process owners, the risk assessment team, senior executives, external auditors and the board of directors. The Audit Committee reviews audit plan and receives at least quarterly updates on the progress. The IA also conducts subjective auditing projects in the operational areas which are material to the business or identified by the Audit Committee and/or senior management, results of which will be reported to the Audit Committee and senior management concerned. The IA will follow up with the implementation of audit recommendations. Any major internal control weaknesses and findings will be firstly reported to the Audit Committee whenever necessary. In addition, the IA maintains regular communications with our external auditors so that both parties are aware of the significant factors that may affect their respective scopes of work.

The Board believes that all the internal control policies and procedures have been properly designed and would enable the Company to strengthen the compliance of the overall monitoring system and thereby reduce its operational risk. Continuous monitoring and improvement of management procedures will be carried out to ensure effective internal control system to be in line with the growth of the Company's business. The Company has not suffered any material liability during the year under review resulting from the deficiencies in our internal control system.

The Board has reviewed the effectiveness of the system of internal control of the Group and considers the internal control systems effective and adequate. Such review also took into consideration the adequacy of resources, qualification and experience of staff of the Company's accounting and financial reporting function, as well as their training programs and budget.

COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

To promote effective communication, the Company maintains the website at www.kingsoft.com where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Latest information on the Group including annual and interim reports, announcements and press releases are updated on the Company's website in a timely fashion.

The Board endeavours to maintain an on-going dialogue with our shareholders and in particular, uses annual general meetings or other general meetings to communicate with our shareholders and encourage them to participate in these meetings. All annual general meeting materials including but not limited to circular, notice and proxy form will be sent to shareholders in time including all adequate information according to the Listing Rules. The 2013 annual general meeting of the Company ("AGM") will be held on 28 May 2014.

INVESTOR RELATIONS

Kingsoft establishes an investor relations team to promote open, ongoing and effective communications with shareholders, investors and equity analysts. We are committed to proactively provide the investment community with all necessary information in a timely manner so that participants in the investment community can make a fair investment decision.

During the year ended 31 December 2013, the Company's senior management presented its results in Hong Kong, New York, San Francisco, Singapore, Beijing, Shanghai, and various other cities. Through various activities such as analyst briefings, press conferences, conference calls and investor non-deal road shows, our senior management presented and answered the key issues of which investors were mainly concerned. In addition to regular one-on-one investor meetings, our senior management participated in a number of investor conferences held by major international investment banks in order to maintain active communications with global institutional investors. The Company's website, www.kingsoft.com, provides information of the Company such as financial, investor relations, corporate information and other latest information in a timely manner and is updated regularly.

SHAREHOLDERS' RIGHT

Procedures for shareholders to convene an Extraordinary General Meeting

Pursuant to article 64 of the Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Such a requisition must be signed by the shareholders.

Procedures for putting forward proposals at shareholders' meeting

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group to be discussed at shareholders' meeting. Proposal shall be sent to the Board or the Company Secretary by written requisition at the Company's principal place of business in Hong Kong at Unit 1309A, 13/F, Cable TV Tower, No.9 Hoi Shing Road, Tsuen Wan, N.T. Hong Kong or at the Company's headquarter in the PRC at Kingsoft Tower, No. 33, Xiaoying West Road, Haidian District, Beijing 100085, the PRC.

Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's share registrar. Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publically available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business office in Hong Kong at Unit 1309A, 13/F, Cable TV Tower, No.9 Hoi Shing Road, Tsuen Wan, N.T. Hong Kong or at the Company's headquarter in the PRC at Kingsoft Tower, No. 33, Xiaoying West Road, Haidian District, Beijing 100085, the PRC.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year ended 31 December 2013.

On behalf of the Board
Jun Lei
Chairman

The PRC, 18 March 2014

DIRECTORS' REPORT

The Board of the Company submits its report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013.

Principal Business

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise research and development of games, and provision of online games, mobile games and casual game services; research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices; and research, development and distribution of office application software, provision of cloud storage, cloud computation and dictionary services across devices, and provision of online marketing services. The analysis of the Group's revenues by operating segments and certain geographical information are set out in note 4 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss on page 70 of this annual report.

The state of affairs of the Group and the Company as at 31 December 2013 is set out in the consolidated statement of financial position on pages 72 to 73 of this annual report and in the statement of financial position on page 77 of the annual report respectively.

The consolidated statement of cash flows of the Group for the year is set out on page 75 to 76 of this annual report.

During the year, a final dividend for year 2012 of HKD0.11 per ordinary share, which excluded the dividend related to the shares held under the Share Award Scheme, was paid to shareholders on 19 June 2013.

The Directors recommend the payment of a final dividend of HKD0.12 per ordinary share (2012: HKD0.11 per ordinary share) totalling approximately HKD139 million (2012: HKD126 million), which excluded the dividend related to the shares held under the Share Award Scheme, based on the number of total issued shares of 1,180,633,633 as at 31 December 2013 in respect of the year to shareholders whose names appear on the register of members of the Company on 9 June 2014. Such proposed dividends will be subject to approval of the shareholders at the forthcoming AGM to be held on 28 May 2014. Such proposed dividends will be payable on 25 June 2014. This recommendation has been incorporated in the financial statements within the equity section of the statement of financial position.

For the year ended 31 December 2013, the Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

The register of members of the Company will be closed from Thursday, 22 May 2014 to Wednesday, 28 May 2014, and Wednesday, 4 June 2014 to Monday, 9 June 2014, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the forthcoming AGM and the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 21 May 2014 and Tuesday, 3 June 2014 respectively.

Reserves

For the year ended 31 December 2013, the profit attributable to owners of the parent company amounted to RMB670.7 million. The Company's reserves available for distribution comprise share premium and retained earnings. Under the Companies Law of the Cayman Islands, the Company's share premium account may be applied by the Company in paying distributions or dividend to shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2013, the Company had distributable reserves amounting to RMB698 million, calculated in accordance with any statutory provisions applicable in the Cayman Islands. Details of movements in the reserves of the Group and the Company during the year ended 31 December 2013 are set out in the consolidated statement of changes in equity on page 74 of this annual report, and in note 35 to the financial statements, respectively.

Donations

During the year, the Group made charitable and other donations totaling RMB3.7 million (2012: RMB50,000).

Retirement Schemes

We participate in government and other mandatory pension schemes for our employees in Mainland China and overseas. Particulars of these schemes are set out in note 2 to the financial statements.

Employee and Remuneration Policy

As at 31 December 2013, the Group employed approximately 4,163 full-time employees (2012: 2,916) inclusive of all its staff in Mainland China and overseas offices, most of whom are based at the Company's offices in Beijing and Zhuhai.

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

The staff costs of the Group including Directors' and senior management's emoluments in 2013 and 2012 were approximately RMB735.2 million and RMB517.7 million, respectively.

Please refer to note 7 to the financial statements for the share options and awarded shares granted to certain Directors and employees of the Group, note 8 to the financial statements for Directors' and senior executives' remuneration, and note 6 to the financial statements for the employee benefit expense.

Subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2013 are set out in note 34 to the financial statements.

Material Investment and Acquisition

No material investment incurred during 2013.

Details of the material acquisitions incurred during 2013 are set out in note 36 to the financial statement.

Financial Summary

A summary of the published results, assets, and liabilities of the Group for the last five financial years as extracted from the consolidated financial statements for the year ended 31 December 2009, 2010, 2011, 2012 and 2013, is set out as below. The summary does not form part of the audited financial statements.

	YEAR ENDED 31 DECEMBER				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
Profit for the year	388,854	374,533	335,034	466,434	**753,874**

	AS AT 31 DECEMBER				
	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000
Total assets	2,040,870	2,444,813	3,014,519	3,641,269	**5,804,333**
Total liabilities	436,560	510,752	801,399	966,337	**1,973,642**

Contract of Significance

Save as disclosed in the section of "Related Party Transactions and Connected Transactions" in Directors' Report, no other contracts of significance to which the Company, its ultimate holding company or its subsidiaries was a party and in which a Director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Bank Borrowings

Particulars of bank loans as at 31 December 2013 are set out in note 28 to the financial statements.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2013 are set out in note 13 to the financial statements. No assets of the Group are charged during the year ended 31 December 2013.

Future Plans for Material Investments or Capital Assets

Save as those disclosed in note 45 to the financial statements, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2013.

Principal properties

During the year, the Group has not held any properties for development and/or sale or for investment purposes which any of the percentage ratios exceeds 5%.

Share Capital

Details of the movements in share capital of the Company for the year ended 31 December 2013 are set out in note 33 to the financial statements.

Share Option Schemes

The Company adopted the 2004 and 2007 Pre-IPO Share Option Schemes which were approved by resolutions in writing of all the shareholders passed on 30 June 2004 and 22 January 2007. The 2011 Share Option Scheme was adopted by the Company and approved and effective on 9 December 2011. The share option scheme of Kingsoft Cloud Holdings Limited ("Kingsoft Cloud") ("2013 Kingsoft Cloud Share Option Scheme") was approved by the shareholders of the Company and adopted by Kingsoft Cloud on 27 February 2013, and was amended and refreshed on 27 June 2013. The share option scheme of Kingsoft Jingcai Online Game Holdings Limited ("Kingsoft Jingcai") ("2013 Kingsoft Jingcai Share Option Scheme") was approved by the shareholders of the Company and adopted by Kingsoft Jingcai on 27 February 2013. The share option scheme of Westhouse Holdings Limited ("Westhouse") ("2013 Westhouse Share Option Scheme") was approved by the shareholders of the Company and adopted by Westhouse on 27 June 2013. Details of these schemes and 2006–2007 Kingsoft Japan Share Option Scheme are stated in note 7 to the financial statements.

Details of the movements in share options of the Company for the year ended 31 December 2013 are set out in note 7 to the financial statements. During the year ended 31 December 2013, no share options have been granted under the 2011 Share Option Scheme and 2006–2007 Kingsoft Japan Share Option Scheme. During the year ended 31 December 2013, 52,900,000, 815,000 and 6,713,000 number of share options have been granted under the 2013 Kingsoft Cloud Share Option Scheme, 2013 Kingsoft Jingcai Share Option Scheme and 2013 Westhouse Share Option Scheme respectively, details of these granted share options were included in note 7 to the financial statements.

On 2 January 2014 (the "KIS Equity Incentive Scheme Adoption Date"), the shareholders of the Company approved an equity incentive scheme of Kingsoft Internet Software Holdings Limited ("KIS") (the "KIS Equity Incentive Scheme") for the purpose of aiding KIS and KIS Affiliates in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of KIS and its affiliates by providing incentives through the granting of awards, including but not limited to, the KIS Options.

On 2 January 2014, the shareholders of the Company approved a share option scheme of Kingsoft Japan Inc. ("Kingsoft Japan") (the "KJ Share Option Scheme") for the purpose of providing incentives or rewards to Kingsoft Japan Participants thereunder for their contribution to Kingsoft Japan and its subsidiaries and/or to enable Kingsoft Japan to recruit and retain high-calibre employees and attract human resources that are valuable to Kingsoft Japan, its subsidiaries and Kingsoft Japan Invested Entities.

Summary of The Share Option Schemes

	Detail	2004 Pre-IPO Share Option Scheme	2007 Pre-IPO Share Option Scheme	2006-2007 Kingsoft Japan Share Option Scheme	2011 Share Option Scheme	2013 Kingsoft Cloud Share Option Scheme	2013 Kingsoft Jingcai Share Option Scheme	2013 Westhouse Share Option Scheme
1	Purposes	To retain the best available personnel, to provide additional incentive to employees, senior management and directors of the Group and to promote the success of the business of the Group.	Same as 2004 Pre-IPO Share Option Scheme.	To enhance the operational efficiency of Kingsoft Japan and to provide additional incentive for its employees and other related persons.	To provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest.	To provide incentives or rewards to participants thereunder for their contribution to the Kingsoft Cloud Group and/or to enable the Kingsoft Cloud Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Kingsoft Cloud Group and any invested entity.	To provide incentives or rewards to participants thereunder for their contribution to the Kingsoft Jingcai Group and/or to enable the Kingsoft Jingcai Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Kingsoft Jingcai Group and any invested entity.	To provide incentives or rewards to participants thereunder for their contribution to the Westhouse Group and/or to enable the Westhouse Group to recruit and retain highcalibre employees and attract human resources that are valuable to the Westhouse Group and any invested entity.
2	Qualifying participants	Any employee (whether full time or part time), chief executive or director (including executive or non-executive or independent non-executive) of any member of the Group or any associated company, in which the Company directly or indirectly holds more than 20% of its issued share capital or the voting power at general meetings or in which any equity interest is held by the Company for long term purpose and a significant influence is exercised over its management, or such other person as may be determined by the Board from time to time.	Same as 2004 Pre-IPO Share Option Scheme	Not specified in the Scheme	Any employee (whether full time or part time), directors (including executive or non-executive or independent non-executive) of the Company, its subsidiaries or any entity in which the Group holds any equity interest.	Any employee(s) (whether full time or part time employee(s)) of Kingsoft Cloud, its subsidiaries or any invested entity.	Employee(s) (whether full time or part time employee(s)) of the Kingsoft Jingcai Group, Kingsoft Group or any invested entity.	Employee(s) (whether full time or part time employee(s)) of Westhouse, its subsidiaries or any invested entity.

	Detail	2004 Pre-IPO Share Option Scheme	2007 Pre-IPO Share Option Scheme	2006-2007 Kingsoft Japan Share Option Scheme	2011 Share Option Scheme	2013 Kingsoft Cloud Share Option Scheme	2013 Kingsoft Jingcai Share Option Scheme	2013 Westhouse Share Option Scheme
3	Maximum number of shares	The maximum number of ordinary shares in respect of which options may be granted under the 2004 Pre-IPO Share Option Scheme shall not in aggregate exceed 10% of the total number of ordinary shares in issue. On August 12, 2005, the shareholders approved that the maximum number of ordinary shares in respect of which options may be granted shall not in aggregate exceed 18% of the total number of ordinary shares in issue of 35,410,000. Pursuant to a Share Subscription and Purchase Agreement dated July 21, 2006 ("Agreement Date"), the aggregate of all options issued from the Agreement Date to an initial public offering shall not constitute more than 15% of the issued capital of the Company.	The maximum number of ordinary shares in respect of which options may be granted under the 2007 Pre-IPO Share Option Scheme shall not in aggregate exceed 13% of the total number of issued Shares on the fully diluted basis of inclusion of all of the issued and outstanding shares of the Company, as well as 6,373,800 options under the 2004 Pre-IPO Share Option Scheme.	The maximum number of the shares which may be issued upon exercise of all issued and outstanding options shall be 1,000 ordinary shares of Kingsoft Japan in aggregate.	The maximum number of shares which may be issued upon exercise of all share options to be granted under the 2011 Share Option Scheme and other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 9 December 2011.	The maximum number of options available for exercise is 123,250,000 of which 28,500,000 options were granted prior to 27 June, 2013 and 94,750,000 options may be granted after 27 June, 2013.	The total number of shares which may be issued upon exercise of all options to be granted under the scheme and any other share option schemes of Kingsoft Jingcai shall not in aggregate exceed 10 percent of the total number of Shares in issue on the adoption date.	The total number of shares which may be issued upon exercise of all options to be granted shall not in aggregate exceed 10 percent of the total number of shares in issue on the adoption date unless otherwise approved by the shareholders of the Company and Westhouse in general meeting.
4	Maximum entitlement of each participant	Not specified in the scheme	Not specified in the scheme	Not specified in the scheme	The maximum number of shares issuable under share options to each eligible participant in the 2011 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HKD5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.	Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person in the 12-month period up to and including the date of such further grant representing in aggregate over 1 percent of the total number of shares in issue, such further grant must be separately approved by the shareholders of the Company and Kingsoft Cloud in general meeting. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) (where the shares are listed on the Stock Exchange), having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders of the Company and Kingsoft Cloud.	The total number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period must not exceed 1 percent of the total number of shares in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) (where the shares are listed on the Stock Exchange), having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders of the Company and Kingsoft Jingcai.	The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1 percent of the total number of shares in issue, unless separately approved by the shareholders of the Company and Westhouse in general meeting with such participant and his associates abstaining from voting. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) (where the shares are listed on the Stock Exchange), having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders of the Company andWesthouse.
5	Option period	The period set out in the relevant offer letter within which the option may be exercisable provided that such period must expire on the date falling on the tenth anniversary of the offer date.	Same as 2004 Pre-IPO Share Option Scheme	(1) The option period of options granted on January 4, 2007 is from January 5, 2009 to November 1, 2016. (2) The option period of options granted on March 30, 2007 is from March 30, 2007 to March 30, 2017. (3) The option period of options granted on July 31, 2007 is from August 1, 2009 to November 1, 2016.	The period set out in the relevant offer letter to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme and that the board may at its discretion determine the minimum period for which the option has to be held before the exercise of the subscription right attaching thereto.	Such period as the board of Kingsoft Cloud may in its absolute discretion determine and notify to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the Scheme.	Such period as the board of Kingsoft Jingcai may in its absolute discretion determine and notify to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme and that the board of Kingsoft Jingcai may at its discretion determine the minimum period for which the option has to be held before the exercise of the subscription right attaching thereto.	Such period as the board of Westhouse may in its absolute discretion determine and notify to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme.

	Detail	2004 Pre-IPO Share Option Scheme	2007 Pre-IPO Share Option Scheme	2006-2007 Kingsoft Japan Share Option Scheme	2011 Share Option Scheme	2013 Kingsoft Cloud Share Option Scheme	2013 Kingsoft Jingcai Share Option Scheme	2013 Westhouse Share Option Scheme
6	Acceptance of offer	The offer of a grant of share options must be accepted within 28 business days from the date of offer, upon payment of a consideration of HKD1 in total by the grantee.	The offer of a grant of share options must be accepted within 28 business days from the date of offer.	Options shall be issued free	Same as 2004 Pre-IPO Share Option Scheme	As the board of Kingsoft Cloud may determine	As the board of Kingsoft Jingcai may determine	An offer of grant of an option may be accepted by a participant within a period of28 days from the offer date provided that no offer shall be open for acceptance after the expiry of the scheme or after the scheme has been terminated.
7	Subscription price	The exercise price shall be determined and notified by the Board and shall be at least a price being the fair market value for each Share as at the Offer Date as shall be determined by the Board from time to time.	The exercise price shall be determined and notified by the Board and shall be a price USD4.80 per share or a price being the fair market value for each Share as at the Offer Date as shall be determined by the Board from time to time.	Note	The exercise price shall be determined by the board, and shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.	The subscription price shall be determined by the board of Kingsoft Cloud but in any case the subscription price of options granted after Kingsoft Cloud or the Company has resolved to seek a separate initial public offering and up to date of Kingsoft Cloud's initial public offering must not be lower than the new issue price (if any) in the Kingsoft Cloud's initial public offering. In particular, any options granted during the period commencing six months before the lodgment of Form A1 (or its equivalent) up to the date of Kingsoft Cloud's initial public offering are subject to this requirement. The subscription price of options granted during such period shall be subject to adjustment to a price not lower than the new issue price in Kingsoft Cloud's initial public offering.	The subscription price shall be such price as determined by the board of Kingsoft Jingcai but in any case the subscription price of options granted after the Company or Kingsoft Jingcai has resolved to seek a separate listing on the Stock Exchange or an overseas stock exchange and up to the listing date of Kingsoft Jingcai must not be lower than the new issue price (if any). In particular, any options granted during the period commencing six months before the lodgement of Form A1 (or its equivalent) up to the listing date of Kingsoft Jingcai are subject to this requirement. The subscription price of options granted during such period shall be subject to adjustment to a price not lower than the new issue price.	The subscription price shall be such price as determined by the board of Westhouse but in any case the subscription price of options granted after Westhouse or the Company has resolved to seek a separate initial public offering and up to date of Westhouse's initial public offering must not be lower than the new issue price (if any) in the Westhouse's initial public offering. In particular, any options granted during the period commencing six months before the lodgment of Form A1 (or its equivalent) up to the date of Westhouse's initial public offering are subject to this requirement. The subscription price of options granted during such period shall be subject to adjustment to a price not lower than the new issue price in Westhouse's initial public offering.
8	Remaining life of the Scheme	It will expire on the tenth anniversary of the date on which the Scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the Scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the Scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.

Note:

The subscription price for option offered on January 4, 2007 and March 30, 2007 shall be ¥10,000 per share.

The subscription price for option offered on July 31, 2007 shall be ¥70,000 per share.

The Subscription Price shall be adjusted in accordance with the following formula, if after issuance of Options, Kingsoft Japan issues new shares at a price less than the last subscription price of its shares and it has not yet undergone initial public offering of its shares:

$$\text{Subscription price after adjustment} = \text{Subscription price before adjustment} \times \frac{\text{Number of issued shares} + \dfrac{\text{Number of shares to be newly issued or transferred} \times \text{Subscription amount or transfer price per share}}{\text{Last subscription price per share}}}{\text{Number of issued shares} + \text{Number of shares to be newly issued or transferred}}$$

Furthermore, in the case of any share split or consolidation of shares and reduction in paid in capital and in certain other cases, the Exercise Price may be adjusted appropriately.

Share Award Scheme

The Share Award Scheme was adopted by the Board on 31 March 2008 (the "Adoption Date"). Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of five years commencing on the Adoption Date. On 25 November 2010, the Board approved to extend the term of the Share Award Scheme until 30 March 2017, for which the Company released an announcement on 1 December 2010. During the year ended 31 December 2013, the Company granted 1,230,000 awarded shares.

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

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

More details regarding the Share Award Scheme are set out in note 7 to the financial statements.

Share Award Scheme adopted by KIS

On 26 May 2011 (the "KIS Adoption Date"), the directors of KIS, a subsidiary of the Company, approved and adopted a share award scheme (the "KIS Share Award Scheme"). Unless early terminated by the directors of KIS, the KIS Share Award Scheme shall be valid and effective for a term of ten years commencing on the KIS Adoption Date. During the year ended 31 December 2013, 14,945,000 shares were granted under the KIS Share Award Scheme.

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

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

More details regarding the KIS Share Award Scheme are set out in note 7 to the financial statements.

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

On 3 December 2012 (the "KOS Adoption Date"), the directors of KOS, a subsidiary of the Company, approved and adopted a share award scheme (the "KOS Share Award Scheme"), for the purpose of providing incentives and rewards to eligible participants, in which selected employees of KOS and its subsidiaries ("KOS Group") are entitled to participate. Unless early terminated by the directors of KOS, the KOS Share Award Scheme shall be valid and effective for a term of ten years commencing on the KOS Adoption Date. The directors of KOS will not grant any award of shares which would result in the total number of shares (but not counting any which have lapsed or have been forfeited) being greater than 50,000,000 shares, as at the date of such grant. During the year ended 31 December 2013, 300,000 shares were granted under the KOS Share Award Scheme.

More details regarding the KOS Share Award Scheme are set out in note 7 to the financial statements.

Share Award Scheme adopted by Kingsoft Cloud

On 22 February 2013 (the "KC Adoption Date"), the directors of Kingsoft Cloud approved and adopted a share award scheme (the "KC Share Award Scheme") for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud Group are entitled to participate. Unless early terminated by the directors of Kingsoft Cloud, the KC Share Award Scheme shall be valid and effective for a term of ten years commencing on the KC Adoption Date. The directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of shares (but not counting any which have lapsed or have been forfeited) being greater than 48,000,000 shares, as at the date of such grant. During the year ended 31 December 2013, no awarded shares were granted under KC Share Award Scheme.

More details regarding the KC Share Award Scheme are set out in note 7 to the financial statements.

Share Award Scheme adopted by Kingsoft Jingcai

On 11 April 2013 (the "JC Adoption Date"), the directors of Kingsoft Jingcai approved and adopted the JC Share Award Scheme, in which selected employees of Kingsoft Jingcai and its subsidiaries are entitled to participate. Unless early terminated by the directors of Kingsoft Jingcai, the JC Share Award Scheme shall be valid and effective for a term of ten years commencing on the JC Adoption Date. The directors of Kingsoft Jingcai will not grant any award of shares which would result in the total number of shares (but not counting any which have lapsed or have been forfeited) being greater than 500,000 shares, as at the date of such grant. During the year ended 31 December 2013, 450,000 awarded shares were granted under JC Share Award Scheme .

More details regarding the JC Share Award Scheme are set out in note 7 to the financial statements.

Directors

The Directors of the Company during the year and up to the date of this report comprised 9 directors, of which 3 were executive Directors, 3 were non-executive Directors and 3 were independent non-executive Directors, whose names are as follows:

	APPOINTMENT DATE	RESIGNATION DATE	RE-DESIGNATION DATE
EXECUTIVE DIRECTORS			
Mr. HongJiang ZHANG (張宏江)	14 December 2011	N/A	N/A
Mr. Yuk Keung NG (吳育强)	1 March 2013	N/A	N/A
Mr. Tao ZOU (鄒濤)	25 August 2009	N/A	N/A
NON-EXECUTIVE DIRECTORS			
Mr. Jun LEI (雷軍)	27 July 1998	N/A	28 August 2008
Mr. Pak Kwan KAU (求伯君)	27 July 1998	N/A	24 October 2011
Mr. Chi Ping LAU (劉熾平)	28 July 2011	N/A	N/A
INDEPENDENT NON-EXECUTIVE DIRECTORS			
Mr. Guangming George LU (魯光明)	30 April 2007	N/A	N/A
Ms. Wenjie WU (武文洁)	1 March 2013	N/A	N/A
Mr. David Yuen Kwan TANG (鄧元鋆)	6 May 2013	N/A	N/A
Mr. Chuan WANG (王川)	28 July 2011	1 March 2013	N/A
Mr. To Thomas HUI (許濤)	25 May 2012	6 May 2013	N/A

In accordance with article 108 of the Articles of Association of the Company, Dr. HongJiang ZHANG, Mr. Tao ZOU, and Mr. Pak Kwan KAU will retire at the forthcoming AGM of the Company to be held on 28 May 2014 and, being eligible, will offer themselves for re-election.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and we consider them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 13 to 17 of the annual report.

Directors' Service Contracts

Each of the executive Directors has entered into a service agreement with the Company. Each agreement is for a period of three years and shall continue thereafter until being terminated by either party giving not less than three months' prior written notice.

The emoluments of the Directors of the Company are determined by the Remuneration Committee after considering the Company's operating results, market rate and individual performance. No Director can take part in deciding his own remuneration. Details of the remuneration policy for the Directors and senior management of the Group are set out in Corporate Governance Report under the heading of "Remuneration Committee".

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Interests of the Directors in Contracts

Save as disclosed in the section of "Related Party Transactions and Connected Transactions" in the Directors' Report, no Directors had any direct or indirect material interests in any contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party at the end of the year or at any time during the year ended 31 December 2013.

Directors' and Chief Executive's Interests in Securities

As at 31 December 2013, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

Interests in the ordinary shares and underlying shares of the Company

Name of director	Capacity	No. of shares interested	% of issued share capital	Nature of Shares
Jun LEI	Interest of controlled corporation	174,818,191	14.81	Long position
	Other	142,714,003 (total: 317,532,194 (Note 1))	12.09 (total: 26.90)	Long position
Pak Kwan KAU	Interest of controlled corporation	108,032,566 (Note 2)	9.15	Long position
Yuk Keung NG	Beneficial owner	3,200,000	0.27	Long position
Hong Jiang ZHANG	Beneficial owner	13,535,782	1.15	Long position
Tao ZOU	Beneficial owner	491,307	0.04	Long position

Notes:

1. Among these 317,532,194 shares, 174,818,191 shares are held by Color Link Management Limited, a BVI company owned as to 100% by Mr. Jun LEI and the other 142,714,003 shares are deemed to be interested by Mr. Jun LEI under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG will vote in the same way as Mr. Jun LEI with these shares.

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

Save as disclosed above, none of the Directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2013.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the sections of "Directors' and Chief Executive's Interests in Securities", "Share Option Schemes" and "Share Award Scheme" in the Directors' Report, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company, their respective spouse or minor children to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Substantial Shareholders

As at 31 December 2013, as far as the Directors are aware of, the following, other than the Directors and chief executive of the Company, had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued capital of the Company:

Long position in the shares in the Company

Name of substantial shareholder	Capacity	Number of shares interested	% of issued share capital	Nature of Shares
Color Link Management Limited (Note 1)	Beneficial owner	174,818,191	14.81	Long position
Tencent Holdings Limited (Note 2)	Interest of controlled corporation	149,082,572	12.63	Long position
Topclick Holdings Limited (Note 3)	Beneficial owner	108,032,566	9.15	Long position
Credit Suisse Trust Limited (Note 3)	Trustee	108,032,566	9.15	Long position
Kau Management Limited (Note 3)	Interest of a controlled corporation	108,032,566	9.15	Long position
The Kau's Family Trust (Note 3)	Interest of a controlled corporation	108,032,566	9.15	Long position
FIL Limited	Investment manager	71,019,000	6.02	Long position

Notes:

1. Mr. Jun LEI is deemed to be interested in Color Link Management Limited's interest in the Company pursuant to Part XV of the SFO because Color Link Management Limited is wholly owned by Mr. Jun LEI.

2. These shares are held by TCH Saffron Limited, which is in turn, held by Tencent Holdings Limited.

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

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

Public Float

As at the date of this report, the Company has maintained the prescribed public float of at least 25% under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

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

For the year ended 31 December 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Issue of Convertible Bonds by the Company

During the year ended 31 December 2013, the Company completed the issue of the convertible bonds in the principal amount of HK$1,356,000,000 on 23 July 2013 (the "Convertible Bonds"). Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Bond at its principal amount together with accrued and unpaid interest thereon on 23 July 2018. The proceeds from the subscription of the Bonds, after deduction of commissions and other related expenses, are estimated to be approximately HK$1,327 million. The Company's intended use of the net proceeds is to repay existing short-term bank loans, for general corporate purposes and to supplement working capital. The net price for each Conversion Share is approximately HK$16.5741. The Convertible Bonds has been listed on the SGX-ST since 24 July 2013. The interest is 3.00% per annum of the principal amount of the Convertible Bonds, payable semi-annually in arrear in equal installments of HK$15,000 per calculation amount (i.e. interest in respect of any Convertible Bond shall be calculated per HK$1,000,000 in principal amount of the Convertible Bonds) on 23 January and 23 July in each year, subject to adjustment for non-business days. Reference for principal terms of the Convertible Bonds may be made to the announcements of the Company dated 3 July 2013 and 23 July 2013 in relation to the issue of the Convertible Bonds.

Issue of convertible preferred shares by subsidiaries of the Company

On 9 April 2013, the Company, Kingsoft Cloud Holdings Limited ("Kingsoft Cloud"), and other relevant parties entered into the Share Purchase Agreement, pursuant to which Kingsoft Cloud agreed to issue and the Company and another investor agreed to subscribe for 80,844,000 (representing approximately 6.64% of the enlarged total issued shares of Kingsoft Cloud upon completion) and 188,636,000 (representing approximately 15.50% of the enlarged total issued shares of Kingsoft Cloud upon completion) Series A Preferred Shares, respectively, at a price of USD0.0742 per share for an aggregate consideration of USD20.0 million. The rights attached to the Preferred Shares shall not be varied in any way to be subordinated to, and shall at all times at least ranking pari passu with, the rights attached to any other classes or series of Shares. The holders of the Preferred Shares shall have the rights to the convert the Preferred Shares into Ordinary Shares. The number of Ordinary Shares to which a holder shall be entitled upon conversion of any Preferred Share shall be the quotient of the Preferred Shares Issue Price divided by the then-effective Conversion Price. The initial conversion ratio for Preferred Shares to Ordinary Shares shall be 1:1, subject to adjustments based on adjustments of the Conversion Price. Any Preferred Share may, at the option of the holder, be converted at any time into fully-paid and non-assessable Ordinary Shares based on the then-effective Conversion Price.

On 23 June 2013, the Company, TCH Copper Limited ("TCH"), Kingsoft Internet Software Holdings Limited ("KIS") and other relevant parties entered into the Share Purchase Agreement, pursuant to which KIS agreed to issue and the Company and TCH agreed to subscribe for 12,254,567 Tranche A Series B Preferred Shares (representing approximately 1% of the enlarged total issued shares of KIS upon completion) and 110,240,964 Tranche B Series B Preferred Shares (representing approximately 9% of the enlarged total issued shares of KIS upon completion), respectively. The aggregate consideration is US$52,202,374, including US$5,222,374 payable by the Company for Tranche A Series B Preferred Shares and US$46,980,000 payable by TCH for Tranche B Series B Preferred Shares. Each Series B Preferred Share may be converted at any time at the option of the holder thereof into such number of KIS Ordinary Share(s) as may be obtained by dividing the issue price by the then applicable conversion price. The new KIS Ordinary Shares issued upon conversion of the Series B Preferred Shares shall rank pari passu in all respects with the existing KIS Ordinary Shares. The initial conversion price shall be equal to the issue price, resulting in an initial conversion ratio of 1:1 (i.e. one Series B Preferred Share convertible into one KIS Ordinary Share).

On 15 October 2013, the Company, Kingsoft Office Software Holdings Limited ("KOS"), and other relevant parties entered into the Share Purchase Agreement, pursuant to which KOS has issued and the Company and other investors have subscribed for 60,000,000 (representing approximately 5.13% of the enlarged total issued shares of KOS upon completion) and 140,000,000 (representing approximately 11.97% of the enlarged total issued shares of KOS upon completion) Series A Preferred Shares, respectively, at a price of USD0.25 per share for an aggregate consideration of USD50.0 million. Each Preferred Shareholder shall be entitled to such number of votes with respect to all the Preferred Shares held by such Preferred Shareholder equal to the number of votes carried by the total number of Ordinary Shares then issuable upon conversion of all of Series A Preferred Shares into Ordinary Shares at the then applicable conversion rate. The Preferred Shareholders shall have the rights to the convert the Preferred Shares into Ordinary Shares. The number of Ordinary Shares to which a Preferred Shareholder shall be entitled upon conversion of one (1) Preferred Share shall be the quotient of the Original Issue Price divided by the then-effective applicable Conversion Price. The initial conversion ratio for each Preferred Share to Ordinary Share(s) shall be 1:1, subject to adjustment from time to time of the Conversion Price. Each Preferred Shares may, at the option of the holder thereof, be converted at any time after the Original Issue Date into fully-paid and nonassessable Ordinary Shares based on the then-effective applicable Conversion Price.

Competing Interest

As of 31 December 2013, none of the Directors, controlling shareholders nor their respective associates (as defined in the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

Major Customers and Suppliers

For the year ended 31 December 2013, the 5 largest customers of the Group accounted for 28% of the total revenue, while the largest customer accounted for 9% of the total revenue. For the year ended 31 December 2013, the 5 largest suppliers of the Group accounted for 22% of the total purchases, while the largest supplier accounted for 9% of the total purchases.

Aside from Tencent who is one of the five largest customers of the Group, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Related Party Transactions and Connected Transactions

1. Connected Transaction

Purchase of New Shares of Zhigu Holding Limited

On 22 March 2013, Zhigu Holdings Limited ("Zhigu Holdings"), Zhigu Corporation Limited ("Zhigu HK"), Beijing Zhigu Technology Services Co., Ltd. ("Zhigu Technology"), Beijing Zhigu Ruituo Technology Services Co., Ltd. ("Zhigu Ruituo"), Xiaomi Corporation ("Xiao Mi"), Shunwei Ventures II Limited ("Shunwei"), the Company, Peng LIN and HongJiang ZHANG entered into the Share Purchase Agreement pursuant to which Zhigu Holdings agreed to issue, and each of Xiao Mi, Shunwei and the Company has agreed to purchase from Zhigu Holdings new Zhigu Shares at purchase prices of US$9.61 million, US$5 million and US$4.99 million, respectively, amounting to an aggregate purchase price of US$19.6 million. The purchase price of each new Zhigu Share is identical for each of Xiao Mi, Shunwei and the Company. The purchase price of US$4.99 million (approximately HK$38.9 million) payable by the Company shall be paid by wire transfer at Closing and satisfied by the internal resources of the Company. Following Closing, the Company will own 19.96% equity interest in Zhigu Holdings.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, Xiao Mi and Shunwei are investment holding companies and associates of Mr. Jun LEI, a Director and substantial Shareholder, Mr. Peng LIN is a third party independent of the Company and its connected persons.

Mr. HongJiang ZHANG is a Director and a controlling shareholder of Zhigu Holdings and therefore Zhigu Holdings is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the purchase of Zhigu Shares under the Share Purchase Agreement constitutes a connected transaction for the Company. As the highest relevant percentage ratio (as defined in the Listing Rules) exceeds 0.1% but is less than 5%, the transaction pursuant to the Share Purchase Agreement is subject to reporting and announcement requirements but is exempt from independent shareholders' approval requirement.

For details of the connected transaction, please refer to the announcement of the Company dated 22 March 2013.

Issue of Series B Preferred Shares by KIS to the Company and TCH

On 23 June 2013, the Company, TCH Copper Limited ("TCH"), Kingsoft Internet Software Holdings Limited ("KIS", a subsidiary of the Company) and its nine subsidiaries, FaX Vision Corporation, Mr. Sheng FU and Mr. Ming XU entered into the Share Purchase Agreement, pursuant to which KIS agreed to issue and the Company and TCH agreed to subscribe for Tranche A Series B Preferred Shares and Tranche B Series B Preferred Shares, respectively, for a consideration of US$5,222,374 and US$46,980,000, respectively.

As at the date of this agreement, KIS has no outstanding Series B Preferred Shares in issue. Tranche A Series B Preferred Shares and Tranche B Series B Preferred Shares will represent approximately 1% and 9% of the enlarged total issued shares of KIS upon Completion, respectively, on the assumption that all Preferred Shares are fully converted into KIS Ordinary Shares based on the initial conversion ratio of 1:1.

TCH is a subsidiary of Tencent Holdings Limited, the substantial shareholder of the Company, and a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The issue of Tranche B Series B Preferred Shares to TCH by KIS, an indirect subsidiary of the Company, constitutes a connected transaction of the Company. Further, as the shareholding held by the Company in KIS will be diluted upon Completion, such issue of Series B Preferred Shares will constitute a deemed disposal by the Company under the Listing Rules. As the highest applicable percentage ratio in respect of the issue of Tranche B Series B Preferred Shares is higher than 0.1% but less than 5%, such transaction is subject to the reporting and announcement requirements, but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For details of the connected transaction, please refer to the announcement of the Company dated 23 June 2013.

Licensing Agreement with Tencent Technology

On 27 December 2013, Beijing Kingsoft Office Software Co., Ltd. ("Beijing KOS", a non-wholly-owned subsidiary of the Company) and Tencent Technology (Shenzhen) Co., Ltd. ("Tencent Technology", a wholly-owned subsidiary of Tencent Holdings Limited) entered into the Licensing Agreement, pursuant to which Beijing KOS will grant the grantees listed under Appendix Two to the Licensing Agreement, including but not limited to certain subsidiaries of Tencent Holdings Limited the right to perpetually use WPS Office 2013 Professional Office Software V9.6 on the computers which they owned and have legal access to in office premises in the PRC for office use only, and also provide them with three-year after-sale services for such software and its updated versions within the after-sale service period. Such after-sale services include basic services, training services and other services as provided for under the Licensing Agreement.

An aggregate consideration of RMB2 million will be payable by Tencent Technology to Beijing KOS in cash in three installments as follows: i) RMB1.8 million payable within 45 business days upon receipt of the relevant invoice issued by Beijing KOS after the Licensing Agreement becomes effective; ii) RMB0.1 million payable within 45 business days upon receipt of the relevant invoice issued by Beijing KOS after the first anniversary of the commencement date of the provision of after-sale service; and iii) RMB0.1 million payable within 45 business days upon receipt of the relevant invoice issued by Beijing KOS after the second anniversary of the commencement date of the provision of after-sale service.

Tencent Technology is a connected person of the Company by virtue of Rule 14A.11 (4) of the Listing Rules. As such, the Licensing Agreement entered into between Tencent Technology and Beijing KOS constitutes a connected transaction of the Company under the Listing Rules. As the highest relevant applicable percentage ratio (as defined in the Listing Rules) in respect of the Licensing Agreement exceeds 0.1% but is less than 5%, the Licensing Agreement is subject to reporting and announcement requirements, but exempted from the independent shareholders' approval requirement.

For details of the connected transaction, please refer to the announcement of the Company dated 27 December 2013.

2. Structure Contracts

According to the Administrative Rules for Foreign Investments in Telecommunications Enterprises, which were issued on 11 December 2001 by the State Council and became effective on 1 January 2002, a foreign investor is currently prohibited from owning more than 50% of the equity interest in a Chinese entity that provides value-added telecommunications services. Internet content provision ("ICP") services are classified as value-added telecommunications businesses, and a commercial operator of such services must obtain an ICP license from the appropriate telecommunications authorities in order to carry on any commercial Internet content provision operations in China. In July 2006, the Ministry of Information and Industry of China issued a notice which prohibits ICP license holders from leasing, transferring or selling a telecommunications business operating license to any foreign investors in any form, or providing any resource, sites or facilities to any foreign investors for their illegal operation of telecommunications businesses in China. The notice also requires that ICP license holders and their shareholders directly own the domain names and trademarks used by such ICP license holders in their daily operations. Therefore, in order for us to be able to carry on our business in China, the Group entered into a series of structure contracts with Beijing Kingsoft Qijian Digital Technology Co., Ltd. (北京金山奇劍數碼科技有限公司,"Kingsoft Qijian"), its shareholders Weiqin Qiu and Peili Lei, and Chengdu Kingsoft Digital Entertainment Co., Ltd. (成都金山數字娛樂科技有限公司,"Chengdu Digital Entertainment"), which enable the Group to exercise control over Kingsoft Qijian, Beijing Kingsoft Digital Entertainment Co., Ltd. (北京金山數字娛樂科技有限公司,"Beijing Digital Entertainment") and Chengdu Digital Entertainment and to consolidate these companies' financial results in our results. Beijing Digital Entertainment (which is wholly owned by Kingsoft Qijian) and Chengdu Digital Entertainment (which is owned as to 99% by Beijing Digital Entertainment and 1% by Weiqin Qiu) hold the requisite ICP licenses.

Pre-existing Structure Contracts during the 2013 financial year

To streamline the corporate structure of the Group, the Group has commenced an internal reorganization exercise. In 2010, the Group has (i) entered into structure contracts relating to Zhuhai Qiwen Application Software Co., Ltd. (珠海奇文辦公軟件有限公司,"Zhuhai Qiwen"); and (ii) entered into structure contracts relating to Beijing Conew Technology Development Co., Ltd. (北京可牛科技發展有限公司,"Conew Technology"). In 2011, the Group has (i) entered into structure contracts relating to Shell Internet (Beijing) Security Technology Co., Ltd. ("Shell Internet"); (ii) entered into structure contracts relating to Zhuhai Kingsoft Online Game Technology Co., Ltd. ("Zhuhai Online Game"); and (iii) as part of the Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Qiwen. In 2012, the Group (i) entered into structure contracts relating to Beijing Kingsoft Network Technology Co., Ltd. ("Beijing Network Technology"); (ii) entered into structure contracts relating to Zhuhai Cloud Technology Co., Ltd. ("Zhuhai Cloud Technology"); (iii) entered into structure contracts relating to Chengdu Westhouse Shiyou Technology Co., Ltd. ("Chengdu Westhouse Shiyou") and Zhuhai Westhouse Shiyou Technology Co., Ltd. ("Zhuhai Westhouse Shiyou"); (iv) as part of the Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Online Game and Shell Internet.

The structure contracts which were pre-existing during the 2013 financial year were as follows:

Structure Contracts relating to Kingsoft Qijian

(i) A loan agreement dated 30 March 2007 between Weiqin Qiu, Peili Lei and Chengdu Kingsoft Interactive Entertainment Co., Ltd. ("Chengdu Interactive Entertainment") which provided for an interest free loan by Chengdu Interactive Entertainment of RMB1,200,000 to Weiqin Qiu and of RMB300,000 to Peili Lei, entirely for the purpose of repaying the loan provided by Zhuhai Kingsoft Software Co., Ltd. ("Zhuhai Software"). The loans have no definite maturity date and Chengdu Interactive Entertainment may request repayment at any time. Weiqin Qiu and Peili Lei shall repay the loans by transferring the equity interest they hold in Kingsoft Qijian to Chengdu Interactive Entertainment or any person or entity as it may direct.

(ii) A shareholder voting agreement dated 30 March 2007 among Chengdu Interactive Entertainment, Weiqin Qiu, Peili Lei and Kingsoft Qijian, under which Weiqin Qiu and Peili Lei irrevocably entrust all of their shareholder rights in Kingsoft Qijian to Chengdu Interactive Entertainment, including but not limited to the voting rights and the right to nominate directors of Kingsoft Qijian.

(iii) A call option agreement dated 30 March 2007 among Weiqin Qiu, Peili Lei, Kingsoft Qijian and Chengdu Interactive Entertainment, under which Chengdu Interactive Entertainment was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, part or all of Weiqin Qiu's and Peili Lei's equity interest in Kingsoft Qijian at anytime, at a nominal amount subject to applicable PRC laws.

(iv) An equity pledge agreement dated 30 March 2007 among Weiqin Qiu, Peili Lei, Chengdu Interactive Entertainment and Kingsoft Qijian, pursuant to which Weiqin Qiu and Peili Lei pledged all of their equity interests in Kingsoft Qijian (and any increase in their capital contributions) in favor of Chengdu Interactive Entertainment as security for the performance of their respective obligations under the above loan agreement, the shareholder voting agreement and the call option agreement, the performance by Kingsoft Qijian of its obligations under the above shareholder voting agreement and the call option agreement, the performance by Chengdu Digital Entertainment of its obligations under the intellectual property license agreements (as described below in "Structure Contracts relating to Chengdu Digital Entertainment" (v)) and the performance by Beijing Digital Entertainment of its obligations under the intellectual property license agreements (as described below).

(v) Zhuhai Software (as the licensor) and Beijing Digital Entertainment (as the licensee) entered into a framework intellectual property license agreement on 15 June 2007 for a term of 10 years from 1 January 2007 which will be automatically renewed for one year at the end of the term or any renewed term, unless the licensor notifies otherwise. Zhuhai Software agreed to enter into agreements to license certain intellectual property rights to Beijing Digital Entertainment on a case by case basis.

Structure Contracts relating to Chengdu Digital Entertainment

(i) A loan agreement dated 30 March 2007 between Weiqin Qiu and Chengdu Interactive Entertainment which provided for an interest free loan of RMB100,000 by Chengdu Interactive Entertainment to Weiqin Qiu entirely for the purpose of capital funding of Chengdu Digital Entertainment. The loan has no definite maturity date and Chengdu Interactive Entertainment may request repayment at any time. Weiqin Qiu shall repay the loan by transferring the equity interest she holds in Chengdu Digital Entertainment to Chengdu Interactive Entertainment or any person or entity nominated by Chengdu Interactive Entertainment.

(ii) A shareholder voting agreement dated 30 March 2007 among Chengdu Interactive Entertainment, Weiqin Qiu and Chengdu Digital Entertainment, under which Weiqin Qiu irrevocably entrusts all of her shareholder rights in Chengdu Digital Entertainment to Chengdu Interactive Entertainment, including but not limited to the voting rights and the right to nominate directors of Chengdu Digital Entertainment.

(iii) A call option agreement dated 30 March 2007 among Weiqin Qiu, Chengdu Digital Entertainment and Chengdu Interactive Entertainment, under which Chengdu Interactive Entertainment was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, part or all of Weiqin Qiu's equity interest in Chengdu Digital Entertainment at any time, at a nominal amount subject to applicable PRC laws.

(iv) An equity pledge agreement dated 30 March 2007 among Weiqin Qiu, Chengdu Interactive Entertainment, Chengdu Digital Entertainment and Beijing Digital Entertainment, pursuant to which Weiqin Qiu pledged her 1% equity interest in Chengdu Digital Entertainment (and any increase in her capital contribution) in favor of Chengdu Interactive Entertainment as security for the performance of her obligations under the above loan agreement, shareholder voting agreement and call option agreement as well as the performance by Chengdu Digital Entertainment of its obligations under the above shareholder voting agreement, the call option agreement, and the intellectual property license agreements (as described below).

(v) Chengdu Interactive Entertainment (as the licensor) and Chengdu Digital Entertainment (as the licensee) entered into a framework intellectual property license agreement on 15 June 2007 for a term of 10 years from 1 January 2007 which will be automatically renewed for one year at the end of the term or any renewed term, unless the licensor notifies otherwise. Chengdu Interactive Entertainment agreed to enter into agreements to licence certain intellectual property rights to Chengdu Digital Entertainment.

As Weiqin Qiu is the sister of Pak Kwan Kau, and Peili Lei is an aunt of Jun Lei, with Pak Kwan Kau and Jun Lei being our executive Directors when the above said structure contracts were signed and now our non-executive Directors, Weiqin Qiu and Peili Lei are associates of Pak Kwan Kau and Jun Lei, and therefore, are our connected persons. Accordingly, certain transactions under the structure contracts technically constituted connected transactions. The Company applied to the Stock Exchange for and was granted a specific waiver from strict compliance with the applicable disclosure and shareholders' approval requirements of Chapter 14A of the Listing Rules in relation to the transactions contemplated under the structure contracts for so long as the shares of the Company are listed on the Stock Exchange.

The Independent Non-executive Directors have reviewed the structure contracts relating to Kingsoft Qijian, Beijing Digital Entertainment and Chengdu Digital Entertainment and have confirmed that:

- these structure contracts remain unchanged and are consistent with their disclosure in the prospectus of the Company dated 24 September 2007;
- no dividends or other distributions were made by Kingsoft Qijian, Beijing Digital Entertainment, or Chengdu Digital Entertainment to the holders of their equity interests for the year ended 31 December 2013; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

Original Structure Contracts I relating to Zhuhai Qiwen

(i) A loan agreement dated 8 February 2010 was entered into between Weiqin Qiu, Jin Wang and Zhuhai Software which provided for interest free loans by Zhuhai Software of RMB8,000,000 to Weiqin Qiu and Jin Wang, entirely for the purpose of repaying the liabilities incurred by Weiqin Qiu and Jin Wang in acquiring the entire equity interest in Zhuhai Qiwen. The loans have no definite maturity date and Zhuhai Software may request repayment at any time. Weiqin Qiu and Jin Wang shall, subject to the applicable laws, repay the loans by transferring the equity interest they hold in Zhuhai Qiwen to Zhuhai Software or as it may direct.

(ii) A loan agreement dated 3 August 2010 among Weiqin Qiu, Jin Wang and Zhuhai Software which provided for interest free loans by Zhuhai Software of RMB60,000,000 to Weiqin Qiu and Jin Wang, entirely for the purpose of repaying the liabilities incurred by Weiqin Qiu and Jin Wang in acquiring the 88.235% equity interest in Zhuhai Qiwen. The loans have no definite maturity date and Zhuhai Software may request repayment at any time. Weiqin Qiu and Jin Wang shall, subject to the applicable laws, repay the loans by transferring the equity interest they hold in Zhuhai Qiwen to Zhuhai Software or as it may direct.

(iii) A shareholder voting entrustment agreement dated 8 February 2010 was entered into among Weiqin Qiu, Jin Wang, Zhuhai Software and Zhuhai Qiwen, under which Weiqin Qiu and Jin Wang irrevocably entrust all of their shareholder rights in Zhuhai Qiwen to Zhuhai Software, including but not limited to the voting rights and the right to nominate directors of Zhuhai Qiwen.

(iv) A call option agreement dated 8 February 2010 was entered into among Weiqin Qiu, Jin Wang, Zhuhai Software and Zhuhai Qiwen, under which Zhuhai Software was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, part or all of Weiqin Qiu's and Jin Wang's equity interests in Zhuhai Qiwen at anytime, at a nominal amount subject to applicable PRC laws.

(v) An equity pledge agreement dated 8 February 2010 was entered into among Weiqin Qiu, Jin Wang, Zhuhai Software and Zhuhai Qiwen, pursuant to which Weiqin Qiu and Jin Wang pledged all of their equity interests in Zhuhai Qiwen (and any increase in their capital contribution) in favor of Zhuhai Software as security for the performance of their obligations under the above loan agreement dated 8 February 2010, shareholder voting agreement and call option agreement, and the performance of the obligation by Zhuhai Kingsoft Application Software Co., Ltd. ("Zhuhai Kingsoft Application"), a domestic corporation wholly-owned by Zhuhai Qiwen, under the intellectual property license agreement (as described below).

(vi) An equity pledge agreement dated 3 August 2010 among Weiqin Qiu, Jin Wang, Zhuhai Software and Zhuhai Qiwen entered into following an increase of the authorized and paid-up capital of Zhuhai Qiwen, pursuant to which Weiqin Qiu and Jin Wang pledged all of their equity interests in Zhuhai Qiwen (and any increase in their capital contribution) in favor of Zhuhai Software as security for the performance of their obligations under the above loan agreements, shareholder voting agreement and call option agreement, and the performance by Zhuhai Kingsoft Application of its obligation under the intellectual property license agreement (as described below).

(vii) Zhuhai Software (as the licensor) and Zhuhai Kingsoft Application (as the licensee) entered into a framework intellectual property license agreement on 8 February 2010, for a term of 10 years from 22 October 2009 which will be automatically renewed for one year at the end of the term or any renewed term, unless the licensor notifies otherwise. Pursuant to the agreement, Zhuhai Software agreed to license certain intellectual property rights to and permitted Zhuhai Kingsoft Application to develop the value-added telecommunications services and other business as permitted by its scope of business.

As Jin Wang is the husband of Weiqin Qiu, and Weiqin Qiu is the sister of our Director, Pak Kwan Kau, Jin Wang and Weiqin Qiu are associates of Pak Kwan Kau, and therefore are our connected persons. Accordingly, transactions under the structure contracts relating to Zhuhai Qiwen may technically constitute connected transactions.

The arrangement relating to Zhuhai Qiwen was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

The said structure contracts in relation to Zhuhai Qiwen were recloned in 2011, the details of which are disclosed herein below.

Original Structure Contracts II in relation to Zhuhai Qiwen

(i) Weiqin Qiu and each of the other 26 employees of our Group including Ke Ge, Qingyuan Zhang and Bin Xiao ("the 26 New Shareholders") entered into 26 equity transfer agreements on 30 November 2011, pursuant to which Weiqin Qiu transferred part of her equity interests in Zhuhai Qiwen to the 26 New Shareholders at the price calculated based on Weiqin Qiu's contribution amount in registered capital of Zhuhai Qiwen and percentage of the transferred equity interest to each of the 26 New Shareholders. In connection with the above equity transfer agreements, Weiqin Qiu, the 26 New Shareholders and Zhuhai Software entered into a debt assumption agreement on 30 November 2011, pursuant to which the 26 New Shareholders agreed to assume the liability of RMB13,957,896 which was the proportion liable to be paid by Weiqin Qiu to Zhuhai Software under the loan agreements dated 8 February 2010 and 3 August 2010 as a settlement for the transfer of 20.5263% registered capital in Zhuhai Qiwen from Weiqin Qiu.

(ii) Weiqin Qiu, Jin Wang and the 26 New Shareholders (collectively referred to as "New Shareholders") entered into a revised loan agreement ("New Loan Agreement") on 30 November 2011 to replace the loan agreements dated 8 February 2010 and 3 August 2010. Pursuant to the New Loan Agreement, Zhuhai Software provided interest free replacement loans of RMB68,000,000 to New Shareholders for the purpose of repaying the liability incurred by New Shareholders for the acquisition of the entire equity interests in Zhuhai Qiwen. The loans have no fixed maturity date, and Zhuhai Software may demand repayment at any time. Subject to the applicable laws, New Shareholders shall repay the loans by transferring their equity interests in Zhuhai Qiwen to Zhuhai Software or its designated third party.

(iii) New Shareholders, Zhuhai Software and Zhuhai Qiwen entered into a revised shareholder voting entrustment agreement on 30 November 2011 to replace the shareholder voting entrustment agreement ("New Shareholder Voting Agreement") dated 8 February 2010. Pursuant to the New Shareholder Voting Agreement, New Shareholders irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Zhuhai Qiwen) in Zhuhai Qiwen to any party designated by Zhuhai Software.

(iv) New Shareholders, Zhuhai Software and Zhuhai Qiwen entered into a call option agreement ("New Call Option Agreement") on 30 November 2011 to replace the call option agreement dated 8 February 2010. Pursuant to the New Call Option Agreement, Zhuhai Software was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interests owned by New Shareholders in Zhuhai Qiwen at any time at an amount equal to the corresponding portion of liability borne by the respective New Shareholders under the New Loan Agreement.

(v) New Shareholders, Zhuhai Software and Zhuhai Qiwen entered into a revised equity pledge agreement (the "New Equity Pledge Agreement") on 30 November 2011 to replace the equity pledge agreement dated 8 February 2010 and 3 August 2010 respectively. Pursuant to the New Equity Pledge Agreement, New Shareholders agreed to pledge all equity interests they respectively held in Zhuhai Qiwen and any increase in capital contributions in favor of Zhuhai Software, as security for the performance of their obligations under the above New Loan Agreement, New Shareholder Voting Agreement and New Call Option Agreement dated 30 November 2011, and the performance of the obligations by Zhuhai Kingsoft Application under the intellectual property license agreement dated 8 February 2010.

(vi) Zhuhai Software, Beijing Kingsoft Office Software Co., Ltd. ("Beijing Office Software") and New Shareholders entered into a debt transfer agreement ("Debt Transfer Agreement") on 29 December 2011, pursuant to which Zhuhai Software transferred the loan in the amount of RMB68,000,000 receivable from New Shareholders under the New Loan Agreement to Beijing Office Software for a cash consideration of RMB68,000,000 and hence New Shareholders were liable to Beijing Office Software for a loan totaling RMB68,000,000.

(vii) In connection with the Debt Transfer Agreement, Zhuhai Software, Zhuhai Qiwen, New Shareholders and Zhuhai Kingsoft Application entered into a termination agreement on 29 December 2011, pursuant to which Zhuhai Software, Zhuhai Qiwen, New Shareholders and Zhuhai Kingsoft Application agreed to terminate the following agreements, including (1) New Loan Agreement; (2) New Shareholder Voting Agreement; (3) New Call Option Agreement; (4) New Equity Pledge Agreement, and (5) the intellectual property license agreement entered into between Zhuhai Software and Zhuhai Kingsoft Application on 8 February 2010.

(viii) New Shareholders and Beijing Office Software entered into a loan agreement on 29 December 2011 to specify the debt arrangements under the Debt Transfer Agreement, pursuant to which Beijing Office Software provided interest free loans of RMB68,000,000 to New Shareholders. The loans have no fixed maturity date, and Beijing Office Software may demand repayment at any time. Subject to the PRC laws, New Shareholders shall repay the loans by transferring their equity interests in Zhuhai Qiwen to Beijing Office Software or its designated third party.

(ix) New Shareholders, Beijing Office Software and Zhuhai Qiwen entered into a shareholder voting entrustment agreement on 29 December 2011, pursuant to which New Shareholders irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Zhuhai Qiwen) in Zhuhai Qiwen to such person designated by Beijing Office Software.

(x) Beijing Office Software, New Shareholders and Zhuhai Qiwen entered into an exclusive option agreement on 29 December 2011, pursuant to which Beijing Office Software was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by New Shareholders in Zhuhai Qiwen at any time at an amount equal to the corresponding portion of liability borne by the respective New Shareholders under a loan agreement entered into on 29 December 2011 as stated in (viii) above.

(xi) Beijing Office Software (as the licensor) and Zhuhai Kingsoft Application (as the licensee) entered into an intellectual property license agreement on 29 December 2011 for a term of 10 years from the date of the agreement which will be automatically renewed for one year at the end of the term or any renewed term, unless Beijing Office Software notifies otherwise, pursuant to which Beijing Office Software agreed to license to Zhuhai Kingsoft Application certain intellectual property rights.

(xii) New Shareholders, Beijing Office Software and Zhuhai Qiwen entered into an equity pledge agreement on 29 December 2011, pursuant to which New Shareholders agreed to pledge all equity interests they respectively held in Zhuhai Qiwen and any increase in their capital contribution in favor of Beijing Office Software as security for the performance of their obligations under the loan agreement, the shareholder voting entrustment agreement, the exclusive option agreement, the equity pledge agreement, and the performance of obligation by Zhuhai Kingsoft Application under the intellectual property license agreement dated 29 December 2011.

The arrangement relating to Zhuhai Qiwen was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

The Independent Non-executive Directors have reviewed the structure contracts relating to Zhuhai Qiwen and have confirmed that:

- these structure contracts are similar and consistent with their disclosure in the prospectus of the Company dated 24 September 2007;
- no dividends or other distributions were made by Zhuhai Qiwen to the holders of their equity interests for the year ended 31 December 2013; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

Structure Contracts relating to Conew Technology

(i) Each of Sheng Fu and Ming Xu executed a power of attorney dated 25 August 2010 in favour of Conew Network Technology (Beijing) Co., Ltd. ("Conew Network"), under which each of Sheng Fu and Ming Xu irrevocably entrusted all his shareholder rights in Conew Technology to Conew Network, including but not limited to the voting rights and the right to nominate directors of Conew Technology.

(ii) A call option agreement dated 25 August 2010 between Sheng Fu and Conew Network, under which Conew Network was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, part or all of Sheng Fu's equity interest in Conew Technology at anytime, at a nominal amount subject to applicable PRC laws.

(iii) A call option agreement dated 25 August 2010 between Ming Xu and Conew Network, under which Conew Network was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, part or all of Ming Xu's equity interest in Conew Technology at anytime, at a nominal amount subject to applicable PRC laws.

(iv) An equity pledge agreement dated 25 August 2010 among Sheng Fu, Ming Xu and Conew Network, pursuant to which each of Sheng Fu and Ming Xu pledged all of their equity interests in Conew Technology (and any increase in their capital contributions) in favor of Conew Network as security for their obligations and Conew Technology's performance of its obligations under the above call option agreements, and the performance by Conew Technology of its obligations under the exclusive technology support and consultancy agreement (as described below) and the business operation agreement (as described below).

(v) Conew Network (as service provider) and Conew Technology entered into an exclusive technology support and consultancy agreement on 25 August 2010, which term commences from 24 April 2009 for an indefinite term, unless otherwise terminated by either party in accordance with the terms of the agreement.

(vi) Conew Network, Conew Technology, Sheng Fu and Ming Xu entered into a business operation agreement on 25 August 2010 for a term of 10 years, unless otherwise terminated by Conew Network. Conew Technology, Sheng Fu and Ming Xu shall extend the term of the agreement or enter into another business operation agreement with Conew Network upon request of Conew Network.

After the entering into of the structure contracts relating to Conew Technology and as part of the consideration for the transfer of Conew Technology, Sheng Fu has become a substantial shareholder of a subsidiary of the Company and thus a connected person of the Company.

The arrangement relating to Conew Technology was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

The Independent Non-executive Directors have reviewed the structure contracts relating to Conew Technology and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or other distributions were made by Conew Technology to the holders of their equity interest for the year ended 31 December 2013; and
- these structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the Company and its shareholders as a whole.

Structure Contracts relating to Shell Internet

(i) Sheng Fu, Weiqin Qiu and Beijing Kingsoft Internet Security Software Co., Ltd. ("Beijing Security Software") entered into a loan agreement on 1 January 2011, pursuant to which Beijing Security Software provided interest free loans of RMB700,000 to Sheng Fu and Weiqin Qiu for repaying the liability incurred by Sheng Fu and Weiqin Qiu for the acquisition of the entire registered capital in Shell Internet. The loans have no fixed maturity date, and Beijing Security Software may demand repayment at any time. Subject to the PRC Laws, Sheng Fu and Weiqin Qiu shall repay the loans by transferring their equity interests in Shell Internet to Beijing Security Software or its designated third party. Sheng Fu, Weiqin Qiu and Beijing Kingsoft Internet Security Software Co., Ltd. ("Beijing Security Software") entered into a loan agreement on 21 September 2012, pursuant to which Beijing Security Software provided interest free loans of RMB6,500,000 to Sheng Fu and Weiqin Qiu for repaying the liability incurred by Sheng Fu and Weiqin Qiu for the increase of the entire registered capital in Shell Internet. The loans have no fixed maturity date, and Beijing Security Software may demand repayment at any time. Subject to the PRC Laws, Sheng Fu and Weiqin Qiu shall repay the loans by transferring their equity interests in Shell Internet to Beijing Security Software or its designated third party.

(ii) Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into a shareholder voting entrustment agreement on 1 January 2011, pursuant to which Sheng Fu and Weiqin Qiu irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Shell Internet) in Shell Internet to persons designated by Beijing Security Software.

(iii) Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into an exclusive option agreement on 1 January 2011, pursuant to which Beijing Security Software was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interests owned by Sheng Fu and Weiqin Qiu in Shell Internet at any time at a nominal amount subject to applicable PRC laws.

(iv) Beijing Security Software and Shell Internet entered into an exclusive technology development, support and consultation agreement on 1 January 2011, pursuant to which Beijing Security Software agreed to provide to Shell Internet exclusively and Shell Internet agreed to accept the technology development, support and consultation services exclusively provided by Beijing Security Software for an indefinite term unless otherwise terminated by both party in accordance with the terms of the agreement.

(v) Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into a business operation agreement on 1 January 2011, pursuant to which, Sheng Fu, Weiqin Qiu and Shell Internet will make relevant undertakings and guarantee to Beijing Security Software for the daily operation of Shell Internet for a term of 10 years, unless otherwise terminated by Beijing Security Software, to ensure that Shell Internet would perform the obligations under the above exclusive technology development, support and consultation agreement entered into on the same date.

(vi) Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into an equity pledge agreement on 1 January 2011, pursuant to which, Sheng Fu and Weiqin Qiu agreed to pledge all equity interests they respectively held in Shell Internet and any increase in capital contributions in favor of Beijing Security Software, as security for the performance of their obligations under the above loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreement and business operation agreement dated 1 January 2011. In order to comply with the State Administration of Industry and Commerce's requirements relating to equity pledge registration, upon the completion of share registration of Shell Internet, Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into further equity pledge agreement on 17 February 2011 with content substantially the same as the equity pledge agreement dated 1 January 2011. Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into a supplementary equity pledge agreement on 11 October 2012, pursuant to which, Sheng Fu and Weiqin Qiu agreed to pledge all equity interests they respectively held in Shell Internet and any increase in capital contributions in favor of Beijing Security Software, as security for the performance of their obligations under the above loan agreement dated 21 September 2012, and loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreement and business operation agreement dated 1 January 2011.

The arrangement relating to Shell Internet was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

The Independent Non-executive Directors have reviewed the structure contracts relating to Shell Internet and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or other distributions were made by Shell Internet to the holders of their equity interest for the year ended 31 December 2013; and
- these structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the Company and its shareholders as a whole.

Original Structure Contracts I relating to Zhuhai Online Game

(i) Tao Zou, Feizhou Chen, Xi Liu and other parties (the "Borrowers") and Chengdu Westhouse Interactive Entertainment Co., Ltd. ("Chengdu Westhouse") entered into a loan agreement on 24 January 2011, pursuant to which Chengdu Westhouse provided interest free loans of RMB3,636,750 to the Borrowers for the purpose of repaying the liabilities incurred by the Borrowers for the acquisition of the 19.5% registered capital in Zhuhai Online Game. The loans have no fixed maturity date, and Chengdu Westhouse may demand repayment at any time. Subject to the PRC laws, the Borrowers shall repay the loans by transferring their equity interests in Zhuhai Online Game to Chengdu Westhouse or its designated third party.

(ii) The Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into a shareholder voting entrustment agreement on 24 January 2011, pursuant to which the Borrowers irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Zhuhai Online Game) in Zhuhai Online Game to persons designated by Chengdu Westhouse.

(iii) The Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into an exclusive option agreement on 24 January 2011, pursuant to which Chengdu Westhouse was granted an irrevocable exclusive option to acquire, or designate third parties to acquire, all or part of the equity interests owned by the Borrowers in Zhuhai Online Game at anytime at a nominal amount subject to applicable PRC laws.

(iv) The Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into an equity pledge agreement on 24 January 2011, pursuant to which the Borrowers agree to pledge all equity interests they respectively held in Zhuhai Online Game and any increase in capital contributions in favor of Chengdu Westhouse, as security for the performance of their obligations under the above loan agreement, shareholder voting entrustment agreement and exclusive option agreement entered into on the same day.

The said structure contracts in relation to Zhuhai Online Game were recloned in 2012, the details of which are disclosed herein below.

Original Structure Contracts II Relating to Zhuhai Online Game

(i) Tao Zou, Feizhou Chen, Xi Liu, etc. (the "Borrowers") and Chengdu Westhouse entered into a loan agreement on 24 January 2011. Yi Hu and Zhi Gang Ni (the "Additional Borrowers"), Borrowers and Chengdu Westhouse entered into a supplementary loan agreement 1 on 31 August 2012. Since the 2 former employees of the Group transferred their entire equity interest held in Zhuhai Online Game, thus all their rights and obligations under the loan agreement was transferred to the respective transferees who accepted the equity interest transfer, therefore, Chengdu Westhouse provided interest free loans of RMB3,487,550 to the Borrowers (other than the 2 former employees of the Group) and the Additional Borrowers for the purpose of repaying the liabilities incurred by the Borrowers (other than the 2 former employees of the Group) and the Additional Borrowers for the acquisition of the 18.7% registered capital in Zhuhai Online Game. The loans have no fixed maturity date, and Chengdu Westhouse may demand repayment at any time. Subject to the PRC laws, the Borrowers and the Additional Borrowers shall repay the loans by transferring their equity interests in Zhuhai Online Game to Chengdu Westhouse or its designated third party.

(ii) The Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into a shareholder voting entrustment agreement on 24 January 2011. The Borrowers, the Additional Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into a supplementary shareholder voting entrustment agreement 1 on 31 August 2012, pursuant to which the Borrowers (other than the 2 former employees of the Group) and the Additional Borrowers irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Zhuhai Online Game) in Zhuhai Online Game to persons designated by Chengdu Westhouse.

(iii) The Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into an exclusive option agreement on 24 January 2011. The Borrowers, the Additional Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into a supplementary exclusive option agreement 1 on 31 August 2012, pursuant to which Chengdu Westhouse was granted an irrevocable exclusive option to acquire, or designate third parties to acquire, all or part of the equity interests owned by the Borrowers and the Additional Borrowers in Zhuhai Online Game at anytime at an exercise price equal to the corresponding portion of liability of Chengdu Westhouse borne by the respective Borrowers and the Additional Borrowers under the exclusive option agreement and the supplementary exclusive option agreement 1. However, if the lowest exercise price permitted by the PRC Laws is higher than the amounts of those liabilities, the exercise price shall be the lowest price permitted by the PRC Laws. Despite the above, the Borrowers and the Additional Borrowers shall jointly waive the obligations of Chengdu Westhouse for paying the shortfall in the case that the lowest exercise price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC. When the option is exercised by Chengdu Westhouse, Chengdu Westhouse is entitled to the rights to pay the exercise price by directly waiving the corresponding portion of liability of Chengdu Westhouse borne by the Borrowers and the Additional Borrowers. The ratio of the waived liability of the Borrowers and the Additional Borrowers to their total liabilities shall be the same as that of the transferred equity interests held by the Borrowers and the Additional Borrowers to their total equity interest in Zhuhai Online Game.

(iv) The Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into an equity pledge agreement on 24 January 2011. The Borrowers, the Additional Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into a supplementary equity pledge agreement 1 on 31 August 2012, pursuant to which the Borrowers (other than the 2 former employees of the Group) and the Additional Borrowers agreed to pledge all equity interests they respectively held in Zhuhai Online Game and any increase in capital contributions in favor of Chengdu Westhouse, as security for the performance of their obligations under the above loan agreement and/or supplementary loan agreement 1, shareholder voting entrustment agreement and/or supplementary shareholder voting entrustment agreement 1, exclusive option agreement and/or supplementary exclusive option agreement 1.

The said structure contracts in relation to Zhuhai Online Game were cancelled in 2013, the details of which are disclosed herein below.

The arrangement relating to Zhuhai Online Game was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

The Independent Non-executive Directors have reviewed the structure contracts relating to Zhuhai Online Game and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividend or any other distribution to the original holders of their equity interests before the structure contracts were cancelled has been made by Zhuhai Online Game for the year ended 31 December 2013; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

Structure Contracts Relating to Beijing Network Technology

(i) A loan agreement dated 20 June 2012 was entered into between Ming Xu, Wei Liu and Conew Network Technology (Beijing) Co., Ltd. ("Conew Network") which provided for interest free loans by Conew Network of RMB10,000,000 to Ming Xu and Wei Liu, entirely for the purpose of repaying the liabilities incurred by Ming Xu and Wei Liu in establishing the entire registered capital in Beijing Network Technology. The loans have no definite maturity date and Conew Network may request repayment at any time. Ming Xu and Wei Liu shall, subject to the PRC Laws, repay the loans by transferring the equity interest they hold in Beijing Network Technology to Conew Network or as it may direct.

(ii) Ming Xu, Wei Liu, Conew Network and Beijing Network Technology entered into a shareholder voting entrustment agreement on 18 July 2012, pursuant to which Ming Xu and Wei Liu irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Beijing Network Technology) in Beijing Network Technology to such persons designated by Conew Network.

(iii) Ming Xu, Wei Liu, Conew Network and Beijing Network Technology entered into an exclusive option agreement on 18 July 2012, pursuant to which Conew Network was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by Ming Xu and Wei Liu in Beijing Network Technology at any time at exercise price equal to the corresponding portion of liability of Conew Network borne by the respective existing shareholders under the loan agreement. However, if the lowest conversion price permitted by the PRC Laws is higher than the amounts of those liabilities, the conversion price shall be the lowest price permitted by the PRC Laws. Despite the above, the existing shareholders shall jointly waive the obligations of Conew Network for paying the shortfall in the case that the lowest price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC.

(iv) Conew Network and Beijing Network Technology entered into an exclusive technology development, support and consultation agreement on 18 July 2012, pursuant to which Conew Network agreed, on the terms, conditions and pricing as required by the agreement, to provide to Beijing Network Technology exclusively and Beijing Network Technology agreed to accept the technology development, support and consultation services exclusively provided by Conew Network for an indefinite term unless otherwise terminated by both parties in accordance with the terms of the agreement.

(v) Ming Xu, Wei Liu, Conew Network and Beijing Network Technology entered into a business operation agreement on 18 July 2012, pursuant to which, Ming Xu, Wei Liu and Beijing Network Technology will make relevant undertakings and guarantee to Conew Network for the daily operation of Beijing Network Technology for a term of 10 years, unless otherwise terminated by Conew Network, to ensure that Beijing Network Technology would perform the obligations under the above exclusive technology development, support and consultation agreement entered into on the same date.

(vi) Ming Xu, Wei Liu, Conew Network and Beijing Network Technology entered into an equity pledge agreement on 18 July 2012, pursuant to which, Ming Xu and Wei Liu agreed to pledge all equity interests they respectively held in Beijing Network Technology and any increase in capital contributions in favor of Conew Network, as security for the performance of their obligations specified in above (i) to (v) in respect of the loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreement and business operation agreement.

The arrangement relating to Beijing Network Technology was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

The Independent Non-executive Directors have reviewed the structure contracts relating to Beijing Network Technology and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or other distributions were made by Beijing Network Technology to the holders of their equity interest for the year ended 31 December 2013; and
- these structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the Company and its shareholders as a whole.

Original Structure Contracts Relating to Zhuhai Cloud Technology

(i) Weiqin Qiu, Jin Wang and Beijing Kingsoft Digital Entertainment Technology Co., Ltd. ("Beijing Digital Entertainment") entered into a loan agreement on 2 May 2012, pursuant to which Beijing Digital Entertainment provided interest free loans of RMB99,000 and RMB1,000 to Weiqin Qiu and Jin Wang respectively. The loans have no fixed maturity date, and Beijing Digital Entertainment may at any time demand repayment by transferring their equity interests in 珠海奇盾安全軟件有限公司 (Zhuhai Qi Dun Security Software Limited) (subsequently renamed as 珠海金山雲科技有限公司 (Zhuhai Cloud Technology Co., Ltd.) ("Zhuhai Cloud Technology")) to Beijing Digital Entertainment or its designated third party. Moreover, the ratio of the transferred equity interests in Zhuhai Cloud Technology to the equity interests in Zhuhai Cloud Technology held by these borrowers on the date of signing the loan agreement shall be the same as that of the requested repayment to the loans of these borrowers on the date of signing the loan agreement.

(ii) Weiqin Qiu, Jin Wang, Beijing Digital Entertainment and Zhuhai Cloud Technology entered into a shareholder voting entrustment agreement on 2 May 2012, pursuant to which Weiqin Qiu and Jin Wang irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to designate and nominate the senior management (such as executive directors and managers) of Zhuhai Cloud Technology) in Zhuhai Cloud Technology to Beijing Digital Entertainment.

(iii) Weiqin Qiu, Jin Wang, Beijing Digital Entertainment and Zhuhai Cloud Technology entered into an exclusive option agreement on 2 May 2012, pursuant to which Beijing Digital Entertainment was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by Weiqin Qiu and Jin Wang in Zhuhai Cloud Technology at any time. The exercise price shall equal to the corresponding portion of liability of Beijing Digital Entertainment borne by Weiqin Qiu and Jin Wang respectively under the above loan agreement. However, if the lowest conversion price permitted by the PRC Laws is higher than the amounts of those liabilities, the exercise price shall be the lowest price permitted by the PRC Laws. Despite the above, Weiqin Qiu and Jin Wang shall jointly waive the obligations of Beijing Digital Entertainment for paying the shortfall in the case that the lowest price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC.

(iv) Weiqin Qiu, Jin Wang, Beijing Digital Entertainment and Zhuhai Cloud Technology entered into an equity pledge agreement on 2 May 2012, pursuant to which, Weiqin Qiu and Jin Wang agreed to pledge all equity interests they respectively held in Zhuhai Cloud Technology and any increase in capital contributions in favor of Beijing Digital Entertainment, as security for the performance of their respective obligations under the above loan agreement, shareholder voting entrustment agreement and exclusive option agreement, and for the performance of obligations by Zhuhai Cloud Technology under the above shareholder voting entrustment agreement and exclusive option agreement.

(v) Weiqin Qiu, Jin Wang, Beijing Digital Entertainment and Zhuhai Cloud Technology entered into the restated and revised shareholder voting entrustment agreement on 12 June 2012, pursuant to which Weiqin Qiu and Jin Wang irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to designate and nominate the senior management (such as executive directors and managers) of Zhuhai Cloud Technology) in Zhuhai Cloud Technology to Beijing Digital Entertainment.

(vi) Weiqin Qiu, Jin Wang, Beijing Digital Entertainment and Zhuhai Cloud Technology entered into the restated and revised exclusive option agreement on 12 June 2012, pursuant to which Beijing Digital Entertainment was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by Weiqin Qiu and Jin Wang in Zhuhai Cloud Technology at any time. The exercise price shall equal to the corresponding portion of liability of Beijing Digital Entertainment borne by Weiqin Qiu and Jin Wang respectively under the above loan agreement. However, if the lowest conversion price permitted by the PRC Laws is higher than the amounts of those liabilities, the conversion price shall be the lowest price permitted by the PRC Laws. Despite the above, Weiqin Qiu and Jin Wang shall jointly waive the obligations of Beijing Digital Entertainment for paying the shortfall in the case that the lowest conversion price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC.

(vii) Weiqin Qiu, Jin Wang, Beijing Digital Entertainment and Zhuhai Cloud Technology entered into an equity pledge agreement on 12 June 2012, pursuant to which, Weiqin Qiu and Jin Wang agreed to pledge all equity interests they respectively held in Zhuhai Cloud Technology and any increase in capital contributions in favor of Beijing Digital Entertainment, as security for the performance of their respective obligations under the above loan agreement, shareholder voting entrustment agreement and exclusive option agreement, and for the performance of obligations by Zhuhai Cloud Technology under the above shareholder voting entrustment agreement and exclusive option agreement.

(viii) Weiqin Qiu, Jin Wang, Beijing Digital Entertainment and 北京金山雲科技有限公司 (Beijing Kingsoft Cloud Technology Co., Ltd.) ("Beijing Cloud Technology") entered into a debt assignment agreement on 9 November 2012, pursuant to which Beijing Digital Entertainment assigned the debts with an aggregate amount of RMB100,000 borne by Weiqin Qiu and Jin Wang to Beijing Cloud Technology, therefore, Beijing Cloud Technology owned the debts of an aggregate amount of RMB100,000 borne by Weiqin Qiu and Jin Wang.

(ix) Weiqin Qiu, Jin Wang and Beijing Cloud Technology entered into a loan agreement on 9 November 2012, pursuant to which Beijing Cloud Technology provided interest free loans of RMB99,000 and RMB1,000 to Weiqin Qiu and Jin Wang respectively. The loans have no fixed maturity date, and Beijing Cloud Technology may at any time demand repayment by transferring their equity interests in Zhuhai Cloud Technology to Beijing Cloud Technology or its designated third party. Moreover, the ratio of the transferred equity interests in Zhuhai Cloud Technology to the equity interests in Zhuhai Cloud Technology held by these borrowers on the date of signing the loan agreement shall be the same as that of the requested repayment to the loans of these borrowers on the date of signing the loan agreement.

(x) Weiqin Qiu, Jin Wang, 19 existing employees of the Group, Beijing Digital Entertainment (the above 21 natural persons and Beijing Digital Entertainment, collectively referred to as "All Shareholders of Zhuhai Cloud Technology"), Zhuhai Cloud Technology and Beijing Cloud Technology entered into a shareholder voting entrustment agreement on 9 November 2012, pursuant to which All Shareholders of Zhuhai Cloud Technology irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to designate and nominate the senior management (such as executive directors and managers) of Zhuhai Cloud Technology) in Zhuhai Cloud Technology to Beijing Cloud Technology.

(xi) All Shareholders of Zhuhai Cloud Technology, Zhuhai Cloud Technology and Beijing Cloud Technology entered into an exclusive option agreement on 9 November 2012, pursuant to which Beijing Cloud Technology was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by All Shareholders of Zhuhai Cloud Technology in Zhuhai Cloud Technology at any time. The exercise price in respect of the equity interests of Weiqin Qiu and Jin Wang shall equal to the corresponding portion of liability of Beijing Digital Entertainment borne by Weiqin Qiu and Jin Wang respectively under the above loan agreement. However, if the lowest conversion price permitted by the PRC Laws is higher than the amounts of those liabilities, the conversion price shall be the lowest price permitted by the PRC

Laws. Despite the above, Weiqin Qiu and Jin Wang shall jointly waive the obligations of Beijing Digital Entertainment for paying the shortfall in the case that the lowest conversion price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC. The exercise price in respect of equity interests of shareholders other than Weiqin Qiu and Jin Wang shall be RMB1(one). However, if there are any mandatory requirements imposed by the PRC Laws in respect of the conversion price, the conversion price shall be the lowest price permitted by the PRC Laws. Despite the above, the existing shareholders shall jointly waive the obligations of Beijing Cloud Technology for paying the shortfall in the case that the lowest conversion price permitted by the PRC Laws is higher than RMB1(one), subject to the laws and regulations of the PRC.

(xii) All Shareholders of Zhuhai Cloud Technology, Zhuhai Cloud Technology and Beijing Cloud Technology entered into an equity pledge agreement on 9 November 2012, pursuant to which, All Shareholders of Zhuhai Cloud Technology, agreed to pledge all equity interests they respectively held in Zhuhai Cloud Technology and any increase in capital contributions in favor of Beijing Cloud Technology, as security for the performance of their respective obligations under the above loan agreement, shareholder voting entrustment agreement and exclusive option agreement, for the performance of obligations by Zhuhai Cloud Technology under the above shareholder voting entrustment agreement and exclusive option agreement, and for the performance of obligations by 北京金山雲網絡技術有限公司 (Beijing Kingsoft Cloud Network Technology Co., Ltd.) ("Beijing Cloud Network") which is wholly owned by Zhuhai Cloud Technology under the exclusive consultation and technological services agreement.

(xiii) Beijing Cloud Network and Beijing Cloud Technology entered into an exclusive consultation and technological services agreement on 9 November 2012, pursuant to which Beijing Cloud Technology provided exclusive services related to the business of Beijing Cloud Network to Beijing Cloud Network and Beijing Cloud Network shall pay the service fee to Beijing Cloud Technology on an annual basis. The relevant service fees shall be comprised of the results service fee (the remaining 100% of business income of Beijing Cloud Network for the year, net of the mutually agreed business cost of Beijing Cloud Network) and the mutually-agreed service fee (for the specified consultation services and technology services provided by Beijing Cloud Technology at the request of Beijing Cloud Network from time to time). Beijing Cloud Technology shall be entitled to the rights to adjust the above service fees at its discretion.

The arrangement relating to Zhuhai Cloud Technology was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

The Independent Non-executive Directors have reviewed the structure contracts relating to Zhuhai Cloud Technology and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or other distributions were made by Zhuhai Cloud Technology to the holders of their equity interest for the year ended 31 December 2013; and
- these structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the Company and its shareholders as a whole.

Structure Contracts Relating to Zhuhai Westhouse Shiyou and Chengdu Westhouse Shiyou

(i) Tao Zou, Weiqin Qiu and Chengdu Westhouse entered into a loan agreement on 3 September 2012, pursuant to which Chengdu Westhouse provided interest free loans of RMB10,000,000 to Tao Zou and Weiqin Qiu for repaying the liability incurred by Tao Zou and Weiqin Qiu for the acquisition of the entire registered capital in Zhuhai Westhouse Shiyou. The loans have no fixed maturity date, and Chengdu Westhouse may demand repayment at any time. Subject to the PRC Laws, Tao Zou and Weiqin Qiu shall repay the loans by transferring their equity interests in Zhuhai Westhouse Shiyou to Chengdu Westhouse or its designated third party.

(ii) Tao Zou, Weiqin Qiu, Chengdu Westhouse and Zhuhai Westhouse Shiyou entered into a shareholder voting entrustment agreement on 3 September 2012, pursuant to which Tao Zou and Weiqin Qiu irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Zhuhai Westhouse Shiyou) in Zhuhai Westhouse Shiyou to such persons designated by Chengdu Westhouse.

(iii) Tao Zou, Weiqin Qiu, Chengdu Westhouse and Zhuhai Westhouse Shiyou entered into an exclusive option agreement on 3 September 2012, pursuant to which Chengdu Westhouse was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by Tao Zou and Weiqin Qiu in Zhuhai Westhouse Shiyou at any time at an exercise price equal to the corresponding portion of liability of Chengdu Westhouse borne by Tao Zou and Weiqin Qiu under the loan agreement. However, if the lowest conversion price permitted by the PRC Laws is higher than the amounts of those liabilities, the exercise price shall be the lowest price permitted by the PRC Laws. Despite the above, Tao Zou and Weiqin Qiu shall jointly waive the obligations of Chengdu Westhouse for paying the shortfall in the case that the lowest price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC. When the option is exercised by Chengdu Westhouse, Chengdu Westhouse is entitled to the rights to pay the exercise price by directly waiving the corresponding portion of liability of Chengdu Westhouse borne by Tao Zou and Weiqin Qiu. The ratio of the waived liability of Tao Zou and Weiqin Qiu to their total liabilities shall be the same as that of the transferred equity interest held by Tao Zou and Weiqin Qiu to their total equity interest in Zhuhai Westhouse Shiyou.

(iv) Chengdu Westhouse and Chengdu Westhouse Shiyou entered into an exclusive technology development, support and consultation agreement on 3 September 2012, pursuant to which Chengdu Westhouse agreed, on the terms, conditions and pricing as required by the agreement, to provide to Chengdu Westhouse Shiyou exclusively and Chengdu Westhouse Shiyou agreed to accept the technology development, support and consultation services exclusively provided by Chengdu Westhouse for an indefinite term unless otherwise terminated by Chengdu Westhouse in accordance with the terms of the agreement.

(v) Tao Zou, Weiqin Qiu, Zhuhai Westhouse Shiyou, Chengdu Westhouse Shiyou and Chengdu Westhouse entered into a business operation agreement on 3 September 2012, pursuant to which, Tao Zou, Weiqin Qiu, Zhuhai Westhouse Shiyou and Chengdu Westhouse Shiyou will make relevant undertakings and guarantee to Chengdu Westhouse for the daily operation of Chengdu Westhouse Shiyou for a term of 10 years, unless otherwise terminated by Chengdu Westhouse, to ensure that Chengdu Westhouse Shiyou would perform the obligations under the above exclusive technology development, support and consultation agreement entered into on the same date.

(vi) Tao Zou, Weiqin Qiu, Zhuhai Westhouse Shiyou and Chengdu Westhouse entered into an equity pledge agreement on 3 September 2012, pursuant to which, Tao Zou and Weiqin Qiu agreed to pledge all equity interests they respectively held in Zhuhai Westhouse Shiyou and any increase in capital contributions in favor of Chengdu Westhouse, and granted the priority of pledge compensation while Zhuhai Westhouse Shiyou agreed to utilise these equity pledge arrangement as a security for the performance of their obligations under the above loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreement and business operation agreement dated 3 September 2012 and the settlement in respect of the relevant guaranteed debts. Guaranteed debts represents all direct, indirect, resulting loss and expected interest loss arising from any default by Tao Zou, Weiqin Qiu, Zhuhai Westhouse Shiyou and Chengdu Westhouse Shiyou, and all expenses generated by Chengdu Westhouse for enforcing mandatory performance of all agreed obligations by Tao Zou, Weiqin Qiu, Zhuhai Westhouse Shiyou under the above loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreement and business operation agreement all dated 3 September 2012.

The arrangement relating to Zhuhai Westhouse Shiyou and Chengdu Westhouse Shiyou was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the structure contracts relating to Zhuhai Westhouse Shiyou and Chengdu Westhouse Shiyou, and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or any other distributions to the holders of their equity interests were made by Zhuhai Westhouse Shiyou and Chengdu Westhouse Shiyou for the year ended 31 December 2013; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

Structure Contracts entered into in the 2013 financial year

In 2013, the Group entered into several sets of structure contracts with: (i) Beijing Antutu Technology Co., Ltd.(北京安兔兔科技有限公司,"Antutu Technology"), Ming Xu and Wei Liu; (ii) Guangzhou Kingsoft Network Co., Ltd. (廣州金山網絡科技有限公司,"Guangzhou Network"), Ming Xu and Weiqin Qiu, the sister of Pak Kwan Kau, a Director of the Company; (iii) Zhuhai Westhouse Shiyou and Guangzhou Westhouse Shiyou Online Technology Co., Ltd. (廣州西山居世游網絡科技有限公司, "Guangzhou Westhouse Shiyou"); (iv) as part of the Group's internal restructuring, the Group has also recloned several structure contracts in relation to Zhuhai Qiwen; and (v) as part of the Group's internal restructuring, the Group has also recloned several structure contracts in relation to Zhuhai Cloud Technology, enabling the Group to exercise its control over Antutu Technology, Guangzhou Network, Guangzhou Westhouse Shiyou, Zhuhai Qiwen and Zhuhai Cloud Technology and consolidated these companies' financial results into the results of the Group. Such arrangements were substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules. In 2013, the Group also cancelled the structure contracts relating to Zhuhai Online Game.

Structure Contracts Relating to Antutu Technology

(i) A loan agreement dated 7 June 2013 was entered into between Ming Xu, Wei Liu and Beijing Security Software which provided for interest free loans by Beijing Security Software of RMB3,000,000 to Ming Xu and Wei Liu, entirely for the purpose of repaying the liabilities incurred by Ming Xu and Wei Liu in establishing the entire registered capital in Beijing Antutu Technology Co., Ltd. ("Antutu Technology"). The loans have no definite maturity date and Beijing Security Software may request repayment at any time. Ming Xu and Wei Liu shall, subject to the PRC Laws, repay the loans by transferring the equity interest they hold in Antutu Technology to Beijing Security Software or as it may direct.

(ii) Ming Xu, Wei Liu, Beijing Security Software and Antutu Technology entered into a shareholder voting entrustment agreement on 14 June 2013, pursuant to which Ming Xu and Wei Liu irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Antutu Technology) in Antutu Technology to such persons designated by Beijing Security Software.

(iii) Ming Xu, Wei Liu, Beijing Security Software and Antutu Technology entered into an exclusive option agreement on 14 June 2013, pursuant to which Beijing Security Software was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by Ming Xu and Wei Liu in Antutu Technology at any time at exercise price equal to the corresponding portion of liability of Beijing Security Software borne by the respective existing shareholders under the loan agreement. However, if the lowest conversion price permitted by the PRC Laws is higher than the amounts of those liabilities, the conversion price shall be the lowest price permitted by the PRC Laws. Despite the above, the existing shareholders shall jointly waive the obligations of Beijing Security Software for paying the shortfall in the case that the lowest price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC.

(iv) Beijing Security Software and Antutu Technology entered into an exclusive technology development, support and consultation agreement on 14 June 2013, pursuant to which Beijing Security Software agreed, on the terms, conditions and pricing as required by the agreement, to provide to Antutu Technology exclusively and Antutu Technology agreed to accept the technology development, support and consultation services exclusively provided by Beijing Security Software for an indefinite term unless otherwise terminated by both parties in accordance with the terms of the agreement.

(v) Ming Xu, Wei Liu, Beijing Security Software and Antutu Technology entered into a business operation agreement on 14 June 2013, pursuant to which, Ming Xu, Wei Liu and Antutu Technology will make relevant undertakings and guarantee to Beijing Security Software for the daily operation of Antutu Technology for a term of 10 years, unless otherwise terminated by Beijing Security Software, to ensure that Antutu Technology would perform the obligations under the above exclusive technology development, support and consultation agreement entered into on the same date.

(vi) Ming Xu, Wei Liu, Beijing Security Software and Antutu Technology entered into an equity pledge agreement on 14 June 2013, pursuant to which, Ming Xu and Wei Liu agreed to pledge all equity interests they respectively held in Antutu Technology and any increase in capital contributions in favor of Beijing Security Software, as security for the performance of their obligations specified in above (i) to (v) in respect of the loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreement and business operation agreement.

Structure Contracts Relating to Guangzhou Network

(i) A loan agreement dated 5 August 2013 was entered into between Ming Xu, Weiqin Qiu and Beijing Security Software which provided for interest free loans by Beijing Security Software of RMB10,000,000 to Ming Xu and Weiqin Qiu, entirely for the purpose of repaying the liabilities incurred by Ming Xu and Weiqin Qiu in establishing the entire registered capital in Guangzhou Kingsoft Network Co., Ltd. ("Guangzhou Network"). The loans have no definite maturity date and Beijing Security Software may request repayment at any time. Ming Xu and Weiqin Qiu shall, subject to the PRC Laws, repay the loans by transferring the equity interest they hold in Guangzhou Network to Beijing Security Software or as it may direct.

(ii) Ming Xu, Weiqin Qiu, Beijing Security Software and Guangzhou Network entered into a shareholder voting entrustment agreement on 1 September 2013, pursuant to which Ming Xu and Weiqin Qiu irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Guangzhou Network) in Guangzhou Network to such persons designated by Beijing Security Software.

(iii) Ming Xu, Weiqin Qiu, Beijing Security Software and Guangzhou Network entered into an exclusive option agreement on 1 September 2013, pursuant to which Beijing Security Software was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by Ming Xu and Weiqin Qiu in Guangzhou Network at any time at exercise price equal to the corresponding portion of liability of Beijing Security Software borne by the respective existing shareholders under the loan agreement. However, if the lowest conversion price permitted by the PRC Laws is higher than the amounts of those liabilities, the conversion price shall be the lowest price permitted by the PRC Laws. Despite the above, the existing shareholders shall jointly waive the obligations of Beijing Security Software for paying the shortfall in the case that the lowest price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC.

(iv) Beijing Security Software and Guangzhou Network entered into an exclusive technology development, support and consultation agreement on 1 September 2013, pursuant to which Beijing Security Software agreed, on the terms, conditions and pricing as required by the agreement, to provide to Guangzhou Network exclusively and Guangzhou Network agreed to accept the technology development, support and consultation services exclusively provided by Beijing Security Software for an indefinite term unless otherwise terminated by both parties in accordance with the terms of the agreement.

(v) Ming Xu, Weiqin Qiu, Beijing Security Software and Guangzhou Network entered into a business operation agreement on 1 September 2013, pursuant to which, Ming Xu, Weiqin Qiu and Guangzhou Network will make relevant undertakings and guarantee to Beijing Security Software for the daily operation of Guangzhou Network for a term of 10 years, unless otherwise terminated by Beijing Security Software, to ensure that Guangzhou Network would perform the obligations under the above exclusive technology development, support and consultation agreement entered into on the same date.

(vi) Ming Xu, Weiqin Qiu, Beijing Security Software and Guangzhou Network entered into an equity pledge agreement on 1 September 2013, pursuant to which, Ming Xu and Weiqin Qiu agreed to pledge all equity interests they respectively held in Guangzhou Network and any increase in capital contributions in favor of Beijing Security Software, as security for the performance of their obligations specified in above (i) to (v) in respect of the loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreement and business operation agreement.

Structure Contracts Relating to Zhuhai Westhouse Shiyou and Guangzhou Westhouse Shiyou

(i) Chengdu Westhouse and Guangzhou Westhouse Shiyou (a wholly owned subsidiary of Zhuhai Westhouse Shiyou established on 29 May 2013) entered into an exclusive technology development, support and consultation agreement on 29 May 2013, pursuant to which Chengdu Westhouse agreed, on the terms, conditions and pricing as required by the agreement, to provide to Guangzhou Westhouse Shiyou exclusively and Guangzhou Westhouse Shiyou agreed to accept the technology development, support and consultation services exclusively provided by Chengdu Westhouse for an indefinite term unless otherwise terminated by Chengdu Westhouse in accordance with the terms of the agreement.

(ii) Tao Zou, Weiqin Qiu, Zhuhai Westhouse Shiyou, Guangzhou Westhouse Shiyou and Chengdu Westhouse entered into a business operation agreement on 29 May 2013, pursuant to which, Tao Zou, Weiqin Qiu, Zhuhai Westhouse Shiyou and Guangzhou Westhouse Shiyou will make relevant undertakings and guarantee to Chengdu Westhouse for the daily operation of Guangzhou Westhouse Shiyou for a term of 10 years, unless otherwise terminated by Chengdu Westhouse, to ensure that Guangzhou Westhouse Shiyou would perform the obligations under the above exclusive technology development, support and consultation agreement entered into on the same date.

Structure Contracts Relating to Zhuhai Online Game

Tao Zou, Feizhou Chen, Xi Liu, etc. (the "Transferor") and Chengdu Westhouse (the "Transferee") entered into an equity transfer agreement on 15 December 2013, pursuant to which the Transferor agreed to sell and the Transferee agreed to purchase the entire equity interest held by the Transferor in Zhuhai Online Game with the loans owed to Transferee as the consideration. The registration procedures on the equity transfer have been completed on 30 December 2013, therefore the structure contracts relating to Zhuhai Online Game was cancelled accordingly.

Structure Contracts in relation to Zhuhai Qiwen

(i) Ke Ge entered into equity transfer agreements with each of the other original shareholders except Weiqin Qiu, Jin Wang and Ke Ge (the "Transferors") of Zhuhai Qiwen on 30 July 2013, pursuant to which the Transferors transferred their entire equity interests in Zhuhai Qiwen to Ke Ge at the price calculated based on the Transferors' contribution amount in registered capital of Zhuhai Qiwen.

(ii) In connection with the above equity transfer agreements, Ke Ge, the Transferors and Beijing Office Software entered into a debt assumption agreement on 30 July 2013, pursuant to which Ke Ge agreed to assume the liability of RMB9,185,966 which was the proportion liable to be paid by the Transferors to Beijing Office Software under the loan agreements dated 29 December 2011 as a settlement for the transfer of 13.5088% of the registered capital in Zhuhai Qiwen from the Transferors.

(iii) In connection with the equity transfer agreements, 1) Weiqin Qiu, Jin Wang, and Ke Ge (collectively referred to as "New Shareholders"); 2) the Transferors; 3) Beijing Office Software; and 4) Zhuhai Qiwen entered into a termination agreement on 30 July 2013, pursuant to which New Shareholders, the Transferors, Beijing Office Software and Zhuhai Qiwen agreed to terminate the 1) Loan Agreement; 2) Equity Pledge Agreement; 3) Shareholder Voting Agreement; and 4) Exclusive Option Agreement dated 29 December 2011.

(iv) New Shareholders and Beijing Office Software entered into a loan agreement on 30 July 2013, pursuant to which Beijing Office Software provided interest free replacement loans of RMB68,000,000 to New Shareholders for the purpose of repaying the liability incurred by New Shareholders for the acquisition of the entire equity interests in Zhuhai Qiwen. The loans have no fixed maturity date, and Beijing Office Software may demand repayment at any time. Subject to the applicable laws, New Shareholders shall repay the loans by transferring their equity interests in Zhuhai Qiwen to Beijing Office Software or its designated third party.

(v) New Shareholders, Beijing Office Software and Zhuhai Qiwen entered into an equity pledge agreement on 30 July 2013, pursuant to which New Shareholders agreed to pledge all equity interests they respectively held in Zhuhai Qiwen and any increase in their capital contribution in favor of Beijing Office Software as security for the performance of their obligations under the loan agreement, the shareholder voting entrustment agreement and the exclusive option agreement dated 30 July 2013, and the performance of obligation by Zhuhai Kingsoft Application under the intellectual property license agreement dated 29 December 2011.

(vi) New Shareholders, Beijing Office Software and Zhuhai Qiwen entered into a shareholder voting entrustment agreement on 30 July 2013, pursuant to which New Shareholders irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Zhuhai Qiwen) in Zhuhai Qiwen to person designated by Beijing Office Software.

(vii) Beijing Office Software, New Shareholders and Zhuhai Qiwen entered into an exclusive option agreement on 30 July 2013, pursuant to which Beijing Office Software was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by New Shareholders in Zhuhai Qiwen at any time at an amount equal to the corresponding portion of liability borne by the respective New Shareholders under a loan agreement entered into on 30 July 2013 as stated in (iv) above.

Structure Contracts Relating to Zhuhai Cloud Technology

(i) Yang Gang and 18 existing employees of the Group separately entered into 18 equity transfer agreements on 28 January 2013, 1 February 2013,19 February 2013, and 4 March 2013, pursuant to which 18 existing employees respectively transfer their entire equity interest to Yang Gang.

(ii) Weiqin Qiu, Jin Wang, Yang Gang, Beijing Digital Entertainment (the above 3 natural persons and Beijing Digital Entertainment, collectively referred to as "All New Shareholders of Zhuhai Cloud Technology"), Zhuhai Cloud Technology, Beijing Cloud Technology and all the other natural person shareholders of Zhuhai Cloud Technology at the time entered into a termination agreement on 28 January 2013, pursuant to which all parties agreed to terminate the 1) Equity Pledge Agreement; 2) Shareholder Voting Agreement; and 3) Exclusive Option Agreement dated 9 November 2012.

(iii) All New Shareholders of Zhuhai Cloud Technology, Zhuhai Cloud Technology and Beijing Cloud Technology entered into a shareholder voting entrustment agreement on 18 March 2013, pursuant to which All New Shareholders of Zhuhai Cloud Technology irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to designate and nominate the senior management (such as executive directors and managers of Zhuhai Cloud Technology) in Zhuhai Cloud Technology to Beijing Cloud Technology.

(iv) All New Shareholders of Zhuhai Cloud Technology, Zhuhai Cloud Technology and Beijing Cloud Technology entered into an exclusive option agreement on 18 March 2013, pursuant to which Beijing Cloud Technology was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by All New Shareholders of Zhuhai Cloud Technology in Zhuhai Cloud Technology at any time. The exercise price in respect of the equity interests of Weiqin Qiu and Jin Wang shall equal to the corresponding portion of liability of Beijing Cloud Technology borne by Weiqin Qiu and Jin Wang respectively under the loan agreement (as described above in "Original Structure Contracts Relating to Zhuhai Cloud Technology" (ix)). However, if the lowest conversion price permitted by the PRC Laws is higher than the amounts of those liabilities, the conversion price shall be the lowest price permitted by the PRC Laws. Despite the above, Weiqin Qiu and Jin Wang shall jointly waive the obligations of Beijing Cloud Technology for paying the shortfall in the case that the lowest conversion price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC. The exercise price in respect of equity interests of shareholders other than Weiqin Qiu and Jin Wang shall be RMB1(one). However, if there are any mandatory requirements imposed by the PRC Laws in respect of the conversion price, the conversion price shall be the lowest price permitted by the PRC Laws. Despite the above, the existing shareholders shall jointly waive the obligations of Beijing Cloud Technology for paying the shortfall in the case that the lowest conversion price permitted by the PRC Laws is higher than RMB1(one), subject to the laws and regulations of the PRC.

(v) All New Shareholders of Zhuhai Cloud Technology, Zhuhai Cloud Technology and Beijing Cloud Technology entered into an equity pledge agreement on 18 March 2013, pursuant to which, All New Shareholders of Zhuhai Cloud Technology, agreed to pledge all equity interests they respectively held in Zhuhai Cloud Technology and any increase in capital contributions in favor of Beijing Cloud Technology, as security for the performance of their respective obligations under the above loan agreement, shareholder voting entrustment agreement and exclusive option agreement, for the performance of obligations by Zhuhai Cloud Technology under the above shareholder voting entrustment agreement and exclusive option agreement, and for the performance of obligations by Beijing Cloud Network under the exclusive consultation and technological services agreement.

The Independent Non-executive Directors have reviewed the structure contracts relating to Antutu Technology, Guangzhou Network, Zhuhai Westhouse Shiyou and Guangzhou Westhouse Shiyou, Zhuhai Qiwen and Zhuhai Cloud Technology and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or other distributions were made by Antutu Technology, Guangzhou Network, Zhuhai Westhouse Shiyou and Guangzhou Westhouse Shiyou, Zhuhai Qi Wen and Zhuhai Cloud Technology to the holders of their equity interest for the year ended 31 December 2013; and
- these structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the Company and its shareholders as a whole.

3. Continuing Transactions and Continuing Connected Transactions

Continuing Connected Transactions between Kingsoft Japan and Mobile In Style

On 28 December 2012, Kingsoft Japan Inc. ("Kingsoft Japan") entered into a framework agreement with Mobile In Style Inc. ("Mobile In Style"), pursuant to which, Kingsoft Japan would cooperate with Mobile In Style to leverage on the sales channel of both Kingsoft Japan and Mobile In Style in order to cross market each other's products and services, provide loan and guarantee services to Mobile In Style and cooperate in terms of software development services.

According to the agreement, the term of KJ Sales Agency Services, MIS Sales Agency Services, Loan Services and Guarantee Services would be from 28 December 2012 to 31 December 2014; while the term of KJ Software Development Services and MIS Software Development Services would be from 1 January 2013 to 31 December 2014.

Kingsoft Japan is a non-wholly owned subsidiary of the Company and Mobile In Style was a 85% owned subsidiary of Kingsoft Japan at the date of the framework agreement. As Jun LEI, a Director and substantial Shareholder of the Company, was interested in 15% of Mobile In Style at the date of the framework agreement through Xiaomi Technology Co., Limited, an associate of Jun LEI, Mobile In Style is a connected person of the Company. As a result, the transactions contemplated under the framework agreement between Kingsoft Japan and Mobile In Style constituted continuing connected transactions of the Company and in respect of which an announcement was published on 28 December 2012.

The continuing connected transactions between Kingsoft Japan and Mobile In Style have been ended since 30 November 2013 on the date of which Mobile In Style was cancelled.

The annual caps for the continuing connected transactions hereunder as compared with the actual transactions amounts incurred or received by the Group for the year ended 31 December 2013 are set out as follows:

	Annual Cap for 2013 JPY million	Actual amount for 2013 JPY million
KJ Sales Agency Services	60	33
KJ Software Development Services	30	0
Loan Services	300	0
Guarantee Services	300	0
MIS Sales Agency Services	50	10
MIS Software Development Services	20	0

Continuing Connected Transactions with Xiaomi Group

On 6 March 2013, Chengdu Kingsoft Digital Entertainment Co., Ltd. ("成都金山數字娛樂科技有限公司, Chengdu Digital Entertainment", a wholly owned subsidiary of the Company) entered into the Agreement with Beijing Xiaomi Technology Co., Ltd. ("北京小米科技有限責任公司, Beijing Xiaomi") pursuant to which Chengdu Digital Entertainment will purchase smart cell phones and cell phone accessories from Beijing Xiaomi for a term commencing from 1 January 2013 and expiring on 31 December 2013.

Chengdu Digital Entertainment is a wholly owned subsidiary of the Company. Beijing Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company, and Beijing Xiaomi is accordingly a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the transactions conducted in accordance with the Agreement constitute continuing connected transaction for the Company under the Listing Rules.

On 24 April 2013, the Company and Xiaomi Corporation ("Xiaomi") entered into a Cooperation Framework Agreement, pursuant to which (i) the Group agreed to provide cloud services, including but not limited to cloud storage services and file hosting services, to Xiaomi and its subsidiaries ("Xiaomi Group") in return for service fees; (ii) the Group agreed to jointly operate with Xiaomi Group the games provided by the Group, including but not limited to the maintenance of network system and games operating platform and provision of game contents; and (iii) the Group agreed to provide promotion services via its products and websites for the sale of Xiaomi's smart cell phones and related products in return for service fees, for a term of two years from 1 January 2013 to 31 December 2014.

On 21 August 2013, the Company entered into a supplementary agreement to revise the annual caps for the service fees payable by Xiaomi in relation to the promotion services for the sale of Xiaomi's smart cell phones and related products under the Cooperation Framework Agreement.

On 27 December 2013, the Company and Xiaomi entered into a supplemental agreement to amend the Cooperation Framework Agreement ("Supplemental Agreement"), pursuant to which (i) the Group will provide cloud services to Xiaomi Group; (ii) the Group will jointly operate with Xiaomi Group the games provided by the Group; (iii) the Group will provide promotion services via its products or websites for the sale of Xiaomi's products; (iv) the Group will purchase hardware products from Xiaomi Group, including but not limited to Xiaomi cell phones, Xiaomi Boxes, Xiaomi televisions, Xiaomi routers and the relevant accessories; (v) Xiaomi Group will provide promotion services via its products or websites for the sale of the Group's products. In addition, according to the Supplemental Agreement, the term of the Cooperation Framework Agreement will be extended to end on 31 December 2015 and the original annual caps of the provision of cloud services by the Group to Xiaomi Group for the two years ending 31 December 2014 will be revised to RMB5.3 million and RMB40 million, respectively.

The transactions mentioned above between Chengdu Digital Entertainment and Beijing Xiaomi have been covered within the Supplemental Agreement dated 27 December 2013 and the annual cap has been revised thereunder.

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company, and accordingly, Xiaomi is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Corporation Framework Agreement and the supplemental agreements constitute continuing connected transactions of the Company under the Listing Rules.

For details of the continuing connected transactions, please refer to the announcements of the Company dated 6 March 2013, 24 April 2013, 21 August 2013 and 27 December 2013.

The annual caps for the continuing connected transactions hereunder as compared with the actual transactions amounts incurred or received by the Group for the year ended 31 December 2013 are set out as follows:

	Annual Cap for 2013 RMB million	Actual amount for 2013 RMB million
fees payable by Xiaomi Group to the Group		
Provision of cloud services	5.3	4.98
Joint operation of games	2	0.01
Provision of promotion services by the Group	5	2.72
fees payable by the Group to Xiaomi Group		
Purchase of Xiaomi's products	8.5	8.39
Provision of promotion services by Xiaomi Group	2	0

Continuing Transactions involving KIS and its subsidiaries

Upon completion of subscription of preferred shares in KIS by TCH Copper Limited ("TCH") ("Completion"), a subsidiary of Tencent Holdings Limited ("Tencent", a substantial shareholder of the Company), the shareholding of TCH in KIS increased from approximately 10% (but less than 10%) to approximately 17.99%, on the assumption that all preferred shares of KIS are fully converted into the ordinary shares of KIS based on the initial conversion ratio of 1:1. Therefore, KIS and its subsidiaries ("KIS Group") became connected subsidiaries of the Company by virtue of Rule 14A.11 (5) of the Listing Rules. Before the Completion, KIS Group and the Group had entered into certain agreements in relation to ongoing transactions conducted on a regular and continuing basis and in the ordinary and usual course of the business of the Group. As such, the ongoing transactions between KIS Group and the Group entered into prior to the Completion will become continuing connected transactions of the Company under the Listing Rules, in respect of which an announcement was published on 28 June 2013. Details of such agreements are summarized below:

(i) Pursuant to the authorization and licensing agreement between Beijing Security Software, Conew Network Technology (Beijing) Co., Ltd, and Zhuhai Juntian Electronic Technology Co., Ltd., ("Zhuhai Juntian"), all being members of the KIS Sub-group (collectively, the "KIS Sub-group Parties") and Beijing Digital Entertainment, Beijing Kingsoft Software Co., Ltd. and Zhuhai Kingsoft Software Co. Ltd. ("Zhuhai Kingsoft Software"), all being members of the Group (collectively, the "Group Parties") dated 14 January 2011, the Group Parties would globally authorize the KIS Sub-group Parties to use and develop the software products with reference to the actual costs incurred by the Group Parties in accordance with the price, payment method and other terms as agreed by all parties, for a term from 1 October 2010 to 30 September 2015.

    For the year ended 31 December 2013, the actual amount of the transactions conducted under the said agreement was RMB8.4 million.

(ii) Pursuant to the technology service agreement between Shell Internet (Beijing) Security Technology Co., Ltd. and Beijing Kingsoft Digital Entertainment Technology Co., Ltd. dated 1 October 2012, Beijing Kingsoft Digital Entertainment Technology Co., Ltd. would provide technology services to Shell Internet (Beijing) Security Technology Co., Ltd. for the value-added telecommunications business project, including building the network platform and supporting operation technology, for a term from 1 October 2012 to 31 December 2013.

For the year ended 31 December 2013, the actual amount of the transactions conducted under the said agreement was RMB0.87 million.

(iii) Pursuant to the technology service agreement between Shell Internet (Beijing) Security Technology Co., Ltd. and Beijing Kingsoft Digital Entertainment Technology Co., Ltd. (Zhuhai Branch) dated 1 October 2012, Beijing Kingsoft Digital Entertainment Technology Co., Ltd. (Zhuhai Branch) would provide technology services to Shell Internet (Beijing) Security Technology Co., Ltd. for the value-added telecommunications business project, including building the network platform and supporting operation technology, for a term from 1 October 2012 to 31 December 2013.

For the year ended 31 December 2013, the actual amount of the transactions conducted under the said agreement was nil.

(iv) Pursuant to the server rental agreement between Shell Internet (Beijing) Security Technology Co., Ltd. and Zhuhai Kingsoft Software Co., Ltd. dated 1 October 2012, Shell Internet (Beijing) Security Technology Co., Ltd. would rent the servers from Zhuhai Kingsoft Software Co., Ltd. and pay service fee with reference to the actual costs incurred by Zhuhai Kingsoft Software Co., Ltd., for a term from 1 October 2012 to 31 December 2013.

For the year ended 31 December 2013, the actual amount of the transactions conducted under the said agreement was RMB0.02 million.

(v) Pursuant to the loan framework between KIS (as the borrower), certain subsidiaries of KIS (as the guarantors) and the Company (as the lender) dated 14 January 2011, the Company would provide to KIS the necessary funding in an aggregate amount not exceeding RMB110 million for KIS' daily operation and other purposes, for a term from 1 October 2010 to the initial public offering date of KIS or the date of full repayment of the loan and related interest (whichever is earlier).

The Company has not provided any loan to KIS out of the credit limit of RMB110 million pursuant to the Loan Framework Contract, from 1 October 2010 to 31 December 2011.

(vi) Pursuant to the service agreement between Zhuhai Juntian Electronic Technology Co., Ltd. and Zhuhai Kingsoft Software Co., Ltd. dated 1 January 2013, Zhuhai Kingsoft Software Co., Ltd. would provide miscellaneous services to Zhuhai Juntian Electronic Technology Co., Ltd., including but not limited to administrative support services and information technology office services for a term from 1 January 2013 to 31 December 2015.

For the year ended 31 December 2013, the actual amount of the transactions conducted under the said agreement was RMB2.54 million.

(vii) Pursuant to the service agreement between Zhuhai Juntian Electronic Technology Co., Ltd. and Chengdu Kingsoft Interactive Entertainment Co., Ltd. dated 1 January 2013, Chengdu Kingsoft Interactive Entertainment Co., Ltd. would provide IT infrastructure management and maintenance services to Zhuhai Juntian Electronic Technology Co., Ltd., for a term from 1 January 2013 to 31 December 2015.

For the year ended 31 December 2013, the actual amount of the transactions conducted under the said agreement was RMB0.63 million.

(viii) Pursuant to the property leasing agreement between Zhuhai Juntian Electronic Technology Co., Ltd. and Zhuhai Kingsoft Software Co., Ltd. dated 1 January 2013, Zhuhai Kingsoft Software Co., Ltd. would lease the office located in Zhuhai city in an aggregate amount of 3,512 square meters to Zhuhai Juntian Electronic Technology Co., Ltd., for a term from 1 January 2013 to 31 December 2015.

For the year ended 31 December 2013, the actual amount of the transactions conducted under the said agreement was RMB1.69 million.

From 1 January 2014, the agreements mentioned above in (i) to (viii) will be either no longer effective or covered under the Cooperation Framework Agreement dated 27 December 2013.

On 27 December 2013, the Company and Kingsoft Internet Software Holdings Limited ("KIS") entered into a Cooperation Framework Agreement to regulate, among other things, the provision of services and the leasing transactions between the Company and its subsidiaries (the "Group") and KIS and its subsidiaries ("KIS Group") for a term of three years from 1 January 2014 to 31 December 2016.

According to the Cooperation Framework Agreement, i) the Group and KIS Group will mutually provide promotion services via one party's products and websites for the sale of the other party's products, including but not limited to, pre-installation, bundle promotion, joint operation and publishing on-line advertisement; ii) the Group and KIS Group will grant licenses to each other to use, among others, certain technologies, trademarks and software products; iii) the Group will provide property leasing and asset leasing to KIS Group and iv) the Group will provide miscellaneous services to KIS Group, including but not limited to, administration assistance services and technology support services.

KIS is a connected subsidiary of the Company by virtue of Rule 14A.11 (5) of the Listing Rules. As such, the Cooperation Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

For details of the continuing connected transactions, please refer to the announcement of the Company dated 27 December 2013.

Continuing Connected Transactions among KIS, KIS Beijing and Kingsoft Japan

On 1 December 2009, Beijing Kingsoft Internet Security Software Co., Ltd.("KIS Beijing"), a subsidiary of KIS, entered into the Original Licensing Agreement with Kingsoft Japan, pursuant to which, KIS Beijing granted Kingsoft Japan the exclusive right to use certain software technologies in consideration of payment of licensing fees. On 31 March 2012, the parties entered into the Supplemental Agreement to clarify, among other things, the scope of licensing and termination provisions. The term of the Original Licensing Agreement will expire on 30 November 2015. On 12 November 2013, KIS, KIS Beijing and Kingsoft Japan entered into the Framework Licensing Agreement, pursuant to which (i) KIS Group (including KIS Beijing) will grant Kingsoft Japan Group the exclusive right to use certain software technologies in consideration of payment of licensing fees; and (ii) KIS Group and Kingsoft Japan Group will jointly operate the mobile device products on certain mobile device platforms in the Japanese market. The exclusive right to use the software technologies will be granted in accordance with the terms set out in the Original Licensing Agreement except for those specifically modified in the Framework Licensing Agreement. The joint operation with respect to certain mobile device products will be carried out in accordance with the terms set out in the Framework Licensing Agreement.

KIS is a connected subsidiary of the Company by virtue of Rule 14A.11 (5) of the Listing Rules. As such, the Framework Licensing Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules.

For details of the continuing connected transactions, please refer to the announcement of the Company dated 28 June 2013 in relation to the continuing connected transactions announced pursuant to Rule 14A.41 of the Listing Rules and the announcement of the Company dated 12 November 2013.

The annual caps for the continuing connected transactions hereunder as compared with the actual transactions amounts incurred or received by the Group for the year ended 31 December 2013 are set out as follows:

	Annual Cap for 2013 RMB million	Actual amount for 2013 RMB million
the licensing fees in respect of the mobile device products payable by Kingsoft Japan Group to KIS Group	1.5	1.0
the licensing fees in respect of the personal computer platform products payable by Kingsoft Japan Group to KIS Group	2.5	2.38
the joint operation fees in respect of the mobile device products payable by KIS Group to Kingsoft Japan Group	0.1	0

Continuing Connected Transactions between KIS and Tencent Shenzhen

On 27 September 2012, Kingsoft Internet Software Holdings Limited ("KIS"), a subsidiary of the Company, entered into a framework agreement ("Tencent Framework Agreement") with Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司, "Tencent Shenzhen"), a subsidiary of Tencent Holdings Limited ("Tencent"), pursuant to which, KIS and its subsidiaries would provide various marketing platforms and channels to Tencent and its subsidiaries ("Tencent Group") for the promotion of Tencent Group's internet services and products, thereby receiving relevant income and enhancing the returns of the Group. The price will be based on 1) the prevailing fair market pricing practice and pricing policy adopted by independent third parties among industry participants for similar transactions; and 2) if no such pricing information is available the actual cost incurred thereof plus a reasonable profit margin, such profit margin will be made reference to the profit margin of products with similar nature/function in historical transactions of the Group conducted with independent third parties and/or connect persons, whichever is more favourable to the Company. The pricing of services and products provided by KIS and its subsidiaries to Tencent Group should be no less favourable than the terms of services and products offered by KIS and its subsidiaries to independent third parties. KIS and its subsidiaries will adopt relevant supervision and internal control procedures to ensure that the pricing basis for each of the transactions of services and products are carried out in accordance with the above terms. The payment terms will be settled with reference to the similar payment terms of the respective transactions' practice among industry participants during the transaction period. The term of Tencent Framework Agreement commenced from 1 January 2012 to 31 December 2013.

On 27 December 2013, KIS entered into a Strategic Cooperation Agreement with Tencent Shenzhen, pursuant to which, KIS and its subsidiaries will provide promotion services to Tencent and its subsidiaries and their respective associates for the a term of two years from 1 January 2014 to 31 December 2015.

Tencent is the substantial shareholder and a connected person of the Company. Tencent Shenzhen is a subsidiary of Tencent. As a result, the services provided by KIS and its subsidiaries and the service fees received from Tencent and its subsidiaries and their respective associates under the Tencent Framework Agreement constitute continuing connected transactions of the Company.

For details of the continuing connected transactions, please refer to the announcement of the Company dated 27 September 2012 and 27 December 2013.

The annual caps for the continuing connected transactions hereunder as compared with the actual transactions amounts incurred or received by the Group for the year ended 31 December 2013 are set out as follows:

	Annual Cap for 2013 RMB million	Actual amount for 2013 RMB million
Annual revenues of the Group	200	104.08

In respect of the above continuing connected transactions of the Group, the independent non-executive Directors have reviewed the related agreements and transactions contemplated thereunder and confirmed that these transactions were:

(i) entered into in the ordinary and usual course of business of the Group;

(ii) conducted on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties;

(iii) entered into in accordance with the terms of the respective agreements and were fair and reasonable and in the interests of the Company and its shareholders as a whole; and

(iv) the aggregate annual amount of the transactions were within the relevant annual caps (if any).

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Related Party Transactions

Details of the related party transactions for the year are included in note 40 to the financial statements. Certain related party transactions disclosed in note 40 to the financial statements also constitute connected transactions or continuing connected transactions as disclosed above. The certain transactions between connected persons and the Group as shown above have been entered into and/or are ongoing during the year and the Company had made relevant disclosures to the extent required in accordance with the requirements of the Listing Rules.

Compliance with the Code on Corporate Governance Practice

During the year ended 31 December 2013, the Company complied with all code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules with the exception of the deviation from code provision A.6.7 and C1.2. Please also refer to the Corporate Governance Report on page 18 in this annual report for full details.

Auditors

The consolidated financial statements of the Company for the year ended 31 December 2013 has been audited by Ernst & Young, who will retire and, being eligible, offer themselves for reappointment at our forthcoming AGM.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association of our Company or the laws of the Cayman Islands, which would oblige our Company to offer new shares on a pro-rata basis to existing shareholders.

By order of the Board
Jun Lei
Chairman
Hong Kong, 18 March 2014

ERNST & YOUNG
安 永

TO THE SHAREHOLDERS OF KINGSOFT CORPORATION LIMITED
(Continued into the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kingsoft Corporation Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 70 to 184, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

18 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
REVENUE	5	**2,173,269**	1,411,161
Cost of revenue		**(297,104)**	(186,939)
Gross profit		**1,876,165**	1,224,222
Research and development costs, net of government grants		**(596,491)**	(385,409)
Selling and distribution expenses		**(382,848)**	(234,115)
Administrative expenses		**(192,245)**	(147,954)
Share-based compensation costs	6	**(61,387)**	(48,472)
Other income and gains	5	**45,949**	28,609
Other expenses		**(7,263)**	(22,971)
Fair value loss/(gain) on financial instruments at fair value through profit or loss	6	**(10,355)**	16,010
Finance income	6	**129,462**	97,973
Finance costs	6	**(24,466)**	(8,702)
Gain on disposal of a subsidiary	26	**47,452**	—
Share of profits and losses of:			
Joint ventures	17	**4,827**	9,532
Associates	18	**(3,748)**	(930)
PROFIT BEFORE TAX	6	**825,052**	527,793
Income tax expense	9	**(71,178)**	(61,359)
PROFIT FOR THE YEAR		**753,874**	466,434
Attributable to:			
Owners of the parent		**670,746**	432,589
Non-controlling interests		**83,128**	33,845
		753,874	466,434
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**58.12 cents**	37.85 cents
Diluted		**55.19 cents**	37.15 cents

Details of the dividends proposed for the year are disclosed in note 11 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
PROFIT FOR THE YEAR	**753,874**	466,434
OTHER COMPREHENSIVE LOSS		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Change in fair value of available-for-sale investments, net of tax	**20,927**	—
Exchange differences on translation of foreign operations	**(23,483)**	(5,613)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(2,556)**	(5,613)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**751,318**	460,821
Attributable to:		
Owners of the parent	**669,418**	429,251
Non-controlling interests	**81,900**	31,570
	751,318	460,821

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**385,067**	371,213
Lease prepayments	14	**42,260**	43,201
Goodwill	15	**53,994**	14,559
Other intangible assets	16	**60,104**	53,261
Investments in joint ventures	17	**—**	20,122
Investments in associates	18	**34,852**	—
Available-for-sale investments	19	**62,626**	7,182
Other financial asset	20	**21,796**	27,822
Loan receivables	21	**15,976**	5,864
Deferred tax assets	9	**52,406**	32,962
Total non-current assets		**729,081**	576,186
CURRENT ASSETS			
Inventories	22	**3,528**	17,006
Trade receivables	23	**185,161**	130,346
Prepayments, deposits and other receivables	24	**151,379**	120,589
Due from related parties	40	**135,872**	161,262
Pledged deposit	25	**19,588**	19,000
Cash and cash equivalents	25	**4,481,188**	2,416,259
Available-for-sale investments	19	**55,780**	—
		5,032,496	2,864,462
Investment in a joint venture classified as held for sale	17	**42,756**	—
Assets of a disposal group classified as held for sale	26	**—**	200,621
Total current assets		**5,075,252**	3,065,083
CURRENT LIABILITIES			
Trade payables	27	**32,463**	23,089
Interest-bearing bank loans	28	**15,724**	413,559
Other payables and accruals	29	**498,964**	298,827
Deferred revenue	32	**202,105**	185,462
Income tax payable		**39,338**	11,022
		788,594	931,959
Liabilities directly associated with the assets classified as held for sale	26	**—**	753
Total current liabilities		**788,594**	932,712
NET CURRENT ASSETS		**4,286,658**	2,132,371
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,015,739**	2,708,557

	NOTES	2013 RMB'000	2012 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,015,739**	2,708,557
NON-CURRENT LIABILITIES			
Deferred revenue	32	**31,533**	14,252
Deferred tax liabilities	9	**30,545**	19,373
Liability component of convertible bonds	30	**1,037,587**	—
Liability component of redeemable convertible preferred shares	31	**77,982**	—
Other liabilties	29	**7,401**	—
Total non-current liabilities		**1,185,048**	33,625
Net assets		**3,830,691**	2,674,932
EQUITY			
Equity attributable to owners of the parent			
Issued capital	33	**4,718**	4,690
Share premium account	33	**259,665**	347,965
Shares held for share award scheme	33	**(53,890)**	(82,127)
Statutory reserves	35(a)	**173,228**	156,462
Employee share-based reserve		**166,756**	160,833
Capital reserve	35(a)	**512,651**	275,739
Equity component of convertible bonds	30	**8,500**	—
Equity component of redeemable convertible preferred shares	31	**10,015**	—
Foreign currency translation reserve		**(89,277)**	(75,353)
Retained earnings		**2,278,468**	1,624,488
Proposed final dividend	11	**109,387**	102,132
		3,380,221	2,514,829
Non-controlling interests		**450,470**	160,103
Total equity		**3,830,691**	2,674,932

Hongjiang ZHANG
Director

Yuk Keung NG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	ATTRIBUTABLE TO OWNERS OF THE PARENT											
	ISSUED CAPITAL (NOTE 33) RMB'000	SHARE PREMIUM ACCOUNT (NOTE 33) RMB'000	SHARES HELD FOR SHARE AWARD SCHEME (NOTE 33) RMB'000	STATUTORY RESERVES (NOTE 35(A)) RMB'000	EMPLOYEE SHARE-BASED RESERVE RMB'000	CAPITAL RESERVE (NOTE 35(A)) RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED EARNINGS RMB'000	PROPOSED FINAL AND SPECIAL DIVIDENDS RMB'000	TOTAL RMB'000	NON-CONTROLLING INTERESTS RMB'000	TOTAL EQUITY RMB'000
At 1 January 2012	4,677	440,974	(93,754)	146,654	145,435	253,914	(72,015)	1,201,707	92,241	2,119,833	93,287	2,213,120
Profit for the year	–	–	–	–	–	–	–	432,589	–	432,589	33,845	466,434
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(3,338)	–	–	(3,338)	(2,275)	(5,613)
Total comprehensive income for the year	–	–	–	–	–	–	(3,338)	432,589	–	429,251	31,570	460,821
Approved and paid final dividends in respect of the previous year	–	(830)	–	–	–	–	–	–	(92,241)	(93,071)	–	(93,071)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(12,958)	(12,958)
Share-based compensation costs	–	–	–	–	34,666	–	–	–	–	34,666	8,043	42,709
Profit appropriations (note 35(a))	–	–	–	9,808	–	–	–	(9,808)	–	–	–	–
Exercise of share options	19	15,783	–	–	(7,641)	–	–	–	–	8,161	–	8,161
Vested awarded shares transferred to employees	–	–	11,627	–	(11,627)	–	–	–	–	–	–	–
Repurchase and cancellation of shares	(6)	(5,830)	–	–	–	–	–	–	–	(5,836)	–	(5,836)
Capital contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	–	11,195	11,195
Proposed final 2012 dividend (note 11)	–	(102,132)	–	–	–	–	–	–	102,132	–	–	–
Changes in the ownership interests in subsidiaries	–	–	–	–	–	21,825	–	–	–	21,825	28,966	50,791
At 31 December 2012	4,690	347,965	(82,127)	156,462	160,833	275,739	(75,353)	1,624,488	102,132	2,514,829	160,103	2,674,932

	ATTRIBUTABLE TO OWNERS OF THE PARENT													
	ISSUED CAPITAL (NOTE 33) RMB'000	SHARE PREMIUM ACCOUNT (NOTE 33) RMB'000	SHARES HELD FOR SHARE AWARD SCHEME (NOTE 33) RMB'000	STATUTORY RESERVES (NOTE 35(A)) RMB'000	EMPLOYEE SHARE-BASED RESERVE RMB'000	CAPITAL RESERVE (NOTE 35(A)) RMB'000	EQUITY COMPONENT OF CONVERTIBLE BONDS (NOTE 30) RMB'000	EQUITY COMPONENT OF REDEEMABLE CONVERTIBLE PREFERRED SHARES (NOTE 31) RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED EARNINGS RMB'000	PROPOSED FINAL AND SPECIAL DIVIDENDS RMB'000	TOTAL RMB'000	NON-CONTROLLING INTERESTS RMB'000	TOTAL EQUITY RMB'000
At 31 December 2012 and 1 January 2013	4,690	347,965	(82,127)	156,462	160,833	275,739	–	–	(75,353)	1,624,488	102,132	2,514,829	160,103	2,674,932
Profit for the year	–	–	–	–	–	–	–	–	–	670,746	–	670,746	83,128	753,874
Other comprehensive income for the year:														
Change in fair value of available-for-sale investments	–	–	–	–	–	12,596	–	–	–	–	–	12,596	8,331	20,927
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(13,924)	–	–	(13,924)	(9,559)	(23,483)
Total comprehensive income for the year	–	–	–	–	–	12,596	–	–	(13,924)	670,746	–	669,418	81,900	751,318
Approved and paid final dividends in respect of the previous year	–	631	–	–	–	–	–	–	–	–	(102,132)	(101,501)	–	(101,501)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(20,460)	(20,460)
Share-based compensation costs	–	–	–	–	44,300	–	–	–	–	–	–	44,300	15,235	59,535
Profit appropriations (note 35(a))	–	–	–	16,766	–	–	–	–	–	(16,766)	–	–	–	–
Exercise of share options	28	20,456	–	–	(10,140)	–	–	–	–	–	–	10,344	–	10,344
Vested awarded shares transferred to employees	–	–	28,237	–	(28,237)	–	–	–	–	–	–	–	–	–
Capital contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	3,000	3,000
Issue of convertible bonds	–	–	–	–	–	–	8,500	–	–	–	–	8,500	–	8,500
Issue of redeemable convertible preferred shares of a subsidiary	–	–	–	–	–	–	–	10,015	–	–	–	10,015	6,185	16,200
Proposed final 2013 dividend (note 11)	–	(109,387)	–	–	–	–	–	–	–	–	109,387	–	–	–
Changes in the ownership interests in subsidiaries	–	–	–	–	–	224,316	–	–	–	–	–	224,316	204,507	428,823
At 31 December 2013	4,718	259,665	(53,890)	173,228	166,756	512,651	8,500	10,015	(89,277)	2,278,468	109,387	3,380,221	450,470	3,830,691

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**753,874**	466,434
Adjustments for:			
Loss on disposal of items of property, plant and equipment	6	**1,679**	272
Depreciation	6	**64,963**	60,723
Amortisation of lease prepayments	6	**941**	941
Amortisation of other intangible assets	6	**32,968**	26,700
Finance costs	6	**24,466**	8,702
Interest income		**(48,947)**	(64,532)
Fair value loss/(gain) on financial instruments at fair value through profit or loss	6	**10,355**	(16,010)
Gain on disposal of a subsidiary	6	**(47,452)**	—
Deferred income tax expense	9	**(12,376)**	(6,066)
Share-based compensation costs		**60,961**	48,279
Write-down of inventories	6	**962**	11,314
Impairment of trade and other receivables	6	**14,484**	—
Impairment of other intangible assets	6	**—**	5,725
Reversal of impairment of investments in a joint venture	6	**(13,400)**	—
Share of profits of joint ventures	17	**(4,827)**	(9,532)
Share of losses of associates	18	**3,748**	930
Deemed disposal gain of intangible asset		**(3,600)**	—
		838,799	533,880
Increase in trade receivables		**(53,345)**	(49,980)
Increase in prepayments, deposits and other receivables		**(52,374)**	(29,712)
Increase in loan receivables		**(3,964)**	(1,364)
Increase/(decrease) in inventories		**12,516**	(25,009)
Decrease/(increase) in deferred cost		**(192)**	792
Increase in trade payables		**9,374**	6,521
Increase in deferred revenue		**35,302**	35,204
Increase in other payables and accruals		**123,692**	91,567
Increase/(decrease) in income tax payable		**28,316**	(5,953)
Net cash flows from operating activities		**938,124**	555,946

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**63,931**	63,240
Proceeds from disposal of items of property, plant and equipment		**3,463**	916
Purchases of items of property, plant and equipment		**(82,980)**	(59,244)
Purchases of software	16	**(7,826)**	(6,909)
Addition of capitalised software costs	16	**(9,367)**	(13,839)
Addition of lease prepayment		**—**	(1,763)
Decrease/(increase) in time deposits with original maturity of over three months when acquired	25	**32,911**	(1,016,982)
Acquisition of a business	36	**(55,785)**	(3,000)
Investment in a joint venture	17	**(6,000)**	—
Investments in associates	18	**(35,682)**	—
Purchase of available-for-sale investments	19	**(36,828)**	(2,192)
Disposal of a subsidiary	37	**79,058**	—
Advance of a loan to a related party		**(8,940)**	(29,041)
Repayment of loan from related parties		**20,026**	5,694
Net cash flows used in investing activities		**(44,019)**	(1,063,120)
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of shares for cancellation		**—**	(5,836)
Proceeds from issue of convertible bonds	30	**1,055,529**	—
Proceeds from issue of redeemable convertible preferred shares	31	**87,567**	—
Proceeds from issue of convertible preferred shares	35(a)	**484,928**	56,417
Acquisition of non-controlling interests		**3,000**	—
Exercise of share options		**10,344**	8,160
Dividends paid to owners of the parent	11	**(101,302)**	(93,027)
Dividends paid to non-controlling interests	11	**(20,460)**	(12,958)
Repayment of bank loans	28	**(575,286)**	(346,655)
New bank loans	28	**184,315**	413,559
Interest paid		**(6,919)**	(9,717)
Net cash flows from financing activities		**1,121,716**	9,943
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,015,821**	(497,231)
Cash and cash equivalents at beginning of year		**696,499**	1,199,313
Effect of foreign exchange rate changes, net		**(35,072)**	(5,583)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,677,248**	696,499
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**559,028**	377,990
Time deposits with original maturity of three months or less when acquired	25	**2,118,220**	241,829
Cash and short term deposits attributable to a disposal group	26	**—**	76,680
		2,677,248	696,499

STATEMENT OF FINANCIAL POSITION

31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	34	**394,518**	225,697
Investment in a joint venture	17	**—**	20,122
Investments in associates	18	**28,701**	—
Total non-current assets		**423,219**	245,819
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	**5,070**	1,294
Due from related parties	40	**27,659**	41,835
Due from subsidiaries	34	**658,691**	702,285
Pledged deposit	25	**19,588**	19,000
Cash and cash equivalents	25	**682,545**	156,227
		1,393,553	920,641
Investment in a joint venture classified as held for sale	17	**42,756**	—
Total current assets		**1,436,309**	920,641
CURRENT LIABILITIES			
Interest-bearing bank loans	28	**15,724**	413,559
Other payables and accruals	29	**19,040**	2,420
Due to subsidiaries	34	**151,608**	118,907
Total current liabilities		**186,372**	534,886
NET CURRENT ASSETS		**1,249,937**	385,755
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,673,156**	631,574
NON-CURRENT LIABILITIES			
Liability component of convertible bonds	30	**1,037,587**	—
Total non-current liabilities		**1,037,587**	—
Net assets		**635,569**	631,574
EQUITY			
Issued capital	33	**4,718**	4,690
Share premium account	33	**259,665**	347,965
Shares held for share award scheme	33	**(53,890)**	(82,127)
Employee share-based reserve	35(b)	**127,668**	142,524
Equity component of convertible bonds	30	**8,500**	—
Foreign currency translation reserve	35(b)	**(149,381)**	(125,505)
Retained earnings	35(b)	**328,902**	241,895
Proposed final dividends	11	**109,387**	102,132
Total equity		**635,569**	631,574

Hongjiang ZHANG
Director

Yuk Keung NG
Director

1. CORPORATE INFORMATION

Kingsoft Corporation Limited (the "Company") was incorporated under the Companies Act of the British Virgin Islands on 20 March 1998. On 15 November 2005, it was redomiciled to Cayman Islands under the Company Law (2004 revision) of the Cayman Islands. The registered office of the Company is located at Clifton House, 75 Fort Street, George Town, Grand Cayman, Cayman Islands.

The principal place of business of the Company is located at Kingsoft Tower, No. 33, Xiaoying West Road, Haidian District, Beijing, the People's Republic of China ("PRC").

During the year, the Company and its subsidiaries (together, the "Group") were involved in the following principal activities:

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs", which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect) and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, except for available-for-sale investments and other financial asset, which have been measured at fair value. Investment in a joint venture and disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

The Company has set up a trust (the "Share Award Scheme Trust") for the purpose of purchasing, administering and holding the Company's shares for the share award scheme adopted on 31 March 2008 (the "Share Award Scheme", note 7(b)). The Group has the power to govern the financial and operating policies of the Share Award Scheme Trust and it can derive benefits from the services of the employees who have been awarded the awarded shares (the "Awarded Shares") through their continued employment with the Group. The assets and liabilities of the Share Award Scheme Trust are included in consolidated statement of financial position and the shares held by the Share Award Scheme Trust are presented as deduction in equity as shares held for Share Award Scheme.

Kingsoft Internet Software Holdings Limited ("KIS"), a subsidiary of the Company, has set up a trust (the "KIS Share Award Scheme Trust") for the purpose of administering and holding KIS' shares for the share award scheme adopted on 26 May 2011 (the "KIS Share Award Scheme", note 7(c)). Since the Group has the power to govern the financial and operating policies of the KIS Share Award Scheme Trust and derive benefits from the services of the employees who have been awarded the awarded shares (the "KIS Awarded Shares") through their continued employment with the Group, the assets and liabilities of the KIS Share Award Scheme Trust are included in consolidated statement of financial position.

Kingsoft Office Software Holdings Limited ("KOS Holdings"), a subsidiary of the Company, has set up a trust (the "KOS Share Award Scheme Trust") for the purpose of administering and holding KOS Holdings' shares for the share award scheme adopted on 3 December 2012 (the "KOS Share Award Scheme", note 7(d)). Since the Group has the power to govern the financial and operating policies of the KOS Share Award Scheme Trust and derive benefits from the services of the employees who have been awarded the awarded shares (the "KOS Awarded Shares") through their continued employment with the Group, the assets and liabilities of the KOS Share Award Scheme Trust are included in consolidated statement of financial position.

Kingsoft Cloud Holdings Limited ("KC Holdings"), a subsidiary of the Company, has set up a trust (the "KC Share Award Scheme Trust") for the purpose of administering and holding KC Holdings' shares for the share award scheme adopted on 22 February 2013 (the "KC Share Award Scheme", note 7(e)). Since the Group has the power to govern the financial and operating policies of the KC Share Award Scheme Trust and derive benefits from the services of the employees who have been awarded the awarded shares (the "KC Awarded Shares") through their continued employment with the Group, the assets and liabilities of the KC Share Award Scheme Trust are included in consolidated statement of financial position.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Kingsoft Jingcai Online Game Holdings Limited ("JC Holdings"), a subsidiary of the Company, has set up a trust (the "JC Share Award Scheme Trust") for the purpose of administering and holding JC Holdings' shares for the share award scheme adopted on 11 April 2013 (the "JC Share Award Scheme", note 7(f)). Since the Group has the power to govern the financial and operating policies of the JC Share Award Scheme Trust and derive benefits from the services of the employees who have been awarded the awarded shares (the "JC Awarded Shares") through their continued employment with the Group, the assets and liabilities of the JC Share Award Scheme Trust are included in consolidated statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 (Amendments)	Amendments to IAS 19 *Employee Benefits*
IAS 27 (Revised)	*Separate Financial Statements*
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009–2011 Cycle	Amendments to a number of IFRSs issued in May 2012

The adoption of IFRS 12 and IFRS 13 has had significant impact on the disclosure of the Group and the Company, and additional disclosure has been made for material non-controlling interests (note 34) and fair value hierarchy (note 42). The adoption of other revised IFRSs has had no significant impact on the accounting policies of the Group and the methods of computation in the Group's consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	*Financial Instruments*[5]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[5]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[1]
IFRS 14	*Interim standard on regulatory deferral accounts*[3]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
Annual improvements 2010–2012 Cycle and 2011–2013 Cycle	Amendments to IFRS 1, IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38 and IAS 40[4]
IFRIC 21	*Levies*[1]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 July 2014

3 Effective for annual periods beginning on or after 1 January 2016

4 Other than the amendments that only affect the standards` Basis for Conclusions, the changes are effective 1 July 2014.

5 No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. The Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

The results of associates and joint ventures are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is controlled or jointly controlled by a person identified in (a); and

(vi) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the shorter of the lease term and 50 years
Electronic equipment	33%
Office equipment and fixtures	19%
Motor vehicles	18%
Leasehold improvements	Over the shorter of the expected life of the leasehold improvements and the lease term

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Purchased software

Purchased software (including upfront licensing fees) is stated at cost less any impairment losses and is amortised on the straight-line basis over the shorter of the estimated economic life and the licence period, which ranges from 2 to 10 years.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

The capitalised software development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the estimated economic life of the underlying product, which is determined to range from one to two years, commencing from the period in which the product is commercially released.

Website and internally used software development costs

The Group expenses all development costs of website and internally used software that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance of the existing websites and software. Costs incurred in the development phase and satisfied the criteria for development cost capitalisation listed above are capitalised and amortised over the estimated product lives of the underlying products not exceeding one to two years, commencing from the dates when the products are put into commercial production.

Television program production costs

Television program production costs include capitalisable production costs, production overhead and development costs and are stated at the cost, less accumulated amortisation. Marketing, distribution, and general and administrative costs are expensed as incurred.

Capitalised television program production costs are recognised to costs of revenue based on the percentage of the revenues recognised to the total revenue ("Ultimate Revenues") from all sources on an individual production basis. Ultimate Revenues for television program include revenues that will be earned within ten years from the date of the initial release. These estimates are reviewed on a periodic basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flow for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loan and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

After initial recognition, interest-bearing bank loans are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Shares held for share award scheme

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recongnised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

Inventories are stated at the lower of cost (calculated on the weighted average basis) and net realisable value. Cost includes materials and production costs related to the purchase and production of inventories. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event, and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) *Sale of application software*

Revenue from the sale of application software is recognised when significant risks and rewards of ownership of the goods have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

The Group also enters into multi-year licensing arrangements with certain original equipment manufacturer ("OEM") customers to allow them to install unlimited copies of the Group's application software over a period of one to three years in their products for a fixed cash consideration. During the licensing period, the Group is required to provide when-and-if-available upgrades, technical support and training to the OEM customers. Revenue from multi-year licensing arrangements is recognised as revenue ratably over the licensing period upon the delivery of the software master copy.

(b) *Membership service of information security software*

The Group provides membership services, including a package of services such as restoration of data, remote technical support, computer maintenance and other privilege, 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. Revenue is recognised ratably over the subscription period.

(c) *Online game services*

The Group sells either its prepaid game cards for its online game products to the distributors which in turn sells them to end users, or prepaid online points to end users at the Group's website.

The Group applies a pay-to-play subscription-based model and an item-billing model on its online game services.

For pay-to-play subscription-based model, both prepaid game cards and prepaid online points provide end users with a pre-specified length of game playing time within a specified period of time. All prepaid fees received from distributors and end users are initially recognised as deferred revenue. Revenue is recognised, upon activation of the prepaid game cards or prepaid online points, based on the actual game playing time by end users.

For item-billing model, end users can play the game for free with limited basic functions. There are also in-game items and premium features sold in the game by consuming online points, commonly known as "Virtual Items", which are regarded as value-added services and are rendered over a pre-specified period or throughout the whole game life. The revenue from these Virtual Items is recognised ratably over the estimated practical usage period or throughout the whole game life as appropriate. Future usage patterns may differ from the historical usage patterns on which the revenue recognition of the item-billing model is based. The Group monitors the operational statistics and usage patterns of the Virtual Items.

Upon expiry of online points, any remaining amount is recognised as revenue. The costs related to the production of prepaid game cards are also deferred until revenue for those prepaid amounts are recognised.

The sales of prepaid game cards to distributors include certain discounts from the face value of the cards. The Group recognises revenue net of the discounts provided to the distributors.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(d) *Online game licences*

The Group enters into licensing arrangements with the licensees to operate the Group's online games in defined regions and/or countries. The Group is entitled to the ongoing usage-based royalties which are determined based on the amount of money charged to the end users' accounts in a given region or country. The usage-based royalties are recognised when they are earned, provided that the collection is probable.

In certain licensing arrangements, the Group provides post contract support services over the licensing period at no additional charge except for the initial fees. In those cases, the total amount of the initial fee is recognised ratably over the contractual licensing period.

(e) *Internet value-added services*

The Group enters into agreements with third party game developers to provide online and mobile distribution and payment collection services, in order for game players to purchase and recharge virtual currencies used in the games. All games are developed and hosted by third-party game developers, and accessed by game players through the Group's online and mobile platforms or a third-party mobile platform. The payment collection services are mainly provided through third-party professional payment and settlement institutions. The Group generally charges commission as a percentage of the gross proceeds paid by game players or collection amount from the settlement institutions, and pays the remaining proceeds to the game developers. When the settlement institutions directly remit the collection amount to the developers, the Group collects its commission from the developer. The Group believes it acts as an agent to the game developers in these arrangements and recognizes the net commission it earns in revenue in the same month in which the services are provided.

(f) *Online marketing services*

Online marketing revenues are derived principally from online marketing arrangements. The Group enters into marketing arrangements with advertisers to allow them to put advertisements on particular areas of the Group's websites over a particular period of time, or embedded hyperlinks to advertisements in the Group's software and/or websites. Marketing revenues from marketing arrangements with a particular period of time are recognised ratably over the displayed period of the contract when the collectibility is reasonably assured. For the hyperlinks embedded in the Group's software and/or websites, the advertisers pay the Group based on number of clicks on the hyperlinks or other performance criteria. The Group recognises revenue when the revenue can be measured reliably and the collectability is reasonably assured.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(g) *Interest income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(h) *Dividend income*

Dividend income is recognised when the shareholders' right to receive payment has been established.

Deferred revenue

Deferred revenue represents cash received or receivables from the sale of software products, subscription received for membership services of information security software, payment for online game services in advance of services being rendered and government grants received in advance of fulfilling the grant requirements.

Share-based payments

The Group operates several share option schemes and share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model for share options and based on the market value for share award. Further detail of the fair values of share options and awarded shares granted are given in note 7 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity as "Employee share-based reserve", over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Defined contribution plan for PRC employees

Full-time employees of the Group's subsidiary which operates in Mainland China are required to participate in a defined contribution scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the defined contribution scheme which includes pension, medical care, unemployment insurance, employee housing fund and other welfare. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the defined contribution scheme. The Group has no legal obligation for the benefits beyond the contributions made.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB. The Company and its subsidiaries have determined their functional currencies to be their respective local currencies of Hong Kong Dollars ("HK$"), Japanese Yen ("JPY"), Malaysia Ringgit ("MYR"), United States Dollar ("US$") and RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain overseas subsidiaries, joint ventures and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statements of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and certain overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and certain overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Fair value of other financial asset

The fair value of the option obtained from an online game operator in Vietnam is determined by the Black-Scholes valuation model (the "BS Model"). Significant judgement about factors, such as risk-free rate, dividend yield, expected volatility and expected life of option, is required to be made by the directors as the parameter for applying the BS Model. The Company engaged an independent valuer to assess the fair value of the option. The fair value of the option was approximately RMB21,796,000 as at 31 December 2013 (2012: RMB27,822,000). Further details are included in note 20 to the financial statements.

(b) Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2013 was RMB50,000,000 (2012: Nil). Future details are included in note 19 to the financial statements.

(c) Software development costs

Software development costs are capitalised in accordance with the accounting policy for research and development costs. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2013, the best estimate of the carrying amount of capitalised development costs was approximately RMB17,761,000 (2012: RMB23,181,000).

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

(d) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2013 was nil (2012: Nil). The amount of unrecognised tax losses at 31 December 2013 was RMB222,886 (2012: RMB281,927). Future details are contained in note 9 to the financial statements.

(e) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2013 was approximately RMB53,994,000 (2012: RMB14,559,000). Further details are given in note 15 to the financial statements.

(f) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amounts, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(g) The useful lives of Virtual Items in the Group's item-billing online games

Virtual Items include items consumed at a single point in time, at a series of times, or within a pre-determined period of time (collectively "Consumable Items"), and items used through the entire life of the game ("Permanent Items"). For Consumable Items, the Group uses historical usage pattern, player behaviour data and pre-specified usage period of virtual items to estimate the average useful life of these items. For Permanent Items, the useful life is equivalent to the estimated remaining game life, which is assessed based on historical and planned operation periods of the Group's online games.

(h) Recognition of share-based compensation costs

The Company granted share options under 2011 share option scheme (the "2011 Scheme") to its employees. The fair value of the options granted was valued by an external valuer using the binomial model. This valuation requires the Company to make estimates about the dividend yield, expected volatility, risk-free interest rate and expected life of options, and hence they are subject to uncertainty. The fair value of the share options granted under 2011 Scheme during the year ended 31 December 2013 as determined by the binomial model was nil (2012: RMB3,340,000).

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

(h) Recognition of share-based compensation costs (continued)

Some of the Group's subsidiaries adopted their own share award schemes and/or share option schemes, including KIS Share Award Scheme, KC Option and Share Award Scheme, KOS Share Award Scheme, Jingcai Option and Share Award Scheme and Westhouse Share Option Scheme. These subsidiaries granted the awarded shares and options to their respective employees in accordance with the terms of the schemes. The fair values of the award shares and options granted during the year ended 31 December 2013 were valued by an external valuer on the grant date based on the expected cash flows discounted at a rate applicable for items with similar terms and risk characteristics. The valuation requires the Group to make estimates about the expected future cash flows, credit risk, volatility and discount rates, and hence it is subject to uncertainty. The fair value of these awarded shares and options granted during the year ended 31 December 2013 was approximately RMB57,150,000 (2012: RMB41,455,000).

The grant of awarded shares and share options is conditional upon the satisfaction of specified vesting conditions, including service period and performance condition linked to financial performance measure. Judgement is required to take into account the vesting conditions and adjust the number of awarded shares and share options included in the measurement of share-based compensation costs.

4. OPERATING SEGMENT INFORMATION

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

(a) the entertainment software segment engages in research and development of games, and provision of online games, mobile games and casual game services;

(b) the information security software segment engages in the research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices; and

(c) the other application software segment engages in the research, development and distribution of office application software, provision of cloud storage, cloud computation and dictionary services across devices, and provision of online marketing services.

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

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2013	ENTERTAINMENT SOFTWARE RMB'000	INFORMATION SECURITY SOFTWARE RMB'000	OTHER APPLICATION SOFTWARE RMB'000	TOTAL RMB'000
SEGMENT REVENUE:				
Sales to external customers	**1,095,913**	**741,782**	**335,574**	**2,173,269**
Sales to intersegments	**16,098**	**964**	**44,691**	**61,753**
SEGMENT RESULTS	**578,028**	**192,422**	**126,376**	**896,826**
Reconciliation:				
Administrative expenses				**(192,245)**
Share-based compensation costs				**(61,387)**
Other income and gains				**45,949**
Other expenses				**(7,263)**
Fair value loss on financial instruments at fair value through profit or loss				**(10,355)**
Gain on disposal of a subsidiary				**47,452**
Finance income				**129,462**
Finance costs				**(24,466)**
Share of profits and losses of:				
Joint ventures				**4,827**
Associates				**(3,748)**
PROFIT BEFORE TAX				**825,052**
OTHER SEGMENT INFORMATION:				
Depreciation and amortisation	**27,323**	**23,758**	**37,171**	**88,252**

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2012	ENTERTAINMENT SOFTWARE RMB'000	INFORMATION SECURITY SOFTWARE RMB'000	OTHER APPLICATION SOFTWARE RMB'000	TOTAL RMB'000
SEGMENT REVENUE:				
Sales to external customers	860,651	336,741	213,769	1,411,161
Sales to intersegments	324	2,564	28,954	31,842
SEGMENT RESULTS	436,451	70,670	97,577	604,698
Reconciliation:				
Administrative expenses				(147,954)
Share-based compensation costs				(48,472)
Other income and gains				28,609
Other expenses				(22,971)
Fair value gain on a financial instrument at fair value through profit or loss				16,010
Finance income				97,973
Finance costs				(8,702)
Share of profits and losses of:				
Joint ventures				9,532
Associates				(930)
PROFIT BEFORE TAX				527,793
OTHER SEGMENT INFORMATION:				
Depreciation and amortisation	38,724	11,206	27,030	76,960

Geographical information

(a) *Revenue from external customers:*

	2013 RMB'000	2012 RMB'000
Mainland China	**1,987,694**	1,208,415
Hong Kong	**45,367**	52,811
Japan	**111,647**	105,809
Other countries	**28,561**	44,126
Total	**2,173,269**	1,411,161

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets:

	2013 RMB'000	2012 RMB'000
Mainland China	**539,120**	479,988
Japan	**2,237**	2,009
Other countries	**34,920**	20,359
Total	**576,277**	502,356

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2013 RMB'000	2012 RMB'000
Revenue		
Software and related services	**369,704**	288,507
Online marketing services	**603,110**	253,203
Online game services	**998,002**	726,968
Internet value-added services	**82,902**	2,354
Royalties	**97,911**	124,433
Others	**21,640**	15,696
	2,173,269	1,411,161

	2013 RMB'000	2012 RMB'000
Other income and gains		
Government grants	**32,657**	23,318
Others	**13,292**	5,291
	45,949	28,609

6. PROFIT BEFORE TAX

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

	NOTES	2013 RMB'000	2012 RMB'000
Employee benefit expenses (including directors' remuneration (note 8)):			
Wages and salaries		**524,150**	362,957
Social insurance costs and staff welfare		**103,086**	73,074
Share-based compensation costs		**61,387**	48,472
Pension plan contributions		**46,562**	33,215
		735,185	517,718
Minimum lease payments under operating leases:			
Bandwidth and server		**90,425**	61,377
Buildings		**39,279**	27,189
		129,704	88,566
Cost of inventories sold		**41,432**	15,419
Depreciation	(a)	**64,963**	60,723
Amortisation of lease prepayments	(a)	**941**	941
Amortisation of other intangible assets	(a)	**32,968**	26,700
Write-down of inventories**		**962**	11,314
Loss on disposal of items of property, plant and equipment**		**1,679**	272
Foreign exchange differences, net**		**(24)**	591
Impairment of other intangible assets**		**—**	5,725
Impairment of trade and other receivables**		**14,484**	—
Reversal of impairment of investments in a joint venture**	18	**(13,400)**	—
Donation**		**3,690**	1,553
Auditors' remuneration		**6,030**	6,030
Interest on bank loans		**4,850**	8,702
Interest on convertible bonds		**16,642**	—
Interest on redeemable convertible preferred shares		**2,974**	—
Government grants:			
— Recorded as a reduction to research and development costs*		**(7,350)**	(12,831)
— Recorded in other income and gains	5	**(32,657)**	(23,318)
		(40,007)	(36,149)
Gain on disposal of a subsidiary		**(47,452)**	—
Fair value loss/(gain) on financial instruments at fair value through profit or loss	21, 31	**10,355**	(16,010)
Interest income from loans to related parties		**(2,867)**	(2,974)
Bank interest income		**(126,595)**	(94,999)

6. PROFIT BEFORE TAX (continued)

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

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

Note:

(a) Depreciation of property, plant and equipment, amortisation of lease prepayments and other intangible assets

	2013 RMB'000	2012 RMB'000
Included in:		
Cost of revenue	**31,080**	33,425
Research and development costs	**54,063**	40,239
Selling and distribution expenses	**3,108**	3,296
Administrative expenses	**10,621**	11,404
	98,872	88,364

7. SHARE-BASED COMPENSATION COSTS

(a) Share option schemes

2004 and 2007 Pre-IPO Share Option Schemes

In June 2004, the Company adopted the 2004 Pre-IPO Share Option Scheme (the "2004 Scheme"). The 2004 Scheme provided for the grant of share options to employees, chief executives or directors (including executives or non-executives or independent non-executives) of the Group.

Options granted under the 2004 Scheme generally vested over a period of four years, with one fourth of the options to vest on the first anniversary of the grant date, and an additional one eighth to vest at the end of each of the third to eighth six-month periods after the grant date as stipulated in the share option agreement.

Options under the 2004 Scheme were granted for periods of up to ten years. The exercise price of share options was determined by the directors.

On 22 January 2007, the Company adopted the 2007 Pre-IPO Share Option Scheme (the "2007 Scheme") for the purpose of providing incentives and awards to employees, senior management and directors of the Group. The terms of the 2007 Scheme were the same as those of the 2004 Scheme, except that 1,333,554 share options granted to directors of the Group in February 2007 were subject to certain performance conditions which have been fully achieved.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

2004 and 2007 Pre-IPO Share Option Schemes (continued)

The 2004 Scheme and the 2007 Scheme were terminated on 3 September 2007. No share options have been granted under these two schemes since then. The following table illustrates the numbers and weighted average exercise prices ("WAEP") of, and movements in, the Company's share options under these two schemes for the years ended 31 December 2013 and 2012.

	GROUP AND COMPANY			
	2013 NUMBER OF SHARE OPTIONS	2013 WAEP US$ PER SHARE	2012 NUMBER OF SHARE OPTIONS	2012 WAEP US$ PER SHARE
2004 SCHEME				
Outstanding at 1 January	**2,943,000**	**0.0331**	5,143,500	0.0945
Exercised during the year	**(2,297,700)**	**0.0336**	(2,200,500)	0.1767
Outstanding at 31 December	**645,300**	**0.0314**	2,943,000	0.0331
Exercisable at 31 December	**645,300**	**0.0314**	2,943,000	0.0331
2007 SCHEME				
Outstanding at 1 January	**14,083,800**	**0.2438**	17,776,800	0.2432
Exercised during the year	**(6,544,500)**	**0.2416**	(3,693,000)	0.2412
Outstanding at 31 December	**7,539,300**	**0.2457**	14,083,800	0.2438
Exercisable at 31 December	**7,539,300**	**0.2457**	14,083,800	0.2438
Total outstanding at 31 December	**8,184,600**	**0.2288**	17,026,800	0.2074
Total exercisable at 31 December	**8,184,600**	**0.2288**	17,026,800	0.2074

The weighted average share price at the date of exercise for the options exercised during the year was HK$11.66 (2012: HK$3.70).

The weighted average remaining contractual life for the Company's share options outstanding under the 2004 Scheme as at 31 December 2013 was 0.71 years (2012: 1.68 years), and the range of exercise prices for these outstanding options was US$0.0005 to US$0.2118 (2012: US$0.0005 to US$0.2400).

The weighted average remaining contractual life for the Company's share options outstanding under the 2007 Scheme as at 31 December 2013 was 3.10 years (2012: 4.10 years) and the range of exercise prices for these outstanding options was US$0.2400 to US$0.4616 (2012: US$0.2400 to US$0.4616).

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

2004 and 2007 Pre-IPO Share Option Schemes (continued)

The following share options were outstanding under the 2004 Scheme and the 2007 Scheme during the years ended 31 December 2013 and 2012.

	NUMBER OF SHARE OPTIONS				
NAME OR CATEGORY OF PARTICIPANT	AT 1 JANUARY 2013	EXERCISED DURING THE YEAR	AT 31 DECEMBER 2013	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
OTHER EMPLOYEES					
In aggregate					
	1,350,500	**(850,000)**	**500,500**	1 January 2000*	0.0005
	1,371,000	**(1,310,700)**	**60,300**	1 August 2004	0.0353
	171,500	**(87,000)**	**84,500**	1 August 2005	0.2118
	50,000	**(50,000)**	**—**	1 December 2006	0.2400
	13,423,800	**(6,088,500)**	**7,335,300**	1 February 2007**	0.2400
	400,000	**(400,000)**	**—**	1 April 2007**	0.2400
	20,000	**(10,000)**	**10,000**	8 May 2007**	0.2400
	240,000	**(46,000)**	**194,000**	1 August 2007**	0.4616
	17,026,800	**(8,842,200)**	**8,184,600**		

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

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

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

2004 and 2007 Pre-IPO Share Option Schemes (continued)

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS AT 1 JANUARY 2012	NUMBER OF SHARE OPTIONS EXERCISED DURING THE YEAR	NUMBER OF SHARE OPTIONS AT 31 DECEMBER 2012	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
OTHER EMPLOYEES					
In aggregate					
	1,700,500	(350,000)	1,350,500	1 January 2000*	0.0005
	1,517,500	(146,500)	1,371,000	1 August 2004	0.0353
	665,500	(494,000)	171,500	1 August 2005	0.2118
	410,000	(410,000)	—	1 August 2006	0.2118
	850,000	(800,000)	50,000	1 December 2006	0.2400
	16,966,800	(3,543,000)	13,423,800	1 February 2007**	0.2400
	444,000	(44,000)	400,000	1 April 2007**	0.2400
	106,000	(86,000)	20,000	8 May 2007**	0.2400
	260,000	(20,000)	240,000	1 August 2007**	0.4616
	22,920,300	(5,893,500)	17,026,800		

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

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

2011 Share Option Scheme

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

The total number of shares which may be issued upon exercise of all share options to be granted under the 2011 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 9 December 2011. The maximum number of shares issuable under share options to each eligible participant in the 2011 Scheme within any 12-month period is limited to 1% of the shares of the Company at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

2011 Share Option Scheme (continued)

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period determined at the discretion of the board of directors and ends on a date which is no later than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the 2011 Scheme during the years ended 31 December 2013 and 2012:

	GROUP AND COMPANY			
	2013 NUMBER OF SHARE OPTIONS	**2013 WAEP HK$ PER SHARE**	**2012 NUMBER OF SHARE OPTIONS**	**2012 WAEP HK$ PER SHARE**
Outstanding at 1 January	**10,500,000**	**3.00**	12,500,000	2.89
Granted during the year	**—**	**—**	3,000,000	3.28
Forfeited during the year	**—**	**—**	(5,000,000)	2.89
Outstanding at 31 December	**10,500,000**	**3.00**	10,500,000	3.00
Exercisable at 31 December	**3,600,000**	**—**	1,500,000	—

The weighted average remaining contractual life for the Company's share options outstanding under the 2011 Scheme as at 31 December 2013 was 8.08 years (2012: 9.08 years).

The following share options were outstanding under 2011 Scheme during the years ended 31 December 2013 and 2012.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

2011 Share Option Scheme (continued)

The following share options were outstanding under 2011 Scheme during the years ended 31 December 2013 and 2012.

	NUMBER OF SHARE OPTIONS					
NAME OR CATEGORY OF PARTICIPANT	AT 1 JANUARY 2013	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	AT 31 DECEMBER 2013	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE
EXECUTIVE DIRECTORS						
Hongjiang Zhang	**7,500,000**	**—**	**—**	**7,500,000**	20 December 2011	2.89
Yuk Keung Ng	**3,000,000**	**—**	**—**	**3,000,000**	20 July 2012	3.28
	10,500,000	**—**	**—**	**10,500,000**		

The following share options were outstanding under 2011 Scheme during the years ended 31 December 2013 and 2012.

	NUMBER OF SHARE OPTIONS					
NAME OR CATEGORY OF PARTICIPANT	AT 1 JANUARY 2012	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	AT 31 DECEMBER 2012	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE
EXECUTIVE DIRECTORS						
Hongjiang Zhang	7,500,000	—	—	7,500,000	20 December 2011	2.89
Shun Tak Wong*	5,000,000	—	(5,000,000)	—	20 December 2011	2.89
Yuk Keung Ng**	—	3,000,000	—	3,000,000	20 July 2012	3.28
	12,500,000	3,000,000	(5,000,000)	10,500,000		

* Mr. Shun Tak Wong resigned as an executive director of the Company on 15 July 2012.

** Mr. Yuk Keung Ng joined the Company on 15 July 2012 and became an executive director of the Company on 1 March 2013.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

2011 Share Option Scheme (continued)

No new share option was granted during the year ended 31 December 2013 while the fair value of the share options granted during the year ended 31 December 2012 was RMB3,340,000.

The fair value of the share options granted during 2012 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	**3.30%**
Expected volatility (%)	**54.00%**
Risk-free interest rate (%)	**0.82%**
Expected forfeiture rate (%)	**0.00%**
Weighted average share price (HK$ per share)	**3.28**

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 18,684,600 share options outstanding under the 2004 Scheme, 2007 Scheme and 2011 Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,684,600 additional ordinary shares of the Company and additional share capital of RMB57,000 and share premium of RMB36,139,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 18,684,600 share options outstanding under the above three schemes, which represented approximately 1.58% of the Company's shares in issue as at that date.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

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

Pursuant to Kingsoft Japan's shareholder resolution dated 2 November 2006 (the "November Resolution"), Kingsoft Japan is authorised to grant share options to employees in exchange for Kingsoft Japan's ordinary shares. The maximum number of Kingsoft Japan's ordinary shares in respect of which options may be granted is 1,000 in aggregate. Options are exercisable conditional upon a successful initial public offering of Kingsoft Japan (the "Condition"). Options granted will be expired in ten years. The exercise price is JPY10,000 per share.

(i) Pursuant to a directors' resolution dated 4 January 2007, 410 options were granted to certain employees which vest over a period of three years, with one third of options to be vested on the first anniversary of the grant date, and an additional one twelfth to be vested after each three months and exercisable upon the Condition above. 210 options out of such 410 options have already been forfeited.

(ii) Pursuant to a directors' resolution dated 30 March 2007, 90 options, which are exercisable upon the Condition above, were granted to employees and a consultant.

(iii) Pursuant to a directors' resolution dated 31 July 2007, the authorisation to issue the remaining 500 options under the November Resolution was revoked, and another 710 options were granted to the employees. Among the 710 options, 520 options are vested over a period of two years, with half of the options to be vested on the first anniversary of the grant date or the date when the employee joined the company, whichever is earlier, and an additional one eighth to be vested each three months thereafter; and the remaining 190 options are vested over a period of three years, with one third of the options to be vested on the first anniversary of the grant date or the date when the employee joined the company, whichever is earlier, and an additional one twelfth to be vested after each three months. The options are exercisable upon the Condition above.

No share options were granted or exercised in 2013 and 2012, and no share options were forfeited in 2013 and 2012.

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

On 27 February 2013 (the "KC Share Option Adoption Date"), the shareholders of the Company and KC Holdings, a subsidiary of the Company, approved and adopted the KC Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of KC Holdings and its subsidiaries are entitled to participate. On 27 June 2013, the shareholders of the Company and KC Holdings approved to amend certain existing provisions of KC Share Option Scheme. Pursuant to the amendment, the total number of additional options to be granted under KC Share Option Scheme on or after 27 June 2013 shall not in aggregate exceed 10% of the shares in issue on 27 June 2013 (i.e, 94,750,000). The KC Share Option Scheme shall be valid and effective for a term of ten years commencing on the KC Share Option Adoption Date. The exercise price of share options is determinable by the board of KC Holdings.

52,900,000 share options with a vesting schedule of five years were granted to the selected employees of KC Holdings and its subsidiaries and 28,500,000 share options were forfeited during the year ended 31 December 2013. The weighted average exercise price of the options granted during the year ended 31 December 2013 was US$0.02 per share.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

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

The fair value of the share options of KC Holdings granted during the year ended 31 December 2013 was based on the formal grant date fair value. The total expense in respect of the share options granted under KC Share Option Scheme for the year ended 31 December 2013 was RMB1,272,000 (2012: RMB123,000).

46,300,000 share options of KC Holdings were outstanding as at 31 December 2013 with the weighted average remaining contractual life of 9.37 years, among which, nil is exercisable.

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

On 27 February 2013 (the "JC Share Option Adoption Date"), the shareholders of the Company and JC Holdings, a subsidiary of the Company, approved and adopted the JC Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of JC Holdings and its subsidiaries are entitled to participate. The JC Share Option Scheme shall be valid and effective for a term of ten years commencing on the JC Share Option Adoption Date. The exercise price of share options is determinable by the board of JC Holdings. The maximum number of share options under JC Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 1,000,000 shares (10% of the shares in issue at the JC Share Option Adoption Date).

During the year ended 31 December 2013, 815,000 share options were granted to a number of employees of JC Holdings and its subsidiaries with a vesting period of four years.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

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

The following table illustrates the numbers of and movements in the JC Share Option Scheme for the year ended 31 December 2013.

	2013 NUMBER OF SHARE OPTIONS	2013 WAEP US$ PER SHARE
Outstanding at 1 January	**—**	
Granted during the year	**815,000**	**1.22**
Forfeited during the year	**—**	
Outstanding at 31 December	**815,000**	**1.22**
Exercisable at 31 December	**—**	

The fair value of the share options of JC Holdings granted during the year ended 31 December 2013 was estimated based on the fair value of the share options at grant intention letter date and would be adjusted based on the formal grant date fair value. The total expense in respect of the share options granted under JC Share Option Scheme was RMB450,000 for the year ended 31 December 2013.

The weighted average remaining contractual life for JC Holdings' share options outstanding under the JC Share Option Scheme was 9.22 years as at 31 December 2013.

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

On 28 June 2013 (the "WH Share Option Adoption Date"), the shareholders of the Company and Westhouse Holdings, a subsidiary of the Company, approved and adopted the WH Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Westhouse Holdings and its subsidiaries are entitled to participate. The maximum number of share options under WH Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 80,000,000 shares (representing 10% of the shares in issue). The WH Share Option Scheme shall be valid and effective for a term of ten years commencing on the WH Share Option Adoption Date. The exercise price of share options is determinable by the board of Westhouse Holdings.

During the year ended 31 December 2013, 6,713,000 share options were granted to a number of employees of Westhouse Holdings and its subsidiaries with a vesting period of five years.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share option schemes (continued)

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

The following table illustrates the numbers of and movements in the WH Share Option Scheme for the year ended 31 December 2013.

	2013 NUMBER OF SHARE OPTIONS	2013 WAEP US$ PER SHARE
Outstanding at 1 January	—	
Granted during the year	6,713,000	1.00
Forfeited during the year	(88,000)	
Outstanding at 31 December	6,625,000	1.00
Exercisable at 31 December	—	

The fair value of the share options of Westhouse Holdings granted during the year ended 31 December 2013 was estimated by an external valuer on the grant date. The total expense in respect of the share option scheme was RMB965,000 for the year ended 31 December 2013.

6,625,000 share options of Westhouse Holdings were outstanding as at 31 December 2013 with the weighted average remaining contractual life of 9.55 years, among which, nil is exercisable.

(b) Share Award Scheme

On 31 March 2008, the directors of the Company approved and adopted the Share Award Scheme in which selected employees of the Group are entitled to participate. Unless early terminated by the directors of the Company, the Share Award Scheme was valid and effective for a term of five years commencing from 31 March 2008. On 25 November 2010, the directors of the Company resolved to extend the termination date of the Share Awarded Scheme from 30 March 2013 to 30 March 2017. The directors will not grant any awarded shares which would result in the total number of shares, which are the subject of awards granted by the directors of the Company under the Share Award Scheme (but not counting any which have lapsed or have been forfeited), in aggregate over 10% of the issued capital of the Company as at the date of such grant.

The fair value of the Awarded Shares granted under the Share Award Scheme is recognised as an expense and credited to equity over the period in which the vesting conditions (i.e., service conditions and/or performance conditions) are fulfilled.

During the year ended 31 December 2013, 1,230,000 shares (2012: 8,092,000 shares) were granted to a number of employees with vesting period of five years.

During the year ended 31 December 2013, the Share Award Scheme Trust did not acquire shares (2012: nil) of the Company through purchases on the open market.

7. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

The following table illustrates the numbers of and movements in the Company's Awarded Shares for the years ended 31 December 2013 and 2012.

	2013 NUMBER OF AWARDED SHARES	2012 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**17,644,670**	16,207,004
Granted during the year	**1,230,000**	8,092,000
Forfeited during the year	**(302,000)**	(3,224,334)
Exercised and transferred during the year	**(5,469,735)**	(3,430,000)
Outstanding as at 31 December	**13,102,935**	17,644,670
Exercisable as at 31 December	**211,000**	2,046,000

The total expense recognised in respect of the Awarded Shares for the year ended 31 December 2013 was RMB17,570,000 (2011: RMB18,267,000).

The fair value of the Awarded Shares was determined based on the market value of the Company's shares at the grant date. The weighted average fair value of the Awarded Shares granted during the year ended 31 December 2013 was RMB4.26 each (2012: RMB3.62 each).

As at 31 December 2013, 8,086,337 (2012: 9,014,337) forfeited or unawarded shares were held by the Share Award Scheme Trust and would be granted in future.

At the date of approval of these financial statements, the Company had 13,102,935 Awarded Shares outstanding under the Share Award Scheme, which represented approximately 1.11% of the Company's shares in issue as at that date.

7. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

The following Awarded Shares were outstanding under the Share Award Scheme during the years ended 31 December 2013 and 2012.

	NUMBER OF AWARDED SHARES					
NAME OR CATEGORY OF PARTICIPANT	AT 1 JANUARY 2013	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	EXERCISED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2013	GRANT DATE
EXECUTIVE DIRECTORS						
Hongjiang Zhang	7,000,000	—	—	(1,800,000)	5,200,000	29 November 2011
Yuk Keung Ng	—	200,000	—	—	200,000	29 November 2013
Tao Zou	500,000	—	—	(100,000)	400,000	1 June 2012
	7,500,000	200,000	—	(1,900,000)	5,800,000	
OTHER EMPLOYEES						
In aggregate						
	59,000	—	—	(28,000)	31,000	26 June 2008
	15,000	—	(8,000)	(7,000)	—	13 October 2008
	172,000	—	—	(172,000)	—	1 December 2009
	435,000	—	—	(435,000)	—	26 March 2010
	463,336	—	—	(463,334)	2	26 May 2010
	3,334	—	—	(3,334)	—	23 June 2010
	100,000	—	—	(50,000)	50,000	12 January 2011
	1,500,000	—	—	(575,000)	925,000	8 June 2011
	587,000	—	—	(144,067)	442,933	4 April 2012
	5,880,000	—	(64,000)	(1,506,000)	4,310,000	1 June 2012
	80,000	—	—	(16,000)	64,000	19 June 2012
	250,000	—	—	(50,000)	200,000	3 December 2012
	600,000	—	—	(120,000)	480,000	17 December 2012
	—	250,000	(200,000)	—	50,000	15 January 2013
	—	300,000	(30,000)	—	270,000	March 20 2013
	—	250,000	—	—	250,000	June 1 2013
	—	50,000	—	—	50,000	August 26 2013
	—	50,000	—	—	50,000	September 9 2013
	—	130,000	—	—	130,000	November 13 2013
	10,144,670	1,030,000	(302,000)	(3,569,735)	7,302,935	
	17,644,670	1,230,000	(302,000)	(5,469,735)	13,102,935	

7. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

The following Awarded Shares were outstanding under the Share Award Scheme during the years ended 31 December 2013 and 2012.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES AT 1 JANUARY 2012	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	EXERCISED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2012	GRANT DATE
EXECUTIVE DIRECTORS						
Hongjiang Zhang	7,000,000	—	—	—	7,000,000	29 November 2011
Shun Tak Wong*	2,500,000	—	(2,500,000)	—	—	29 November 2011
Tao Zou	216,000	—	—	(216,000)	—	13 October 2008
	—	500,000	—	—	500,000	1 June 2012
	216,000	500,000	—	(216,000)	500,000	
NON-EXECUTIVE DIRECTOR						
Pak Kwan Kau	500,000	—	—	(500,000)	—	13 July 2009
OTHER EMPLOYEES						
In aggregate						
	100,000	—	—	(41,000)	59,000	26 June 2008
	147,000	—	—	(132,000)	15,000	13 October 2008
	50,000	—	—	(50,000)	—	1 December 2008
	160,000	—	—	(160,000)	—	8 June 2009
	26,667	—	—	(26,667)	—	27 November 2009
	648,000	—	—	(476,000)	172,000	1 December 2009
	1,396,667	—	(263,334)	(698,333)	435,000	26 March 2010
	1,066,669	—	(113,333)	(490,000)	463,336	26 May 2010
	40,001	—	(16,667)	(20,000)	3,334	23 June 2010
	86,000	—	(56,000)	(30,000)	—	12 July 2010
	150,000	—	—	(50,000)	100,000	12 January 2011
	120,000	—	(80,000)	(40,000)	—	18 April 2011
	2,000,000	—	—	(500,000)	1,500,000	8 June 2011
	—	782,000	(195,000)	—	587,000	4 April 2012
	—	5,880,000	—	—	5,880,000	1 June 2012
	—	80,000	—	—	80,000	19 June 2012
	—	250,000	—	—	250,000	3 December 2012
	—	600,000	—	—	600,000	17 December 2012
	5,991,004	7,592,000	(724,334)	(2,714,000)	10,144,670	
	16,207,004	8,092,000	(3,224,334)	(3,430,000)	17,644,670	

* Mr. Shun Tak Wong resigned as an executive director of the Company on 15 July 2012.

7. SHARE-BASED COMPENSATION COSTS (continued)

(c) Share Award Scheme adopted by KIS

On 26 May 2011 (the "KIS Adoption Date"), the directors of KIS, a subsidiary of the Company, approved and adopted the KIS Share Award Scheme, in which selected employees of KIS and its subsidiaries ("KIS Group") are entitled to participate. Unless early terminated by the directors of KIS, the KIS Share Award Scheme is valid and effective for a term of ten years commencing on the KIS Adoption Date. The directors of KIS will not grant any awarded shares which would result in the total number of shares (but not counting any which have lapsed or have been forfeited) being greater than 100,000,000 shares, as at the date of such grant.

The fair value of the KIS Awarded Shares granted under the KIS Share Award Scheme is recognised as an expense and credited to equity over the period in which the vesting conditions (i.e., service conditions and/or performance conditions) are fulfilled. The total amount expensed over the vesting period is determined by reference to the fair value of the KIS Awarded Shares at grant date.

During the year ended 31 December 2013, 14,945,000 shares (2012: 29,270,000 shares) were awarded to a number of employees with a vesting period from 0.45 years to four years.

The following table illustrates the numbers of and movements in the KIS Awarded Shares for the years ended 31 December 2013 and 2012.

	2013 NUMBER OF AWARDED SHARES	2012 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**74,927,500**	49,870,000
Granted during the year	**14,945,000**	29,270,000
Forfeited during the year	**(2,100,000)**	(4,212,500)
Outstanding as at 31 December	**87,772,500**	74,927,500
Exercisable as at 31 December	**—**	14,092,500

The total expense recognised in respect of the KIS Awarded Shares for the year ended 31 December 2013 was RMB33,908,000 (2012: RMB18,590,000).

The fair value of the KIS Awarded Shares was determined by reference to the fair value of KIS' ordinary shares at the grant date, which was valued by an external valuer using a discounted cash flow method. The weighted average fair value of the KIS Awarded Shares granted during the year ended 31 December 2013 was RMB2.49 (2012: RMB1.13) each.

7. SHARE-BASED COMPENSATION COSTS (continued)

(d) Share Award Scheme adopted by KOS Holdings

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

The fair value of the KOS Awarded Shares granted under the KOS Share Award Scheme is recognised as an expense and credited to equity over the period in which the vesting conditions (i.e., service conditions and/or performance conditions) are fulfilled. The total amount expensed over the vesting period is determined by reference to the fair value of the KOS Awarded Shares at grant date.

During the year ended 31 December 2013, 300,000 shares were awarded to a number of employees, and will be vested by several tranches over a vesting period not less than four years. 1,250,000 shares were forfeited during the year ended 31 December 2013 (2012: nil).

The following table illustrates the numbers of and movements in the KOS Awarded Shares for the years ended 31 December 2013 and 2012.

	2013 NUMBER OF AWARDED SHARES	2012 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**30,000,000**	—
Granted during the year	**300,000**	30,000,000
Forfeited during the year	**(1,250,000)**	—
Outstanding as at 31 December	**29,050,000**	30,000,000
Exercisable as at 31 December	**—**	—

The total expense recognised in respect of the KOS Awarded Shares for the year ended 31 December 2013 was RMB69,000 (2012: 1,755,000).

The fair value of the KOS Awarded Shares was determined by reference to the fair value of KOS Holdings' ordinary shares at the grant date, which was valued by an external valuer using a discounted cash flow method. The weighted average fair value of the KOS Awarded Shares granted during the year ended 31 December 2013 was RMB0.2837 each (2012: RMB0.2837 each).

7. SHARE-BASED COMPENSATION COSTS (continued)

(e) Share Award Scheme adopted by KC Holdings

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

During the year ended 31 December 2013, no (2012: 25,000,000) awarded shares under KC Holdings Share Award Scheme were granted.

The following table illustrates the numbers of and movements in the KC Awarded Shares for the years ended 31 December 2013 and 2012.

	2013 NUMBER OF AWARDED SHARES	2012 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**25,000,000**	—
Granted during the year	**—**	25,000,000
Forfeited during the year	**—**	—
Outstanding as at 31 December	**25,000,000**	25,000,000
Exercisable as at 31 December	**—**	—

The total expense in respect of the KC Holdings Awarded Shares for the year ended 31 December 2013 was RMB1,719,000.

The fair value of KC Awarded Shares was determined with reference to the fair value of KC Holdings' ordinary shares at the grant date, which was valued by an external valuer using a discounted cash flow method. The weighted average fair value of KC Awarded Shares was RMB0.2825 each (2012: RMB0.2825 each).

(f) Share Award Scheme adopted by JC Holdings

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

7. SHARE-BASED COMPENSATION COSTS (continued)

(f) Share Award Scheme adopted by JC Holdings (continued)

During the year ended 31 December 2013, 450,000 awarded shares with a vesting schedule of four years under JC Holdings Share Award Scheme were granted.

The following table illustrates the numbers of and movements in the JC Awarded Shares for the year ended 31 December 2013.

	2013 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	—
Granted during the year	**450,000**
Forfeited during the year	—
Outstanding as at 31 December	**450,000**
Exercisable as at 31 December	—

The total expense in respect of the JC Holdings Awarded Shares for the year ended 31 December 2013 was RMB607,000.

The fair value of the JC Awarded Shares was determined with reference to the fair value of JC Holdings' ordinary shares at the grant date, which was valued by an external valuer using a discounted cash flow method. The weighted average fair value of the JC Awarded Shares granted during the year ended 31 December 2013 was USD1.21 each.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	GROUP	
	2013 RMB'000	2012 RMB'000
Fees	**591**	443
Other emoluments:		
Salaries, allowances and benefits in kind	**7,290**	5,781
Discretionary bonuses	**108**	329
Pension plan contributions	**64**	51
Share-based compensation	**7,542**	12,260
	15,595	18,864

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' and chief executive's remuneration (continued)

Year ended 31 December 2013

	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION PLAN CONTRIBUTIONS RMB'000	SHARE-BASED COMPENSATION RMB'000	TOTAL RMB'000
Executive directors:						
Hongjiang Zhang	—	4,262	108	36	5,721	10,127
Yuk Keung Ng[1]	—	1,876	—	—	1,388	3,264
Tao Zou	—	765	—	14	433	1,212
Non-executive directors:						
Pak Kwan Kau	—	187	—	—	—	187
Jun Lei	—	200	—	14	—	214
Chi Ping Lau[2]	—	—	—	—	—	—
Independent non-executive directors:						
Guangming George Lu	187	—	—	—	—	187
To Thomas Hui[3]	86	—	—	—	—	86
David Yuen Kwan Tang[4]	122	—	—	—	—	122
Wenjie Wu[5]	196	—	—	—	—	196
	591	7,290	108	64	7,542	15,595

1 Mr. Yuk Keung Ng was appointed as an executive director of the Company on 1 March 2013.

2 Mr. Chi Ping Lau agreed to waive his remuneration during the year.

3 Mr. To Thomas Hui resigned as an independent non-executive director of the Company on 6 May 2013.

4 Mr. David Yuen Kwan Tang was appointed as an independent non-executive director on 6 May 2013.

5 Ms. Wenjie Wu was appointed as an independent non-executive director on 1 March 2013.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' and chief executive's remuneration (continued)

Year ended 31 December 2012

	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION PLAN CONTRIBUTIONS RMB'000	SHARE-BASED COMPENSATION RMB'000	TOTAL RMB'000
Executive directors:						
Hongjiang Zhang	—	3,503	329	25	11,534	15,391
Shun Tak Wong[1]	—	1,077	—	—	—	1,077
Tao Zou	—	810	—	13	330	1,153
Non-executive directors:						
Pak Kwan Kau	—	189	—	—	396	585
Jun Lei	—	202	—	13	—	215
Chi Ping Lau[2]	—	—	—	—	—	—
Independent non-executive directors:						
Tat Joel Chang[3]	101	—	—	—	—	101
Guangming George Lu	190	—	—	—	—	190
Chuan Wang[2,5]	—	—	—	—	—	—
To Thomas Hui[4]	152	—	—	—	—	152
	443	5,781	329	51	12,260	18,864

1 Mr. Shun Tak Wong resigned as an executive director of the Company on 15 July 2012.

2 Mr. Chi Ping Lau and Mr. Chuan Wang agreed to waive their remuneration during the year.

3 Mr. Tat Joel Chang resigned as an independent non-executive director of the Company on 25 May 2012.

4 Mr. To Thomas Hui was appointed as an independent non-executive director of the Company on 25 May 2012.

5 Mr. Chuan Wang resigned as an independent non-executive director of the Company on 1 March 2013.

During the year, a director was granted awarded shares, in respect of his service to the Group, under the Share Awarded Scheme of the Company, further details of which are set out in note 7 to the financial statements. The fair value of such awarded shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above director's remuneration disclosure.

8. DIRECTORS'AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals

The five highest paid individuals during the year included two directors (2012: one), details of whose remuneration are set above. Details of the remuneration of the remaining non-director, highest paid employees are as follows:

	GROUP	
	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	**2,331**	2,958
Discretionary bonuses	**1,140**	657
Pension plan contributions	**109**	91
Share-based compensation	**2,294**	1,933
	5,874	5,639

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	NUMBER OF EMPLOYEE	
	2013	2012
RMB1,000,001 to RMB1,500,000	**1**	3
RMB1,500,001 to RMB2,000,000	**—**	1
RMB2,000,001 to RMB2,500,000	**2**	—

9. INCOME TAX

PRC corporate income tax represents the tax charged on the estimated assessable profits arising in Mainland China during the year. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to tax holidays and preferential tax rates.

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on estimated assessable profits arising in Hong Kong during the year ended 31 December 2013.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiary in Japan was 41% for the year ended 31 December 2013 (2012: 41%).

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

9. INCOME TAX (continued)

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

	GROUP	
	2013 RMB'000	2012 RMB'000
Current — Mainland China	**67,879**	55,059
Current — Hong Kong	**10,322**	6,711
Current — Elsewhere	**5,353**	5,655
Deferred	**(12,376)**	(6,066)
Total tax charge for the year	**71,178**	61,359

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	GROUP			
	2013 RMB'000	%	2012 RMB'000	%
Profit before tax	**825,052**		527,793	
Tax at the statutory income tax rate	**206,263**	**25.0**	131,948	25.0
Effect of different tax rates in different jurisdictions	**(3,674)**	**(0.4)**	(4,135)	(0.8)
Effect of lower tax rates for entities to tax holiday or preferential tax rates	**(114,293)**	**(13.9)**	(86,855)	(16.5)
Effect on deferred tax of change in rates	**(6,900)**	**(0.8)**	—	—
Expenses not deductible for tax	**7,449**	**0.9**	6,481	1.2
R&D super deduction	**(28,834)**	**(3.5)**	(21,748)	(4.1)
Income not subject to tax	**(2,462)**	**(0.3)**	(1,176)	(0.2)
Profits/(losses) attributable to associates and joint ventures	**(162)**	**—**	750	0.1
Tax losses and temporary differences not recognised	**41,407**	**5.0**	35,867	6.8
Tax losses and other deductible temporary differences utilised from previous periods	**(31,283)**	**(3.8)**	(8,872)	(1.7)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**11,879**	**1.4**	9,099	1.8
Adjustments in respect of current tax of previous period	**(8,212)**	**(1.0)**	—	—
Tax charge at the Group's effective income tax rate	**71,178**	**8.6**	61,359	11.6

9. INCOME TAX (continued)

Deferred income tax relates to the following:

	CONSOLIDATED STATEMENT OF FINANCIAL POSITION		CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	
	2013	**2012**	**2013**	**2012**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Deferred income tax liabilities				
Deferred cost	**(15)**	(17)	**(2)**	(8)
Fair value adjustment arising from acquisition of a subsidiary	**(1,205)**	(1,555)	**(350)**	(350)
Withholding taxes on the distributable profits of the Group's PRC subsidiaries	**(23,700)**	(15,699)	**8,001**	1,599
Capitalised software costs	**—**	(760)	**(760)**	(2,388)
Others	**(5,625)**	(1,342)	**4,283**	496
	(30,545)	(19,373)	**11,172**	(651)
Deferred income tax assets				
Property, plant and equipment	**266**	266	**—**	437
Deferred revenue	**24,641**	22,297	**(2,344)**	(3,744)
Accruals	**7,022**	2,102	**(4,920)**	330
Government grants	**3,418**	—	**(3,418)**	359
Provisions	**3,195**	—	**(3,195)**	—
Intangible assets	**13,078**	8,297	**(4,781)**	(2,797)
Others	**786**	—	**(786)**	—
	52,406	32,962	**(19,444)**	(5,415)
Deferred income tax expense			**(12,376)**	(6,066)
Deferred income tax expense recorded in other comprehensive income			**4,104**	

The share of tax attributable to associates and joint ventures amounting to nil (2012: Nil) and tax credit of RMB3,599,000 (2012: tax credit of RMB517,000), respectively, is included in "Share of profits and losses of associates and joint ventures" in the consolidated statement of profit or loss.

The Group has tax losses arising in Mainland China of RMB208,803,000 as at 31 December 2013 (2012: RMB221,004,000) that will expire in one to five years for offsetting against future taxable profits.

9. INCOME TAX (continued)

The amounts and expiration dates of the tax losses carried forward at 31 December 2013 and 2012 are listed below:

EXPIRATION DATE	2013 RMB'000	2012 RMB'000
31 December 2014	**—**	8,176
31 December 2015	**83**	28,755
31 December 2016	**12,617**	92,678
31 December 2017	**36,459**	78,324
31 December 2018	**159,644**	—

The Group also has tax losses arising in Hong Kong of RMB14,083,000 (2012: RMB2,513,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of those losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2013 RMB'000	2012 RMB'000
Tax losses	**222,886**	281,927
Deductible temporary differences	**34,235**	34,134
	257,121	316,061

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax liability is recognised for the estimated withholding taxes to the extent that it is probable that those subsidiaries will distribute earnings in the foreseeable future. This requires an estimation of the likely timing and level of dividends to be distributed, and a judgement as to whether the dividends are associated to earnings generated from 1 January 2008 or not. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China, for which deferred tax liabilities have not been recognised for withholding taxes that would be payable on the unremitted earnings of these subsidiaries, totalled approximately RMB1,802 million at 31 December 2013 (2012: RMB1,416 million). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a profit of RMB87,007,000 (2012: RMB102,537,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	2013 RMB'000	2012 RMB'000
Final dividend proposed (notes (a) and (b)):		
HK$0.12 (2012: HK$0.11) per share based on issued share capital as at year end	**111,386**	104,510
Less: Dividend for shares held for share award scheme as at year end	**(1,999)**	(2,378)
	109,387	102,132

Notes:

(a) The actual amount of final 2012 dividends paid was RMB101,501,000, after eliminating RMB2,048,000 paid for shares held by the Share Award Scheme Trust.

(b) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,154,128,710 (2012: 1,142,829,305) in issue during the year.

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

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

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

	2013 RMB'000	2012 RMB'000
EARNINGS		
Profit attributable to ordinary equity holders of the parent	**670,746**	432,589
Increase in earnings adjusted for the convertible bonds and the share option schemes and the award share schemes adopted by the Group's subsidiaries	**2,055**	—
	672,801	432,589

	NUMBER OF SHARES 2013	 2012
SHARES		
Weighted average number of ordinary shares in issue less shares held for the share award scheme	**1,154,128,710**	1,142,829,305
Effect of dilution — weighted average number of ordinary shares:		
Share options	**17,538,811**	11,509,686
Awarded shares	**11,841,127**	10,050,424
Convertible bond	**35,535,571**	—
	1,219,044,219	1,164,389,415

13. PROPERTY, PLANT AND EQUIPMENT

GROUP	LEASEHOLD LAND AND BUILDINGS RMB'000	ELECTRONIC EQUIPMENT RMB'000	OFFICE EQUIPMENT AND FIXTURES RMB'000	MOTOR VEHICLES RMB'000	LEASEHOLD IMPROVEMENTS RMB'000	CONSTRUCTION IN PROGRESS RMB'000	TOTAL RMB'000
31 DECEMBER 2013							
At 31 December 2012 and 1 January 2013:							
Cost	**256,539**	**201,295**	**118,850**	**4,422**	**8,978**	**38,286**	**628,370**
Accumulated depreciation	**(15,125)**	**(149,325)**	**(85,792)**	**(1,730)**	**(5,185)**	**—**	**(257,157)**
Net carrying amount	**241,414**	**51,970**	**33,058**	**2,692**	**3,793**	**38,286**	**371,213**
At 1 January 2013, net of accumulated depreciation	**241,414**	**51,970**	**33,058**	**2,692**	**3,793**	**38,286**	**371,213**
Additions	**—**	**69,453**	**4,757**	**642**	**6,914**	**1,943**	**83,709**
Government grants received	**—**	**(1,380)**	**—**	**—**	**—**	**—**	**(1,380)**
Disposals	**—**	**(3,202)**	**(69)**	**(161)**	**(80)**	**—**	**(3,512)**
Depreciation provided during the year	**(4,129)**	**(34,801)**	**(22,617)**	**(636)**	**(2,780)**	**—**	**(64,963)**
At 31 December 2013, net of accumulated depreciation	**237,285**	**82,040**	**15,129**	**2,537**	**7,847**	**40,229**	**385,067**
At 31 December 2013:							
Cost	**256,539**	**252,824**	**123,512**	**4,320**	**15,751**	**40,229**	**693,175**
Accumulated depreciation	**(19,254)**	**(170,784)**	**(108,383)**	**(1,783)**	**(7,904)**	**—**	**(308,108)**
Net carrying amount	**237,285**	**82,040**	**15,129**	**2,537**	**7,847**	**40,229**	**385,067**
31 DECEMBER 2012							
At 31 December 2011 and 1 January 2012:							
Cost	256,539	178,319	116,999	4,417	8,437	34,653	599,364
Accumulated depreciation	(10,996)	(123,032)	(62,958)	(1,782)	(5,268)	—	(204,036)
Net carrying amount	245,543	55,287	54,041	2,635	3,169	34,653	395,328
At 1 January 2012, net of accumulated depreciation	245,543	55,287	54,041	2,635	3,169	34,653	395,328
Additions	—	43,183	2,148	946	1,990	3,633	51,900
Government grants received	—	(13,981)	—	—	—	—	(13,981)
Disposals	—	(945)	(20)	(335)	(11)	—	(1,311)
Depreciation provided during the year	(4,129)	(31,574)	(23,111)	(554)	(1,355)	—	(60,723)
At 31 December 2012, net of accumulated depreciation	241,414	51,970	33,058	2,692	3,793	38,286	371,213
At 31 December 2012:							
Cost	256,539	201,295	118,850	4,422	8,978	38,286	628,370
Accumulated depreciation	(15,125)	(149,325)	(85,792)	(1,730)	(5,185)	—	(257,157)
Net carrying amount	241,414	51,970	33,058	2,692	3,793	38,286	371,213

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

During the year ended 31 December 2013, the Company did not acquire property, plant and equipment, and no depreciation charge (2012: RMB900) was provided. As at 31 December 2013, the cost, accumulated depreciation and net carrying amount of the electronic equipment of the Company amounted to RMB3,141, RMB3,141 and nil, respectively.

14. LEASE PREPAYMENTS

	GROUP	
	2013	**2012**
	RMB'000	**RMB'000**
Carrying amount at 1 January	**43,201**	44,142
Amortisation during the year	**(941)**	(941)
Carrying amount at 31 December	**42,260**	43,201
At 31 December:		
Cost	**46,206**	46,206
Accumulated amortisation	**(3,946)**	(3,005)
Net carrying amount	**42,260**	43,201

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

15. GOODWILL

GROUP	NOTE	RMB'000
At 1 January 2012:		
Cost		14,559
Accumulated impairment		—
Net carrying amount		14,559
Cost at 1 January 2012 and 31 December 2012, net of accumulated impairment		14,559
At 31 December 2012:		
Cost		14,559
Accumulated impairment		—
Net carrying amount		14,559
Cost at 1 January 2013, net of accumulated impairment		**14,559**
Acquisition of subsidiaries	36	**39,995**
Exchange realignment		**(560)**
Cost and net carrying amount at 31 December 2013		**53,994**
At 31 December 2013:		
Cost		**53,994**
Accumulated impairment		**—**
Net carrying amount		**53,994**

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the information security software cash-generating unit for impairment testing:

The recoverable amount of the information security software cash-generating unit has been determined based on a value in use calculation using cash flow projections which are based on financial forecast approved by senior management covering a period of six years and based on the assumption that the operation can generate cash flows perpetually. The discount rate applied to the cash flow projections for the first five-year period is 20.5% (2012: 20%), which is determined by reference to the average rates for similar industry and the business risk of the relevant business unit. A growth rate of 3% (2012: 3%) is used for the perpetual period.

15. GOODWILL (continued)

The carrying amount of goodwill allocated to the cash-generating unit is as follows:

	INFORMATION SECURITY SOFTWARE	
	2013 RMB'000	2012 RMB'000
Carrying amount of goodwill	**53,994**	14,559

Assumptions were used in the value in use calculation of the information security software cash-generating unit for 31 December 2013 and 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted revenue — The basis used to determine the value assigned to the budgeted revenue is the revenue achieved in the year immediately before the budget year, increased for expected market development.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions are consistent with external information sources.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision was considered necessary for the Group's goodwill as at 31 December 2013 (2012: Nil).

16. OTHER INTANGIBLE ASSETS

GROUP	PURCHASED SOFTWARE RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	CAPITALISED TELEVISION PROGRAM PRODUCTION COSTS RMB'000	OTHERS RMB'000	TOTAL RMB'000
31 DECEMBER 2013					
Cost at 1 January 2013, net of accumulated amortisation	**26,320**	**23,181**	**—**	**3,760**	**53,261**
Addition	**7,826**	**9,367**	**—**	**—**	**17,193**
Acquisition from business combinations	**—**	**—**	**—**	**23,957**	**23,957**
Amortisation provided during the year	**(9,700)**	**(14,787)**	**—**	**(8,481)**	**(32,968)**
Disposals	**(1,339)**	**—**	**—**	**—**	**(1,339)**
At 31 December 2013	**23,107**	**17,761**	**—**	**19,236**	**60,104**
At 31 December 2013:					
Cost	**38,400**	**100,911**	**19,865**	**28,678**	**187,854**
Accumulated amortisation and impairment	**(15,293)**	**(83,150)**	**(19,865)**	**(9,442)**	**(127,750)**
Net carrying amount	**23,107**	**17,761**	**—**	**19,236**	**60,104**
31 DECEMBER 2012					
At 1 January 2012:					
Cost	**61,878**	**77,706**	**19,865**	**4,721**	**164,170**
Accumulated amortisation	**(31,330)**	**(59,245)**	**(4,891)**	**(534)**	**(96,000)**
Net carrying amount	**30,548**	**18,461**	**14,974**	**4,187**	**68,170**
Cost at 1 January 2012, net of accumulated amortisation	30,548	18,461	14,974	4,187	68,170
Addition	6,909	13,839	—	—	20,748
Government grants received	(3,039)	—	—	—	(3,039)
Amortisation provided during the year	(8,098)	(9,119)	(9,249)	(427)	(26,893)
Impairment	—	—	(5,725)	—	(5,725)
At 31 December 2012	26,320	23,181	—	3,760	53,261
At 31 December 2012 and at 1 January 2013:					
Cost	65,750	91,544	19,865	4,721	181,880
Accumulated amortisation	(39,430)	(68,363)	(19,865)	(961)	(128,619)
Net carrying amount	26,320	23,181	—	3,760	53,261

During the years ended 31 December 2013 and 2012, capitalised software costs were related to development expenditure on application software products.

17. INVESTMENTS IN JOINT VENTURES

	GROUP		COMPANY	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Unlisted investment, at cost	—	—	—	32,574
Share of net assets	—	16,226	—	—
Goodwill on acquisition	—	19,232	—	—
Impairment	—	(15,336)	—	(12,452)
	—	20,122	—	20,122

Particulars of the Group's joint ventures are as follows:

NAME	PLACE OF REGISTRATION AND BUSINESS	NOMINAL VALUE OF REGISTERED CAPITAL/ISSUED ORDINARY SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Beijing Kingsoft Lianking Technology Corporation Limited ("Kingsoft Lianking")*	PRC/ Mainland China	RMB8,000,600	40	Research and development for online games
Shanghai Westhouse Quwan Network Co., Ltd. ("Shanghai Quwan")*	PRC/ Mainland China	RMB2,000,000	51	Marketing and operation of entertainment software products

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Pursuant to the cooperative agreement dated 23 May 2009, the Group is required to transfer up to 15% of its equity interest in Kingsoft Lianking at no consideration to the other shareholders of Kingsoft Lianking should the first online game developed by Kingsoft Lianking achieve certain predetermined revenue targets in the coming years, or upon the happening of specified events. Another 10% of the Group's equity interest in Kingsoft Lianking will be required to transfer to the other shareholders should the online games developed by Kingsoft Lianking achieve certain predetermined revenue targets during the first five years. On the contrary, if the first online game developed by Kingsoft Lianking does not meet the predetermined revenue targets and the first online game of Kingsoft Lianking is not ready for commercialisation during the first 24 months of its operation, the Group is entitled to acquire up to 19% of equity interest in Kingsoft Lianking from the other shareholders at no consideration. The investment in Kingsoft Lianking was fully impaired as at 31 December 2010. As at 31 December 2013, Kingsoft Lianking has not launched its first online game yet.

17. INVESTMENTS IN JOINT VENTURES (continued)

Shanghai Quwan was newly established in January 2013 by the Group and the research and development team of Shanghai Quwan (the "R&D Team") to develop web games. Pursuant to the shareholders agreement in 2013, the Group and the R&D team made a cash contribution of RMB3 million for 51% equity interest and RMB1.1 million for 49% equity interest, respectively. The Group irrevocably authorised and designated a leader of the R&D Team, to exercise 36% of its voting rights over Shanghai Quwan on behalf of the Group. On 20 May 2013, the Group revised the terms of voting right in the aforementioned shareholders agreement, according to which the Group injected additional capital to Shanghai Quwan of RMB1.5 million, and took 7.5% voting right back from the R&D Team. Thus, as at 30 June 2013, the Group held 22.5% voting rights over Shanghai Quwan. Although the game developed by the R&D Team has not been completed and commercially released up to 31 December 2013, the Group injected additional capital to Shanghai Quwan of RMB1.5 million on 22 August 2013 and took another 7.5% voting right back from the R&D team. Thus, as at 31 December 2013, the Group holds 30% voting rights over Shanghai Quwan. The investment in Shanghai Quwan was fully impaired as at 31 December 2013 due to the loss.

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

	2013 RMB'000	2012 RMB'000
Share of the joint ventures' profit/(loss) for the year	**4,827**	9,532
Share of the joint ventures' total comprehensive income/(loss)	**4,827**	9,532
Aggregate carrying amount of the Group's investments in the joint ventures	**42,756**	20,122

For investments in joint ventures, the Group assesses at end of each reporting period whether there is objective evidence that an investment is impaired. Each of the above investments is deemed as a separate cash-generating unit, as the Group considers not to integrate them with the rest of the Group's other entertainment software or application software business.

During the year ended 31 December 2013, the Company's equity interest in Sky Profit was increased from 26.42% to 29.28% as a result of the redemption of equity interests from its other existing investors by Sky Profit. As at 31 December 2013, the investment in Sky Profit was classified as an investment in a joint venture held for sale as the Group decided to dispose of such investment in near future.

18. INVESTMENTS IN ASSOCIATES

	GROUP 2013 RMB'000	2012 RMB'000
Share of net assets	**34,852**	—

Particulars of the associates are as follows:

NAME	PLACE OF REGISTRATION AND BUSINESS	NOMINAL VALUE OF REGISTERED CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Guangzhou Tuotu Computer Technology Co., Ltd. ("Guangzhou Tuotu")* (i)	PRC/ Mainland China	RMB100,000	19.9	Research and development of computer and network related technology; provision of network service; design and publishing of advertisements
Zhuhai Kingsoft Kuaikuai Technology Co., Ltd. ("Zhuhai Kuaikuai")* (ii)	PRC/ Mainland China	RMB5,600,000	62.5	Research and development of computer and network related technology; provision of network service; design and publishing of advertisements
Zhigu Holdings Limited*	Cayman Islands	US$1,081,250	23.08	Investment holding
Beijing Kingsoft Security System Management Technology Co., Ltd. ("Beijing Security System Management")*	PRC/ Mainland China	RMB24,000,000	23.56	Development and sale of security software and office application software
Wuhan Antian Internet Security Technology Co., Ltd (" Wuhan Antian")*	PRC/Mainland China	RMB2,000,000	23.56	Research and development of mobile security software

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(i) Although the Group holds a 19.9% equity interest in Guangzhou Tuotu, the Group treated it as an associate because the Group is able to exercise its significant influence on the investee through its representatives on its respective board of directors.

(ii) Although the Group holds a 62.5% equity interest in Zhuhai Kuaikuai, the Group treated it as an associate because the Group has no control over the financial and operating policies of Zhuhai Kuaikuai.

18. INVESTMENTS IN ASSOCIATES (continued)

All the above investments in associates are indirectly held by the Company.

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

	2013 RMB'000	2012 RMB'000
Share of the associates' loss for the year	**3,748**	930
Share of the associates' total comprehensive loss	**3,748**	930
Aggregate carrying amount of the Group's investments in the associates	**34,852**	—

19. AVAILABLE-FOR-SALE INVESTMENTS

	GROUP	
	2013 RMB'000	2012 RMB'000
AVAILABLE-FOR-SALE INVESTMENTS, AT FAIR VALUE — CURRENT		
Listed equity investments in United States	**55,780**	—
AVAILABLE-FOR-SALE INVESTMENTS, AT FAIR VALUE — NON-CURRENT		
Unlisted equity investments	**50,000**	—
Unlisted debt investments	**5,903**	—
AVAILABLE-FOR-SALE INVESTMENTS, AT COST — NON-CURRENT		
Unlisted equity investments	**6,723**	7,182
	62,626	7,182
	118,406	7,182

During the year, the gross gain in respect of the Group's available-for-sale investments at fair value recognised in other comprehensive income amounted to RMB20,927,000 (2012: nil).

As at 31 December 2013, the unlisted equity investments with a carrying amount of RMB6,723,000 (2012: 7,182,000) were stated at cost less impairment. The directors are of the opinion that the fair value of these investments cannot be reliably measured. The Group has no intention to dispose of these investments in the near future.

The above investments consist of: (i) investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate; and (ii) investment in a debt security, which bears interest 6% per annum with maturity of two years from aquisition in July 2013.

20. OTHER FINANCIAL ASSET

	GROUP 2013 RMB'000	GROUP 2012 RMB'000
Ordinary share subscription option	**21,796**	27,822

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

21. LOAN RECEIVABLES

The loan receivables included interest-free housing loans granted to employees of RMB9,828,000 (2012: RMB5,864,000), which were carried at amortised cost with an effective interest rate of 6.40% per annum. The terms of the housing loans are unsecured and repayable in three to five years. There were also loans granted to investors of an associate of RMB6,148,000 (2012: nil) with effective interest rate of 5.40% to 5.68%. These loans are unsecured and repayable in two to four years.

22. INVENTORIES

	GROUP 2013 RMB'000	GROUP 2012 RMB'000
Packaging materials	**207**	888
Trading stocks	**3,321**	16,118
	3,528	17,006

23. TRADE RECEIVABLES

	GROUP 2013 RMB'000	GROUP 2012 RMB'000
Trade receivables	**193,812**	133,301
Impairment	**(8,651)**	(2,955)
	185,161	130,346

23. TRADE RECEIVABLES (continued)

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

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

	GROUP	
	2013 RMB'000	2012 RMB'000
0 to 30 days	**135,334**	71,842
31 to 60 days	**19,202**	30,206
61 to 90 days	**6,324**	9,018
91 to 365 days	**16,589**	14,900
Over one year	**7,712**	4,380
	185,161	130,346

The movements in provision for impairment of trade receivables are as follows:

	2013 RMB'000	2012 RMB'000
At 1 January	**2,955**	1,788
Impairment losses recognised	**5,824**	1,515
Amount written off as uncollectible	**(128)**	(348)
	8,651	2,955

Included in the above provision for impairment of trade receivables is a provision for individual impaired trade receivables of RMB8,651,000 (2012: RMB2,955,000) with a carrying amount before provision of RMB8,651,000 (2012: RMB2,955,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

23. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	GROUP	
	2013	**2012**
	RMB'000	**RMB'000**
Neither past due nor impaired	**53,725**	62,382
0 to 30 days past due	**81,609**	18,571
31 to 60 days past due	**19,202**	28,893
61 to 90 days past due	**6,324**	6,629
91 to 365 days past due	**16,589**	9,905
Over one year past due	**7,712**	3,966
	185,161	130,346

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the Group's trade receivables is an amount due from a company whose parent has a significant influence on the Company of RMB4,484,000 (2012: RMB12,746,000), which is repayable on credit terms similar to those offered to the major customers of the Group.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	GROUP	
	2013	**2012**
	RMB'000	**RMB'000**
Prepayments	**69,489**	67,896
Value-added tax receivable	**18,617**	23,031
Deposits	**15,165**	9,080
Other receivables	**58,859**	22,673
	162,130	122,680
Impairment	**(10,751)**	(2,091)
	151,379	120,589

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

	COMPANY	
	2013	**2012**
	RMB'000	**RMB'000**
Prepayments	**381**	214
Other receivables	**4,689**	1,080
Total	**5,070**	1,294

The movements in provision for impairment of other receivables are as follows:

	GROUP	
	2013	**2012**
	RMB'000	**RMB'000**
At 1 January	**2,091**	93
Impairment losses recognised	**10,660**	2,000
Amount written off as uncollectible	**—**	(2)
Impairment losses reversed	**(2,000)**	—
	10,751	2,091

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSIT

	NOTES	GROUP 2013 RMB'000	GROUP 2012 RMB'000
Cash and bank balances	(a)	**559,028**	377,990
Time deposits with original maturity of three months or less when acquired	(a)	**2,118,220**	241,829
		2,677,248	619,819
Time deposits with original maturity of over three months when acquired	(a)	**1,823,528**	1,815,440
Less: Pledged time deposit for a bank loan (note 28(a))	(a)	**(19,588)**	(19,000)
Cash and cash equivalents		**4,481,188**	2,416,259
Denominated in RMB	(b)	**3,373,801**	2,275,166
Denominated in US$		**541,950**	100,818
Denominated in HK$		**541,710**	22,115
Denominated in JPY		**23,306**	17,975
Denominated in MYR		**327**	185
Denominated in other currencies		**94**	—
		4,481,188	2,416,259

	NOTES	COMPANY 2013 RMB'000	COMPANY 2012 RMB'000
Cash and bank balances		**43,197**	41,775
Time deposits with original maturity of three months or less when acquired		**110,571**	37,902
		153,768	79,677
Time deposits with original maturity of over three months when acquired		**548,365**	95,550
Less: Pledged time deposit for a bank loan (note 28(a))	(a)	**(19,588)**	(19,000)
Cash and cash equivalents		**682,545**	156,227

(a) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and a year depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents as at 31 December 2013 and 2012 approximated to their fair values.

(b) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

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

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

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

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

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

As at 31 December 2012, Chengdu Baiming was classified as a disposal group held for sale.

27. TRADE PAYABLES

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

	GROUP 2013 RMB'000	GROUP 2012 RMB'000
0 to 30 days	**17,246**	7,929
31 to 60 days	**6,967**	5,065
61 to 90 days	**1,857**	2,420
91 to 365 days	**4,740**	5,194
Over one year	**1,653**	2,481
	32,463	23,089

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

28. INTEREST-BEARING BANK LOANS

	NOTE	EFFECTIVE INTEREST RATE	MATURITY	PRINCIPAL AMOUNT RMB'000
GROUP AND COMPANY				
At 31 December 2013				
Current				
Bank loan — secured	(a)	HIBOR plus 0.75% per annum	2014	15,724
GROUP AND COMPANY				
At 31 December 2012				
Current				
Bank loan — unsecured		HIBOR plus 1.18%–2.35% per annum/LIBOR plus 1.12% per annum	2013	397,341
Bank loan — secured		HIBOR plus 0.75% per annum	2013	16,218
				413,559

(a) The interest-bearing bank loan represented a drawdown of HK$20,000,000 (equivalent to RMB15,724,000) (2012: HK$20,000,000, equivalent to RMB16,218,000) from the Group's banking facilities of HK$100,000,000 (2012: HK$100,000,000) in September 2013. The bank loan was secured by the Group's time deposit of RMB19,588,000 (2012: RMB19,000,000).

29. OTHER PAYABLES AND ACCRUALS

	GROUP 2013 RMB'000	2012 RMB'000
Deposits received from customers	**27,113**	13,639
Other payables	**270,985**	208,358
Other taxes payable	**73,536**	36,679
Contingent consideration for acquiring a business	**4,573**	3,000
Share redemption payable	**57,215**	—
Accruals	**65,542**	37,151
	498,964	298,827
Non-current portion of contingent consideration for acquiring a business	**7,401**	—
	506,365	298,827

The Company's other payables and accruals are related to accruals of expenses. Other payables are non-interest-bearing.

30. CONVERTIBLE BONDS

On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK$1,356,000,000 which bear interest at a rate of 3% per annum payable semi-annually (the "Convertible Bonds"). The Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK$16.9363 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding Convertible Bonds at principal amount together with interest accrued by giving the bondholders not less than 30 days' prior notice. On the maturity date, any Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon. There was no conversion or redemption of the Convertible Bonds from 23 July 2013 to 31 December 2013.

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

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

	2013 RMB'000	2012 RMB'000
Nominal value of the Convertible Bonds issued during the period	**1,078,427**	—
Less: Transaction costs	**(22,898)**	—
Net proceeds from the issue of Convertible Bonds	**1,055,529**	—
Equity component at the issuance date	**(8,500)**	—
Liability component at the issuance date	**1,047,029**	—
Exchange realignment	**(11,966)**	—
Interest expenses	**2,524**	—
Liability component at 31 December	**1,037,587**	—

31. REDEEMABLE CONVERTIBLE PREFERRED SHARES

On 9 April 2013, the Group's non-wholly owned subsidiary, KC Holdings, issued 188,636,000 and 80,844,000 series A redeemable convertible preferred shares of par value of US$0.001 each to a third party investor and the Company, respectively, at a price of US$0.0742 per share for an aggregate consideration of US$20,000,000 (equivalent to approximately RMB125,096,000).

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

(i) the fair market value of the series A redeemable convertible preferred share; and

(ii) the series A redeemable convertible preferred shares issue price plus an 8% internal rate of return, compounded annually.

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

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

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

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

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

	LIABILITY COMPONENT RMB'000	EQUITY COMPONENT RMB'000
20 August 2013	76,038	10,015
Exchange realignment	(1,030)	—
Interest charge	2,974	—
31 December 2013	**77,982**	**10,015**

32. DEFERRED REVENUE

	GROUP	
	2013	**2012**
	RMB'000	**RMB'000**
Entertainment software	**180,913**	146,340
Information security software	**19,802**	24,243
Other application software	**9,911**	7,282
Government grants	**23,012**	21,849
	233,638	199,714
Less: Current portion	**(202,105)**	(185,462)
Non-current portion	**31,533**	14,252

33. SHARE CAPITAL

SHARES

	2013	**2012**
	RMB'000	**RMB'000**
Authorised:		
2,400,000,000 (2012: 2,400,000,000) ordinary shares of US$0.0005 each	**9,260**	9,260
Issued and fully paid:		
1,180,633,633 (2012: 1,171,791,433) ordinary shares of US$0.0005 each	**4,718**	4,690

33. SHARE CAPITAL (continued)

During the years ended 31 December 2012 and 2013, the movements in the Company's issued share capital were as follows:

COMPANY	NOTES	NUMBER OF SHARES IN ISSUE	ISSUED SHARE CAPITAL RMB'000	SHARE PREMIUM ACCOUNT RMB'000	SHARES HELD FOR SHARE AWARD SCHEME RMB'000	TOTAL RMB'000
At 1 January 2012		1,137,791,927	4,677	440,974	(93,754)	351,897
Difference between the proposed and paid dividend in respect of the previous year		—	—	(830)	—	(830)
Exercise of share options		5,893,500	19	15,783	—	15,802
Vested awarded shares transferred to employees		3,429,999	—	—	11,627	11,627
Repurchase and cancellation of shares		(1,983,000)	(6)	(5,830)	—	(5,836)
Proposed final 2012 dividend		—	—	(102,132)	—	(102,132)
At 31 December 2012 and 1 January 2013		**1,145,132,426***	**4,690**	**347,965**	**(82,127)**	**270,528**
Difference between the proposed and paid dividend in respect of the previous year		**—**	**—**	**631**	**—**	**631**
Exercise of share options	7(a)	**8,842,200**	**28**	**20,456**	**—**	**20,484**
Vested awarded shares transferred to employees	7(b)	**5,469,735**	**—**	**—**	**28,237**	**28,237**
Proposed final 2013 dividend		**—**	**—**	**(109,387)**	**—**	**(109,387)**
At 31 December 2013		**1,159,444,361***	**4,718**	**259,665**	**(53,890)**	**210,493**

* Excluding 21,189,272 (2012: 26,659,007) shares held by the Share Award Scheme Trust as at 31 December 2013

Share options

Details of the Company's share option schemes and the share options issued under these schemes are included in note 7 to the financial statement.

34. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	COMPANY	
	2013 RMB'000	2012 RMB'000
Unlisted shares, at cost	**188,936**	26,049
Capital contribution in respect of employee share-based compensation	**205,582**	199,648
	394,518	225,697

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB658,691,000 (2012: RMB702,285,000) and RMB151,608,000 (2012: RMB118,907,000), respectively, are unsecured, interest-free and are repayable on demand.

Particulars of the principal subsidiaries are as follows:

NAME	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	NOMINAL VALUE OF ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY AS AT 31 DECEMBER 2013	PRINCIPAL ACTIVITIES
Kingsoft Entertainment Software Holdings Limited ("KES Holdings")√	Cayman Islands	US$1	**100**	Investment holding
Kingsoft Application Software Holdings Limited ("KAS Holdings")√	Cayman Islands	HK$1	**100**	Investment holding
KIS√	Cayman Islands	US$25,014	**58.89**	Investment holding
KOS Holdings√	Cayman Islands	US$2,522,000	**72.32**	Investment holding
KC Holdings√	Cayman Islands	US$947,500	**64.15**	Investment holding
Westhouse Holdings Limited ("Westhouse Holdings")√	Cayman Islands	US$3,200,000	**80**	Investment holding
JC Holdings√	Cayman Islands	US$157,500	**80.4**	Investment holding
Kingsoft Entertainment Software Corporation Limited	Hong Kong	HK$10,000,000	**100**	Investment holding, operation and distribution of games
Kingsoft Application Software Corporation Limited	Hong Kong	HK$1	**100**	Investment holding
Cheetah Technology Corporation Limited	Hong Kong	HK$1	**58.89**	Investment holding and operations of online marketing
Kingsoft Office Software Corporation Limited	Hong Kong	HK$15,000,000	**72.32**	Investment holding

34. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

NAME	NOTES	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	NOMINAL VALUE OF ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY AS AT 31 DECEMBER 2013	PRINCIPAL ACTIVITIES
Westhouse Corporation Limited		Hong Kong	HK$18,600,000	**80**	Investment holding and provide game service
Kingsoft Jingcai Online Game Corporation Limited		Hong Kong	HK$850,000	**80.4**	Investment holding
Kingsoft Cloud Corporation Limited		Hong Kong	HK$2,000,000	**64.15**	Investment holding
Kingsoft (M) SDN.BHD ("Kingsoft Malaysia")√		Malaysia	MYR1,000,000	**100**	Development and distribution of games
Kingsoft Japan√		Japan	JPY447,875,000	**51**	Development and sale of the security software and office application software
Beijing Kingsoft Software Co., Ltd.#√		PRC/Mainland China	RMB10,000,000	**100**	Marketing and distribution of application software
Beijing Digital Entertainment#√	(a)	PRC/Mainland China	RMB10,000,000	**100**	Marketing and operation of SMS and wireless service of online games and application software and holding of ICP licence
Beijing Kingsoft Security Software Co., Ltd. ("Beijing Security Software")#√		PRC/Mainland China	RMB8,000,000	**58.89**	Sale and operation of internet security software
Beijing Kingsoft Office Software Co., Ltd. ("Beijing Kingsoft Office")#^√		PRC/Mainland China	RMB10,000,000	**72.32**	Sale and operation of office application software
Beike Internet (Beijing) Security Technology Co., Ltd. ("Beike Internet")#√	(e)	PRC/Mainland China	RMB10,000,000	**58.89**	Provision of internet security service
Jingcai Online Technology (Dalian) Co., Ltd.#√		PRC/Mainland China	RMB1,000,000	**80.4**	Research and development of games

34. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

NAME	NOTES	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	NOMINAL VALUE OF ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY AS AT 31 DECEMBER 2013	PRINCIPAL ACTIVITIES
Chengdu Kingsoft Interactive Entertainment Co., Ltd. ("Chengdu Interactive Entertainment")#√		PRC/Mainland China	RMB100,000,000	**100**	Research and development of games
Chengdu Kingsoft Digital Entertainment Co., Ltd. ("Chengdu Digital Entertainment")#√	(b)	PRC/Mainland China	RMB10,000,000	**100**	Marketing and operation of entertainment software products, ICP licence holder
Chengdu Westhouse Interactive Entertainment Co., Ltd. ("Chengdu Westhouse") #√		PRC/Mainland China	RMB15,000,000	**80**	Research and development of games
Zhuhai Kingsoft Software Co., Ltd. ("Zhuhai Software")#√		PRC/Mainland China	RMB215,500,000	**100**	Research, development and distribution of consumer application software
Zhuhai Kingsoft Online Game Technology Co., Ltd. ("Zhuhai Online Game")#√	(f)	PRC/Mainland China	RMB10,000,000	**80**	Research and development for online games
Zhuhai Kingsoft Application Software Co., Ltd. ("Zhuhai Kingsoft Application")#√	(c)	PRC/Mainland China	RMB68,000,000	**72.32**	Sale and operation of office application software

* Companies established during the year ended 31 December 2013

\# The English names of these companies represent the best efforts by management of the Company in directly translating the Chinese names of these companies, as no English names have been registered.

^ Companies registered as a wholly-foreign-owned enterprise under PRC law

~ This company is a subsidiary of a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

√ Not audited by Ernst &Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

34. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

Notes:

(a) In March 2007, the two individual equity holders (the"Kingsoft Qijian's equity holders") of Beijing Kingsoft Qijian Digital Technology Co., Ltd. ("Kingsoft Qijian") entered into a loan agreement with Chengdu Interactive Entertainment, pursuant to which Chengdu Interactive Entertainment provided interest-free loans of RMB1,200,000 and RMB300,000 respectively to Kingsoft Qijian's equity holders. The loans are secured by the respective equity interests in Kingsoft Qijian held by Kingsoft Qijian's equity holders. Chengdu Interactive Entertainment is granted an exclusive irrevocable option to purchase part or all of the equity interests in Kingsoft Qijian held by Kingsoft Qijian's equity holders. Kingsoft Qijian's equity holders entrust all of their respective shareholder rights in Kingsoft Qijian to Chengdu Interactive Entertainment. Kingsoft Qijian's equity holders give up the dividends in Kingsoft Qijian and Chengdu Interactive Entertainment is entitled to dividend if Kingsoft Qijian declares dividend. The Group has rights to obtain the majority of the benefits from Kingsoft Qijian's operations, but also exposes to risks incidental to the activities of Kingsoft Qijian. Accordingly, Kingsoft Qijian is accounted for as a subsidiary by virtue of the Group's control over it.

Kingsoft Qijian wholly owns Beijing Digital Entertainment. Accordingly, Beijing Digital Entertainment is accounted for as a subsidiary by virtue of the Group's control, through Kingsoft Qijian, over it.

(b) As at 31 December 2013, Chengdu Digital Entertainment is 99% owned by Beijing Digital Entertainment. The non-controlling equity holder of Chengdu Digital Entertainment borrowed an interest-free loan of RMB100,000 from Chengdu Interactive Entertainment for its investment in Chengdu Digital Entertainment in March 2007. The loan is secured by the equity interest in Chengdu Digital Entertainment held by the non-controlling equity holder. Chengdu Interactive Entertainment is granted an exclusive option to purchase part or all of the equity interest held by the non-controlling equity holder in Chengdu Digital Entertainment. During the pledge period, the non-controlling equity holder forfeits the right to receive dividends from Chengdu Digital Entertainment and Chengdu Interactive Entertainment is entitled to this portion of dividends from Chengdu Digital Entertainment. The non-controlling equity holder entrust its shareholder rights in Chengdu Digital Entertainment to Beijing Digital Entertainment. The Group, via Chengdu Interactive Entertainment, has rights to obtain the majority of the benefits from Chengdu Digital Entertainment's operations, but also exposes to risks incidental to the activities of Chengdu Digital Entertainment. Accordingly, Chengdu Digital Entertainment is accounted for as a subsidiary by virtue of the Group's control over it.

(c) In February and August 2010, the two individual equity holders (the "Zhuhai Qiwen's equity holders") of Zhuhai Qiwen Application Software Co., Ltd. ("Zhuhai Qiwen") entered into loan agreements with Zhuhai Software, pursuant to which Zhuhai Software provided interest-free loans of RMB8,000,000 and RMB60,000,000 respectively to Zhuhai Qiwen's equity holders. The loans are secured by the respective equity interests held by Zhuhai Qiwen's equity holders. Zhuhai Software was granted an exclusive irrevocable option to purchase part or all of the equity interests in Zhuhai Qiwen held by Zhuhai Qiwen's equity holders. Zhuhai Qiwen's equity holders entrust all of their respective shareholder rights in Zhuhai Qiwen to Zhuhai Software. Zhuhai Qiwen's equity holders give up the dividends in Zhuhai Qiwen and Zhuhai Software is entitled to dividends if Zhuhai Qiwen declares dividend. In November 2011, one of Zhuhai Qiwen's equity holders transferred part of her equity interests in Zhuhai Qiwen to 26 natural persons (together with the original two individual equity holders referred to as the "New Equity Holders") for a consideration of discharging the corresponding portion of her liability under the aforesaid loan agreement, which were assumed by these 26 natural persons. In December 2011, Zhuhai Software transferred the loan in the amount of RMB68,000,000 receivable from the New Equity Holders to Beijing Kingsoft Office, a wholly owned subsidiary of the Group, for a cash consideration of RMB68,000,000, and hence the New Equity Holders were liable to Beijing Kingsoft Office in total of RMB68,000,000. The loan was secured by the respective equity interests held by the New Equity Holders in Zhuhai Qiwen. Meanwhile, Beijing Kingsoft Office was granted an irrevocable exclusive option to purchase part or all of the New Equity Holders' equity interests in Zhuhai Qiwen. The New Equity Holders also entrusted all of their respective shareholder rights in Zhuhai Qiwen to a person designated by Beijing Kingsoft Office and pledged all of their respective equity interests in Zhuhai Qiwen in favour of Beijing Kingsoft Office. The New Equity Holders give up the dividends in Zhuhai Qiwen and Beijing Kingsoft Office is entitled to receive dividends if Zhuhai Qiwen declares dividend. The Group, via Beijing Kingsoft Office (and via Zhuhai Software before Beijing Kingsoft Office), has rights to obtain the majority of the benefits from Zhuhai Qiwen's operations, but also exposes to risks incidental to the activities of Zhuhai Qiwen. Accordingly, Zhuhai Qiwen and its wholly-owned subsidiary, Zhuhai Kingsoft Application, are accounted for as subsidiaries by virtue of the Group's control over it.

34. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

(d) In August 2010, the two individual equity holders (the "Conew Technology's equity holders") of Beijing Conew Technology Development Co., Ltd ("Conew Technology") entrusted all of their respective shareholder rights in Conew Technology to Conew Network and pledged all the equity interests in Conew Technology held by them to Conew Technology. Conew Network was granted an exclusive irrevocable option to purchase part or all of the equity interests in Conew Technology held by Conew Technology's equity holders. Conew Technology's equity holders give up the dividends in Conew Technology to Conew Network and Conew Network is entitled to receive dividends if Conew Technology declares dividend. The Group, via Conew Network, has rights to obtain the majority of the benefits from Conew Technology's operations, but also exposes to risks incidental to the activities of Conew Technology. Accordingly, Conew Technology is accounted for as a subsidiary by virtue of the Group's control over it.

(e) In January 2011 and September 2012, the two individual equity holders of Beike Internet (the "Beike Internet's equity holders") entered into loan agreements with Beijing Security Software, pursuant to which Beijing Security Software provided an interest-free loans of RMB7,200,000 to Beike Internet's equity holders. The loans were secured by the respective equity interests held by Beike Internet's equity holders. Beijing Security Software is granted an irrevocable exclusive option to purchase part or all of the equity interests in Beike Internet held by Beike Internet's equity holders. Beike Internet's equity holders entrusted all of their respective shareholder rights in Beike Internet to a person designated by Beijing Security Software. Beike Internet's equity holders give up the dividends in Beike Internet and Beijing Security Software is entitled to receive dividends if Beike Internet declares dividend. The Group, via Beijing Security Software, has rights to obtain the majority of the benefits from Beike Internet's operations, but also exposes to risks incidental to the activities of Beike Internet. Accordingly, Beike Internet is accounted for as a subsidiary by virtue of the Group's control over it.

(f) As at 31 December 2012, Zhuhai Online Game is 81.3% owned by Chengdu Westhouse. The non-controlling equity holders of Zhuhai Online Game borrowed an interest-free loans of RMB3,487,550 from Chengdu Westhouse to repay the liabilities incurred by them due to the acquisition of the 18.7% registered capital in Zhuhai Online Game. The loans are secured by the non-controlling equity holders' respective equity interests in Zhuhai Online Game. Chengdu Westhouse is granted an irrevocable exclusive option to purchase at its sole discretion at any time part or all of the equity interests held by the non-controlling equity holders in Zhuhai Online Game. The non-controlling equity holders entrusted all of their respective shareholder rights in Zhuhai Online Game to a person designated by Chengdu Westhouse. During the pledge period, the non-controlling equity holders forfeit the right to receive dividends from Zhuhai Online Game and Chengdu Westhouse is entitled to this portion of dividends from Zhuhai Online Game. The Group, via Chengdu Westhouse, has rights to obtain the majority of the benefits from Zhuhai Online Game's operations, but also exposes to risks incidental to the activities of Zhuhai Online Game. Accordingly, Zhuhai Online Game is accounted for as a subsidiary by virtue of the Group's control over it. In December 2013, the non-controlling equity holders of Zhuhai Online Game transferred all of their shares to Chengdu Westhouse, after which, Chengdu Westhouse owned 100% shares of Zhuhai Online Game.

34. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

(g) In September 2012, the two individual equity holders (the "Zhuhai Westhouse Shiyou's equity holders") of Zhuhai Westhouse Shiyou Technology Co., Ltd. ("Zhuhai Westhouse Shiyou") entered into loan agreements with Chengdu Westhouse, pursuant to which Chengdu Westhouse provided interest-free loans of RMB8,000,000 and RMB2,000,000 respectively to Zhuhai Westhouse Shiyou's equity holders. The loans were secured by the respective equity interests held by Zhuhai Westhouse Shiyou's equity holders. Chengdu Westhouse is granted an irrevocable exclusive option to purchase part or all of the equity interests in Zhuhai Westhouse Shiyou held by Zhuhai Westhouse Shiyou's equity holders. Zhuhai Westhouse Shiyou's equity holders entrusted all of their respective shareholder rights in Zhuhai Westhouse Shiyou to a person designated by Chengdu Westhouse. Zhuhai Westhouse Shiyou's equity holders give up the dividends in Zhuhai Westhouse Shiyou and Chengdu Westhouse is entitled to receive dividends if Zhuhai Westhouse Shiyou declares dividend. The Group, via Chengdu Westhouse, has rights to obtain the majority of the benefits from Zhuhai Westhouse Shiyou's operations, but also exposes to risks incidental to the activities of Zhuhai Westhouse Shiyou. Accordingly, Zhuhai Westhouse Shiyou is accounted for as a subsidiary by virtue of the Group's control over it.

Zhuhai Westhouse Shiyou wholly owns Chengdu Westhouse Shiyou. Accordingly, Chengdu Westhouse Shiyou is accounted for as a subsidiary by virtue of the Group's control, through Zhuhai Westhouse Shiyou, over it.

(h) In June 2012, the two individual equity holders (the "Beijing Network Technology's equity holders") of Beijing Kingsoft Network Technology Co., Ltd. ("Beijing Network Technology") entered into loan agreements with Conew Network, pursuant to which Conew Network provided interest-free loans of RMB5,000,000 and RMB5,000,000 respectively to Beijing Network Technology's equity holders. The loans are secured by the respective equity interests held by Beijing Network Technology's equity holders. Conew Network has been granted an irrevocable exclusive option to purchase part or all of the equity interests in Beijing Network Technology held by Beijing Network Technology's equity holders. Beijing Network Technology's equity holders entrusted all of their respective shareholder rights in Beijing Network Technology to person designated by Conew Network. Beijing Network Technology's equity holders give up the dividends in Beijing Network Technology and Conew Network is entitled to receive dividends if Beijing Network Technology declares dividend. The Group, via Conew Network, has rights to obtain the majority of the benefits from Beijing Network Technology's operations, but also exposes to risks incidental to the activities of Beijing Network Technology. Accordingly, Beijing Network Technology is accounted for as a subsidiary by virtue of the Group's control over it.

34. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

(i) In May 2012, the two individual shareholders (the "Zhuhai Cloud Technology's original shareholders") of Zhuhai Kingsoft Cloud Technology Co., Ltd. ("Zhuhai Cloud Technology") and Beijing Digital Entertainment entered into a loan agreement, pursuant to which Beijing Digital Entertainment provided interest-free loans of RMB99,000 and RMB1,000, respectively to Zhuhai Cloud Technology's original shareholders. The loans were secured by the respective equity interests held by Zhuhai Cloud Technology's original shareholders. Beijing Digital Entertainment is granted an irrevocable exclusive option to purchase part or all of the equity interests in Zhuhai Cloud Technology held by Zhuhai Cloud Technology's original shareholders. Zhuhai Cloud Technology's original shareholders entrusted all of their respective shareholder rights in Zhuhai Cloud Technology to a person designated by Beijing Digital Entertainment and pledged all of their respective equity interests in Zhuhai Cloud Technology in favour of Beijing Digital Entertainment. Zhuhai Cloud Technology's original shareholders give up the dividends in Zhuhai Cloud Technology and Beijing Digital Entertainment is entitled to receive dividends if Zhuhai Cloud Technology declares dividend. The Group, via Beijing Digital Entertainment, has rights to obtain the majority of the benefits from Zhuhai Cloud Technology's operations, but also exposes to risks incidental to the activities of Zhuhai Cloud Technology. Accordingly, Zhuhai Cloud Technology is accounted for as a subsidiary by virtue of the Group's control over it.

In June 2012, certain of the Group's employees involving in cloud business and Beijing Digital Entertainment (together with Zhuhai Cloud Technology's original shareholders referred to as Zhuhai Cloud Technology's equity holders) acquired additional share capitals in Zhuhai Cloud Technology.

In November 2012, all above structure contracts entered into in May 2012 were terminated, and a new set of structure contracts with same term as above were entered into among Zhuhai Cloud Technology's equity holders, Beijing Digital Entertainment and Beijing Cloud Technology, whereby the control over Zhuhai Cloud Technology of Beijing Digital Entertainment was transferred to Beijing Cloud Technology. Zhuhai Cloud Technology is still accounted for as a subsidiary by virtue of the Group's control over it.

Zhuhai Cloud Technology wholly owns Beijing Cloud Network. Accordingly, Beijing Cloud Network is accounted for as a subsidiary by virtue of the Group's control, through Zhuhai Cloud Technology, over it.

(j) In June 2013, the two individual equity holders (the "Beijing Antutu's equity holders") of Beijing AntutuTechnology Co., Ltd. ("Beijing Antutu") entered into loan agreements with Beijing Kingsoft Internet Security Software Co., Ltd. ("Beijing Internet Security"), pursuant to which Beijing Internet Securtiy provided interest-free loans of RMB1,500,000 and RMB1,500,000 respectively to Beijing Antutu's equity holders. The loans are secured by the respective equity interests held by Beijing Antutu's equity holders. Beijing Internet Security is granted an irrevocable exclusive option to purchase part or all of the equity interests in Beijing Antutu held by Beijing Antutu's equity holders. Beijing Antutu's equity holders entrusted all of their respective shareholder rights in Beijing Antutu to person designated by Beijing Internet Security. Beijing Antutu's equity holders give up the dividends in Beijing Antutu and Beijing Internet Security is entitled to receive dividends if Beijing Antutu declares dividend. The Group, via Beijing Internet Security, has rights to obtain the majority of the benefits from Beijing Antutu's operations, but also exposes to risks incidental to the activities of Beijing Antutu. Accordingly, Beijing Antutu is accounted for as a subsidiary by virtue of the Group's control over it.

34. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

(k) In August 2013, the two individual equity holders (the "Guangzhou Kingsoft's equity holders") of Guangzhou Kingsoft Network Technology Co., Ltd ("Guangzhou Kingsoft") entered into loan agreements with Beijing Internet Security, pursuant to which Beijing Internet Securtiy provided interest-free loans of RMB5,000,000 and RMB5,000,000 respectively to Guangzhou Kingsoft's equity holders. The loans are secured by the respective equity interests held by Guangzhou Kingsoft's equity holders. Beijing Internet Security has been granted an irrevocable exclusive option to purchase part or all of the equity interests in Guangzhou Kingsoft held by Guangzhou Kingsoft's equity holders. Guangzhou Kingsoft's equity holders entrusted all of their respective shareholder rights in Guangzhou Kingsoft to person designated by Beijing Internet Security. Guangzhou Kingsoft's equity holders give up the dividends in Guangzhou Kingsoft's and Beijing Internet Security is entitled to receive dividends if Guangzhou Kingsoft declares dividend. The Group, via Beijing Internet Security, has rights to obtain the majority of the benefits from Guangzhou Kingsoft's operations, but also exposes to risks incidental to the activities of Guangzhou Kingsoft. Accordingly, Guangzhou Kingsoft is accounted for as a subsidiary by virtue of the Group's control over it.

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

Percentage of equity interest held by non-controlling interests:

	2013 %	2012 %
KIS	**41.11**	35.14
KOS Holdings	**27.68**	21.05
Westhouse Holdings	**20.00**	20.00

Profit for the year allocated to non-controlling interests:

	2013 RMB'000	2012 RMB'000
KIS	**27,502**	12,017
KOS Holdings	**29,008**	10,413
Westhouse Holdings	**36,770**	21,738

Accumulated balances of non-controlling interests at the reporting dates:

	2013 RMB'000	2012 RMB'000
KIS	**230,578**	67,180
KOS Holdings	**154,984**	33,186
Westhouse Holdings	**48,672**	30,756

34. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2013

	KIS RMB'000	KOS HOLDINGS RMB'000	WESTHOUSE HOLDINGS RMB'000
Revenue	**698,733**	**258,527**	**384,145**
Total expenses	**(608,106)**	**(134,772)**	**(189,721)**
Profit for the year	**90,627**	**123,755**	**194,424**
Total comprehensive income for the year	**102,940**	**120,851**	**193,291**
Current assets	**759,217**	**538,116**	**563,069**
Non-current assets	**146,610**	**89,702**	**15,562**
Current liabilities	**306,281**	**50,939**	**326,348**
Non-current liabilities	**9,817**	**16,935**	**8,100**
Net cash flows from operating activities	**198,101**	**102,858**	**196,215**
Net cash flows from/(used in) investing activities	**(100,787)**	**58,382**	**31,102**
Net cash flows from/(used in) financing activities	**304,272**	**283,447**	**(88,520)**
Net increase in cash and cash equivalents	**401,586**	**444,687**	**138,797**

2012

	KIS RMB'000	KOS HOLDINGS RMB'000	WESTHOUSE HOLDINGS RMB'000
Revenue	291,313	164,439	250,426
Total expenses	(255,305)	(67,515)	(131,800)
Profit for the year	36,008	96,924	118,626
Total comprehensive income for the year	35,117	96,710	118,257
Current assets	392,220	194,263	400,479
Non-current assets	48,793	70,353	5,094
Current liabilities	247,954	100,013	238,967
Non-current liabilities	1,880	6,970	10,100
Net cash flows from operating activities	45,788	127,960	76,764
Net cash flows from/(used in) investing activities	(51,238)	(162,236)	(46,635)
Net cash flows from/(used in) financing activities	628	12,912	(12,568)
Net decrease/increase in cash and cash equivalents	(4,822)	(21,364)	17,561

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements on page 7 to 8.

In accordance with the regulations in the PRC and the respective articles of association, the PRC subsidiaries of the Group are required to make an appropriation of retained earnings equal to at least 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations. Such appropriations are classified in the consolidated financial position as statutory reserves and start from the first period in which after-tax profits exceed all prior year accumulated losses. Appropriations to these reserves are not required after these reserves have reached 50% of the registered capital of the respective companies. In addition, the PRC subsidiaries may, subject to a shareholders' resolution, draw a discretionary reserve from their after-tax profits. The reserves shall be used to offset accumulated losses, or to increase registered capital of the companies. Where the statutory reserve is converted into capital, the remaining statutory reserve balance shall be no less than 25 % of the registered capital prior to the conversion.

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

During the year ended 31 December 2013, the Group's major equity transactions are as follows:

(i) On 24 June 2013, KIS issued 110,240,964 and 12,254,567 preferred shares (totally representing 10.00% of enlarged equity interest of KIS) to a company whose parent has a significant influence on the Company and the Company respectively, for an aggregate consideration of US$46,980,000 (equivalent to RMB290,369,000) and US$5,222,000 (equivalent to RMB32,257,000) respectively.

(ii) On 9 October 2013, KOS Holdings redeemed and deregistered 30,000,000 ordinary shares (representing 3.16% of the equity interest of KOS Holdings before the redemption) from a company owned by some founding employees, at a redemption price of US$0.1085 per share for an aggregate consideration of approximately US$3,255,000 (equivalent to RMB20,000,000). On 15 October 2013, KOS Holdings issued 140,000,000 preferred shares and 60,000,000 preferred shares (totally representing 17.10% of the enlarged equity interest of KOS Holdings) to certain third party investors and the company, at a subscription price of US$0.25 per share for an aggregate consideration of US$35,000,000 (equivalent to RMB214,942,000) and US$15,000,000 (equivalent to RMB92,118,000) respectively.

(iii) On 19 February 2013, KCS Holdings redeemed 9,000,000 ordinary shares (representing 0.98% of the equity interest of KCS Holdings before the redemption) from a company owned by some founding employees, at an aggregate consideration of US$61,000 (equivalent to RMB 383,000).

35. RESERVES (continued)

(b) Company

	NOTE	SHARE PREMIUM ACCOUNT RMB'000	SHARES HELD FOR SHARE AWARD SCHEME RMB'000	EMPLOYEE SHARE-BASED RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED EARNINGS RMB'000	TOTAL RMB'000
AT 1 JANUARY 2012		440,974	(93,754)	142,851	(125,053)	139,358	504,376
Total comprehensive income for the year		—	—	—	(452)	102,537	102,085
Difference between the proposed and paid dividend in respect of the previous year		(830)	—	—	—	—	(830)
Exercise of share options		15,783	—	(7,641)	—	—	8,142
Share-based compensation costs		—	—	18,941	—	—	18,941
Vested awarded shares transferred to employees		—	11,627	(11,627)	—	—	—
Repurchase and cancellation of shares		(5,830)	—	—	—	—	(5,830)
Proposed final 2012 dividend	11	(102,132)	—	—	—	—	(102,132)
AT 31 DECEMBER 2012 AND 1 JANUARY 2013		**347,965**	**(82,127)**	**142,524**	**(125,505)**	**241,895**	**524,752**
Total comprehensive income for the year		**—**	**—**	**—**	**(23,876)**	**87,007**	**63,131**
Difference between the proposed and paid dividend in respect of the previous year		**631**	**—**	**—**	**—**	**—**	**631**
Exercise of share options		**20,456**	**—**	**(10,140)**	**—**	**—**	**10,316**
Share-based compensation costs		**—**	**—**	**23,521**	**—**	**—**	**23,521**
Vested awarded shares transferred to employees		**—**	**28,237**	**(28,237)**	**—**	**—**	**—**
Repurchase and cancellation of shares		**—**	**—**	**—**	**—**	**—**	**—**
Proposed final 2013 dividend	11	**(109,387)**	**—**	**—**	**—**	**—**	**(109,387)**
At 31 December 2013		**259,665**	**(53,890)**	**127,668**	**(149,381)**	**328,902**	**512,964**

The Company operates three share option schemes and a share award scheme as part of the benefits to its employees. The employee share-based reserve comprises the fair value of share options and awarded shares granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be either transferred to the share premium account when the related share options are exercised, or be transferred to shares held for share award scheme when the related awarded shares are vested and transferred.

36. BUSINESS COMBINATIONS

Acquisition of Antutu business

On 17 April 2013, the Group, through its non-wholly owned subsidiary, KIS, acquired certain intellectual properties, customer relationship and key employees of Antutu Business ("Antutu Business") from a third party for a cash consideration of RMB12,000,000, which was fully settled as of 31 December 2013. The acquisition is accounted for as a business combination. The acquisition allows the Group to enhance the mobile application and provides synergy with its existing business.

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

	NOTES	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:		
Trademark		150
Technology		1,000
User base		2,383
Total identifiable net assets at fair value	16	3,533
Goodwill arising on acquisition	15	8,467
Total consideration, satisfied by cash		12,000
Analysis of cash flow on acquisition:		
Cash paid		(12,000)
Net outflow of cash and cash equivalent included in cash flows used in investing activities		(12,000)

36. BUSINESS COMBINATIONS (continued)

Acquisition of Photo Grid business

On 20 May 2013, the Group, through its non-wholly owned subsidiary, KIS, acquired certain intellectual properties, customer relationship and key employees of Photo Grid Business ("Photo Grid Business") from a third party for a cash consideration of US$6,600,000, which was fully settled as of 31 December 2013. The acquisition is accounted for as a business combination. The acquisition allows the Group to enhance the mobile application and provides synergy with its existing business.

A contingent consideration with an upper limit of US$800,000 per year will be paid conditional upon the achievements of certain performance targets from June 2013 to May 2016 of the Photo Grid Business in accordance with the sale and purchase agreement. The Group has estimated and recognised a financial liability for the contingent consideration at its fair value of US$1,807,000 (equivalent to RMB11,167,000) at the acquisition date. As of 31 December 2013, the fair value of the contingent consideration liability was recognised as US$1,964,000 (equivalent to RMB11,974,000). A loss of RMB972,000 resulted from the change in fair value of the contingent consideration liability was recognised in the consolidated statement of profit or loss for the year ended 31 December 2013.

	NOTES	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:		
Technology		9,270
User base		11,154
Total identifiable net assets at fair value	16	20,424
Goodwill arising on acquisition	15	31,528
Total consideration, satisfied by cash and other payables		51,952
Analysis of cash flow on acquisition:		
Cash paid		(40,785)
Fair value of contingent consideration recognised as other payables		(11,167)
Net outflow of cash and cash equivalent included in cash flows used in investing activities		(51,952)

The revenues and net profit contributed by these acquisitions from 1 January 2013 or their respective acquisition dates to 31 December 2013 were not material to the Group.

37. DISPOSAL OF A SUBSIDIARY

On 5 February 2013, Zhuhai Software entered into a sale and purchase agreement with a third party company (the "Purchaser"), whereby the Purchaser agreed to purchase a 80% equity interest in Chengdu Baiming, a wholly-owned subsidiary of Zhuhai Software, at a consideration of RMB200,000,000. The Purchaser and Chengdu Baiming agreed that the benefit accrued to the Zhuhai Software's remaining 20% interest in Chengdu Baiming shall not be less than RMB88,000,000 (inclusive of equity investment cost of RMB40,000,000), such interest shall take priority over other shareholders' interests and that such interest shall be realised not later than 30 June 2016.

The results of disposal of Chengdu Baiming are presented below:

	2013 RMB'000	2012 RMB'000
Net assets disposed of:		
Cash and cash equivalents	**118,394**	—
Lease prepayment	**81,872**	—
Prepayments, deposit and other receivables	**375**	—
Other payables and accruals	**(641)**	—
	200,000	—
Fair value of remaining equity interest	**(50,000)**	—
Related disposal expenses	**2,548**	—
Gain on disposal of a subsidiary	**47,452**	—
	200,000	—
Satisfied by:		
Cash	**200,000**	—

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

	2013 RMB'000	2012 RMB'000
Cash consideration	**200,000**	—
Cash and cash equivalents disposed of	**(118,394)**	—
Cash outflow of disposal expenses	**(2,548)**	—
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**79,058**	—

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Supplemental cash flow information

	2013 RMB'000	2012 RMB'000
Cash received from interest	**126,774**	90,001
Cash paid for income tax related to operating activities	**(57,238)**	(48,125)

39. COMMITMENTS

Operating lease commitments — Group as lessee

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

At 31 December 2013, the Group and the Company had total future minimum lease payments under non-cancelled operating leases falling due as follows:

	GROUP		COMPANY	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Within one year	**46,203**	21,620	**57**	6
After one year but not more than five years	**16,691**	9,469	**80**	—
	62,894	31,089	**137**	6

As at 31 December 2013, the calculation of lease payment of some electronic equipment was based on the actual number of users of the relevant servers. The rental expense under these operating leases was RMB14,428,000 for the year ended 31 December 2013 (2012: RMB10,213,000). As future lease payments for these arrangements are based on the actual number of users and thus cannot be reasonably estimated, they are not included in the minimum lease payments shown above.

Capital commitments

		GROUP	
	NOTE	2013 RMB'000	2012 RMB'000
Contracted, but not provided for:			
Purchase of electronic equipment		**167**	415
Development of land and buildings	(a)	**921,033**	922,975
Long term debt obligation	(b)	**10,000**	—
Investment in a joint venture		**2,000**	—
Acquisition of intangible assets		**6,097**	34
		951,297	923,424

(a) The capital commitment for the development of land and buildings at 31 December 2013 represented the commitment to invest in an aggregate amount of RMB921,033,000 in the development of a piece of land in Zhuhai.

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

Provision of loan facility

On April 18, 2013, the subsidiary of KIS entered into a two-year loan facility ending April 17, 2015 with a shareholder of an associate, pursuant to which, the subsidiary granted a loan facility of RMB16,000,000 at an interest rate with reference to the market rate with 10% discount. Such loan facility shall be secured by the equity interest in the associate held by the shareholder to the maximum of 40% equity interests in the associate. As of December 31, 2013, RMB4,000,000 of the loan facility was being utilized and 10% of the equity interests in the associate were pledged to the Group accordingly.

40. RELATED PARTY TRANSACTIONS

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

	NOTES	GROUP 2013 RMB'000	2012 RMB'000
Equity contribution from non-controlling shareholders of subsidiaries	(i)	**—**	50,670
Equity contribution from a company whose parent has a significant influence on the Company	(ii)	**290,367**	—
Provision of services to a company whose parent has a significant influence on the Company	(iii)	**104,078**	69,828
Online marketing services from a company whose parent has a significant influence on the Company	(iii)	**—**	5,155
Provision of services to a company controlled by a director of the Company	(iv)	**7,713**	966
Purchases of products from a company controlled by a director of the Company	(iv)	**8,395**	5,275
Interest income from non-controlling shareholders of subsidiaries	(v)	**2,867**	2,974
Purchase of new shares from a company controlled by a director of the Company	(ix)	**30,600**	—

(i) On 11 November 2012, KC Holdings issued 162,000,000 new ordinary shares (representing 19.49% of the enlarged equity interest of KC Holdings) to a company owned by some founding employees, at a subscription price of US$0.001 per share for an aggregate consideration of approximately US$162,000 (equivalent to RMB1,027,000). On 30 November 2012, KC Holdings issued 91,000,000 new ordinary shares (representing 9.87% of the enlarged capital of KC Holdings) to a company owned by a director of the Group, at a subscription price of US$0.02 per share for an aggregate consideration of US$1,820,000 (equivalent to RMB11,511,000).

(ii) On 24 June 2013, KIS issued 110,240,964 series B preferred shares (representing 9.00% of the enlarged capital of KIS) to a company whose parent has a significant influence on the Company, at a subscription price of US$0.4262 per share for an aggregate consideration of US$46,980,000 (equivalent to RMB290,369,000).

(iii) On 27 September 2012, the Group entered into a framework agreement with a company whose parent has a significant influence on the Company. Pursuant to the framework agreement, the Group provides various forms of promotion services to this related company and its controlled affiliates through the Group's internet platforms. The price is based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting the similar transactions. The term of the framework agreement commenced from 1 January 2012 to 31 December 2013. The Group received a total of approximately RMB104,078,000 for the years ended 31 December 2013 (2012: RMB69,828,000).

For the year ended 31 December 2013, the Group received online marketing services from the related company and its controlled affiliates of RMB nil (2012: RMB5,155,000).

On 27 December 2013, Beijing Kingsoft Office entered into a licensing agreement with a company whose parent has a significant influence on the Company to grant the right to perpetually use WPS Office 2013 Professional Office Software V9.6 on the computers to this related company and its controlled affiliates. No revenue under this licensing agreement was recorded for the year ended 31 December 2013.

40. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(iv) In 2012 and 2013, the Group entered into various agreements with a company controlled by a director of the Company. Pursuant to the agreements, the Group provided cloud storage services, online advertising services and joint operations of online games to this related company and its affiliate at the prevailing fair market price in the same industry for similar transactions and the Group purchased smart phones and phone accessories from this related company at markets price. For the year ended 31 December 2013, the Group provided services of approximately RMB7,713,000 (2012: RMB966,000) to an affiliate of the related company and purchased smart phones and phone accessories of approximately RMB8,395,000 (2012:RMB5,275,000) from the affiliate of the related company.

(v) The interest income from non-controlling shareholders of subsidiaries was approximately HK$3,593,000 (equivalent to RMB2,867,000) and HK$3,668,000 (equivalent to RMB2,974,000) in 2013 and 2012, respectively. Details of the loans are disclosed in note 40(b).

(vi) On 24 June 2013, a company owned by certain key management of KIS was granted with redemption options to sell 24,264,042 ordinary shares of KIS to KIS at a price of US$0.3835 per share for an aggregate price of US$9,306,000 (equivalent to RMB57,501,000) within 24 months.

(vii) On 9 October 2013, KOS Holdings redeemed 30,000,000 ordinary shares (representing 3.16% of the equity interest of KOS Holdings before the redemption) from a company owned by some founding employees of KOS Holdings, including a director of some subsidiaries of KOS Holdings, at a redemption price of US$0.1085 per share for an aggregate consideration of approximately US$3,255,000 (equivalent to RMB20,000,000).

(viii) On 19 February 2013, KCS Holdings redeemed 9,000,000 ordinary shares (representing 0.98% of the equity interest of KCS Holdings before the redemption) from a company owned by some founding employees of KCS Holdings, at an aggregate consideration of US$61,000 (equivalent to RMB383,000).

(ix) On 22 March 2013, the Company purchased new shares issued by a company controlled by a director of the Company at an aggregate consideration of US$4,990,000 (equivalent to RMB30,600,000).

(b) Outstanding balances with related parties:

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

		GROUP	
	NOTES	**2013 RMB'000**	**2012 RMB'000**
Due from related parties:			
Loans to non-controlling shareholders of Westhouse Holdings	(i)	**108,213**	119,432
Loans to non-controlling shareholders of KOS Holdings	(ii)	**27,659**	28,783
Loans to non-controlling shareholders of a subsidiary	(iii)	**—**	13,047
Receivables from a company whose parent has a significant influence on the Company included in trade receivables		**4,484**	12,746
		140,356	174,008

40. RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

(i) On 8 April 2011, Westhouse Holdings issued 160,000,000 ordinary shares (representing 20% of enlarged capital of Westhouse Holdings) to a company owned by some founding employees including a director of the Company, at a subscription price of HK$1.1834 per share for an aggregate consideration of approximately HK$189,344,000 (equivalent to RMB159,078,000). Part of the consideration amounting to HK$151,475,000 (equivalent to RMB119,090,000) was funded by a loan advanced from KES Holdings, the parent of Westhouse Holdings, which bears interest at a rate of Hong Kong Interbank Offered Rate plus 1.3% for initial term and Hong Kong Bank Offered Loan Rate for the succeeding terms, and is secured by 128,000,000 shares of Westhouse Holdings held by the company owned by some founding employees. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied. The outstanding balance of this loan included unpaid principal and interest receivable of RMB106,417,000 and RMB1,796,000, respectively.

(ii) On 21 May 2012, KOS Holdings issued 200,000,000 ordinary shares (representing 21.05% of the enlarged capital of KOS Holdings) to a company owned by some founding employees of KOS Holdings, including a director of some subsidiaries of KOS Holdings, at a subscription price of US$0.03 per share for an aggregate consideration of US$6,000,000 (equivalent to RMB38,132,000). Part of the consideration amounting to US$4,500,000 (equivalent to RMB27,605,000) was funded by a loan advanced from the Company, the parent of KOS Holdings, which bears interest at a rate of Hong Kong Interbank Offered Rate plus 1.3%, and is secured by 200,000,000 shares of KOS Holdings held by a company owned by some founding employees. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied. The outstanding balance of this loan included unpaid principle and interest receivable of RMB27,360,000 and RMB299,000, respectively.

(iii) Loans of HK$15,800,000 (equivalent to RMB12,422,000) were advanced to non-controlling shareholders of a subsidiary in 2009. The loans bear interest at a rate of HIBOR plus 1.5% per annum. The loan was secured by certain equity interest of the subsidiary held by the non-controlling shareholders. The Group received all principle and interest from the non-controlling shareholders by the end of 2013, which resulted in no outstanding balance as at 31 December 2013.

(c) Compensation of key management personnel of the Group

Other than the directors' remuneration disclosed in note 8 to the financial statements, the compensation of other key management personnel of the Group is as follows:

	GROUP	
	2013	**2012**
	RMB'000	**RMB'000**
Salaries, allowances and benefits in kind	**3,357**	2,648
Pension plan contributions	**158**	115
Share-based compensation costs	**661**	593
Total compensation paid to key management personnel	**4,176**	3,356

41. FINANCIAL INSTRUMENTS BY CATEGORY

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

2013

FINANCIAL ASSETS	GROUP			
	LOANS AND RECEIVABLES RMB'000	AVAILABLE-FOR-SALE INVESTMENTS RMB'000	DESIGNATED AS FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000	TOTAL RMB'000
Other financial asset	—	—	21,796	21,796
Available-for-sale investments	—	118,406	—	118,406
Loan receivables	15,976	—	—	15,976
Trade receivables	185,161	—	—	185,161
Due from related parties	135,872	—	—	135,872
Financial assets included in prepayments, deposits and other receivables	132,146	—	—	132,146
Pledged deposit	19,588	—	—	19,588
Cash and cash equivalents	4,481,188	—	—	4,481,188
Total	4,969,931	118,406	21,796	5,110,133

FINANCIAL LIABILITIES	DESIGNATED AS FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000	TOTAL RMB'000
Trade payables	—	32,463	32,463
Financial liabilities included in other payables and accruals	—	481,004	481,004
Interest-bearing bank loans	—	15,724	15,724
Liability component of redeemable convertible preferred shares	—	77,982	77,982
Liability component of convertible bonds	—	1,037,587	1,037,587
Other liabilities	11,974	—	11,974
Total	11,974	1,644,760	1,656,734

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2012

	GROUP			
FINANCIAL ASSETS	LOANS AND RECEIVABLES RMB'000	AVAILABLE-FOR-SALE INVESTMENTS RMB'000	DESIGNATED AS FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000	TOTAL RMB'000
Other financial asset	—	—	27,822	27,822
Available-for-sale investments	—	7,182	—	7,182
Loan receivables	5,864	—	—	5,864
Trade receivables	130,346	—	—	130,346
Due from related parties	161,262	—	—	161,262
Financial assets included in prepayments, deposits and other receivables	41,239	—	—	41,239
Pledged deposit	19,000	—	—	19,000
Cash and cash equivalents	2,416,259	—	—	2,416,259
Total	2,773,970	7,182	27,822	2,808,974

FINANCIAL LIABILITIES	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000	TOTAL RMB'000
Trade payables	23,089	23,089
Financial liabilities included in other payables and accruals	213,926	213,926
Interest-bearing bank loans	413,559	413,559
Total	650,574	650,574

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

	COMPANY	
FINANCIAL ASSETS	**2013 LOANS AND RECEIVABLES RMB'000**	**2012 LOANS AND RECEIVABLES RMB'000**
Due from related parties	**27,659**	41,835
Due from subsidiaries	**658,691**	702,285
Pledged deposit	**19,588**	19,000
Cash and cash equivalents	**682,545**	156,227
Total	**1,388,483**	919,347

	COMPANY	
FINANCIAL LIABILITIES	**2013 FINANCIAL LIABILITIES AT AMORTISED COST RMB'000**	**2012 FINANCIAL LIABILITIES AT AMORTISED COST RMB'000**
Financial liabilities included in other payables and accruals	**18,298**	1,245
Due to subsidiaries	**151,608**	118,907
Liability component of convertible bonds	**1,037,587**	—
Interest-bearing bank loans	**15,724**	413,559
Total	**1,223,217**	533,711

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Group

	CARRYING AMOUNTS		FAIR VALUES	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
FINANCIAL ASSETS				
Loan receivables	**15,976**	5,864	**15,842**	5,864
Available-for-sale investments	**111,683**	—	**111,683**	—
Other financial asset	**21,796**	27,822	**21,796**	27,822
	149,455	33,686	**149,321**	33,686
FINANCIAL LIABILITIES				
Liability component of redeemable convertible preferred shares	**77,982**	—	**77,982**	—
Liability component of convertible bonds	**1,037,587**	—	**1,037,587**	—
Other liabilities	**11,974**	—	**11,974**	—
Interest-bearing bank loans	**15,724**	413,559	**15,724**	413,559
	1,143,267	413,559	**1,143,267**	413,559

Company

	CARRYING AMOUNTS		FAIR VALUES	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
FINANCIAL LIABILITIES				
Liability component of convertible bonds	**1,037,587**	—	**1,037,587**	—
Interest-bearing bank loans	**15,724**	413,559	**15,724**	413,559
	1,053,311	413,559	**1,053,311**	413,559

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

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

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

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

The fair values of loan receivable and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2013 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds and liability component of redeemable convertible preferred shares are estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond and similar redeemable convertible preferred shares with consideration of the Group's own non-performance risk.

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

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

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

Fair value hierarchy

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

Assets measured at fair value:

Group

As at 31 December 2013

	FAIR VALUE MEASUREMENT USING			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	TOTAL RMB'000
Available-for-sale investments	55,780	—	55,903	111,683
Other financial asset	—	—	21,796	21,796
	55,780	—	77,699	133,479

As at 31 December 2012

	FAIR VALUE MEASUREMENT USING			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	TOTAL RMB'000
Other financial asset	—	—	27,822	27,822

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

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

The movement in fair value measurements in Level 3 during the year is as follows:

	2013 RMB'000	2012 RMB'000
Available-for-sale investments and other financial asset:		
At 1 January	**27,822**	11,812
Purchases	**46,148**	—
Total gain/(loss) recognised in the statement of profit or loss	**3,974**	16,010
Total gain/(loss) recognised in other comprehensive income	**(245)**	—
At 31 December	**77,699**	27,822

The Company did not have any financial assets measured at fair value as at 31 December 2013 and at 31 December 2012.

Liabilities measured at fair value:

Group

As at 31 December 2013

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

The Group did not have any financial liabilities measured at fair value as at 31 December 2012.

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

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

The movement in fair value measurements in Level 3 during the year is as follows:

	2013 RMB'000	2012 RMB'000
Other financial liabilities at fair value through profit or loss:		
At 1 January	—	—
Purchases	11,167	—
Total gain/(loss) recognised in the statement of profit or loss	807	—
At 31 December	11,974	—

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

Assets for which fair values are disclosed:

Group

As at 31 December 2013

	FAIR VALUE MEASUREMENT USING			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	TOTAL RMB'000
Loan receivables	—	15,976	—	15,976

As at 31 December 2012

	FAIR VALUE MEASUREMENT USING			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	TOTAL RMB'000
Loan receivables	—	5,864	—	5,864

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

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

Group

As at 31 December 2013

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

As at 31 December 2012

	FAIR VALUE MEASUREMENT USING			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	TOTAL RMB'000
Interest-bearing bank loans	—	413,559	—	413,559

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

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed: (continued)

Company

As at 31 December 2013

	FAIR VALUE MEASUREMENT USING			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	TOTAL RMB'000
Liability component of convertible bonds	—	—	1,037,587	1,037,587
Interest-bearing bank loans	—	15,724	—	15,724
	—	15,724	1,037,587	1,053,311

As at 31 December 2012

	FAIR VALUE MEASUREMENT USING			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	TOTAL RMB'000
Interest-bearing bank loans	—	413,559	—	413,559

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations and payment of dividends. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates and loans to related parties bearing a floating interest rates.

The Group's policy is to reduce the interest expenses through a combination of bank loans denominated in US$ or HK$ and equivalent deposits in RMB. As at 31 December 2013, approximately RMB15,724,000 (2012: RMB413,559,000) of the Group's bank loans denominated in US$ or HK$ bore interest at floating rates. The Group believes that the exposure to the risk of changes in market interest rates is minimal because simultaneously the Group has an equivalent RMB deposit earning at a higher interest rate.

For the year ended 31 December 2013, if the average interest rate on the loans to related parties and bank loans had been 5% (2012: 5%) higher/lower with all other variables held constant, the profit of the Group for the year would have been approximately RMB83,000 (2012: RMB12,615,000) lower/higher as a result of higher/lower finance costs.

For the year ended 31 December 2013, if the average interest rate on the loans to related parties and bank loans had been 5% (2012: 5%) higher/lower with all other variables held constant, the profit of the Company for the year would have been approximately RMB188,000 (2012: RMB18,586,000) lower/higher as a result of higher/lower finance costs.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from royalties and licensing revenue derived from overseas markets by operating units in currencies other than the units' functional currencies. Approximately 11% (2012: 8%) of the Group's royalties and licensing revenue were denominated in currencies other than the functional currencies of the operating units authorising the licences.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and HK$ exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) for the year:

	INCREASE/ (DECREASE) IN PROFIT BEFORE TAX RMB'000
2013	
If RMB strengthens 5% against HK$	**(52,934)**
If RMB weakens 5% against HK$	**52,934**
If RMB strengthens 5% against US$	**(15,062)**
If RMB weakens 5% against US$	**15,062**
2012	
If RMB strengthens 5% against HK$	(268)
If RMB weakens 5% against HK$	268
If RMB strengthens 5% against US$	(224)
If RMB weakens 5% against US$	224

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, a pledged deposit, loan receivables, loans to related parties and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The principal approach the Group uses to manage liquidity risk arising from financial liabilities is to maintain an adequate level of cash and cash equivalents with different banks.

The contractual maturity of trade payables and interest-bearing bank loans is disclosed in notes 27 and 28 respectively. For trade payables, they are generally on credit terms of two to three months after the invoice date. For other payables and accruals, there are generally no specified contractual maturities for these liabilities, and they are paid on a regular basis or upon counterparty's formal notification.

The Group has been continuously generating cash inflows from its operating activities and recording an increase of cash and cash equivalents. As at 31 December 2013, the Group's cash and cash equivalents balance was approximately RMB4,481,188,000 (2012: RMB2,416,259,000), accounting for 88.3% (2012: 78.8%) of the Group's current assets and 77.2% (2012: 66.4%) of the Group's total assets. The Group believes that the exposure to liquidity risks is minimal.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2013 and 31 December 2012.

The Group monitors capital using the net cash over debt position, which is cash and cash equivalents less trade payables, other payables and accruals, and interest-bearing bank loans.

	GROUP	
	2013 RMB'000	2012 RMB'000
Total Liabilities	(1,973,640)	(966,337)
Total Assets	5,804,333	3,641,269
Gearing ratio	34%	27%

As at 31 December 2013, the Group's gearing ratio, which represents total liabilities divided by total assets, was 34%, compared to 27% as at 31 December 2012. As at 31 December 2013, the Group had RMB1,037.6 million debt of convertible bonds, RMB78.0 million debt of preferred shares of a subsidiary, RMB15.7 million bank loan, RMB32.5 million trade payables and RMB499.0 million other payables and accruals.

44. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

45. EVENTS AFTER THE REPORTING PERIOD

(a) On 2 January 2014, the share option schemes of KIS and Kingsoft Japan were approved at the Extraordinary General Meeting of the Company.

(b) On 11 February, 2014, Beike Internet, a non-wholly-owned subsidiary of the Company, entered into the Capital Contribution Agreement with Moxiu Technology (Beijing) Co., Ltd. ("Moxiu Technology") and the existing shareholders of Moxiu Technology, pursuant to which Moxiu Technology will increase its registered capital by RMB571,039 and Beike Internet will subscribe for all such additional registered capital in full at a consideration of RMB20,000,000 in cash, representing a premium of RMB19,428,961. In order to promote the business strategic cooperation between Beike Internet and Moxiu Technology, Beike Internet agreed to provide Moxiu Technology promotion resources (including but not limited to the advertisement space on the applications of Beike Internet) with a value of approximately RMB5,000,000 as part of the capital contribution. Upon completion of the capital contribution, Moxiu Technology will be owned as to 28.26% by Beike Internet.

(c) On 14 February 2014, KES Holdings, Westhouse Holdings, Xiaomi Ventures Limited ("Xiaomi Venture"), and other existing shareholders of Westhouse Holdings entered into the Share Purchase Agreement, pursuant to which Westhouse Holdings issued 10,000,000 shares to KES Holdings for a consideration of US$5,000,000 and 40,000,000 shares to Xiaomi Ventures for a consideration of US$20,000,000, respectively. Upon completion of the Share Purchase Agreement, Westhouse Holdings will be owned as to 4.7059% by Xiaomi Venture and 76.4706% by KES Holdings. Westhouse Holdings will continue to be a subsidiary of the Company.

(d) On 20 February 2014, the Company entered into a share redemption agreement (the "Redemption Agreement") with Sky Profit, pursuant to which the Company agreed to sell to Sky Profit and Sky Profit agreed to redeem from the Company, all of existing 4,206,620 shares of Sky Profit owned by the Company, for an aggregate repurchase price of US$25,000,000 (the "Redemption Price"). The Redemption Price shall be paid in ten batches of instalment payment from 2014 to 2017, and any amount of the Redemption Price that is outstanding shall bear an interest at a simple rate of 4% per annum from the completion date of the Redemption Agreement until the date such amount of Redemption Price and interest accrued thereon are paid in full. To ensure the implementation of the Redemption Agreement, Mr. Xu Xudong (the "Founder"), one of the shareholders of Sky Profit, guaranteed Sky profit's obligations to make payment of the Redemption Price with certain of his assets and properties.

On 20 February 2014, the Company entered into a deed of share charge (the "Deed of Share Charge") with Sky Profit and the Founder in connection with charge of 4,206,620 ordinary shares of Sky Profit held by the Founder in favour of the Company to secure Sky Profit's obligations to pay the Redemption Price and the interest accrued thereon under the Redemption Agreement.

45. EVENTS AFTER THE REPORTING PERIOD (continued)

(e) On 27 January 2014, the Company's non-wholly owned subsidiary KIS made its initial confidential filing with the U.S. Securities and Exchange Commission for the proposed initial public offering and listing of its securities on the NASDAQ Global Market or the New York Stock Exchange (the "IPO"). The Company and KIS are currently proposing to adopt a dual-class share capital structure for KIS, with investors in the IPO acquiring a class of ordinary shares that carries a lower vote per share and the Company and other existing shareholders holding a class of ordinary shares that carries a higher vote per share. Through this dual-class share capital structure, the Company will retain control over KIS and will continue to consolidate its financial results following the IPO.

46. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of revised IFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2014.