KINGSOFT

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

KINGSOFT CORPORATION LIMITED
2014 ANNUAL REPORT

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KINGSOFT

Kingsoft Corporation Limited

Annual Report 2014 | KINGSOFT CORPORATION LIMITED

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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. Shun Tak WONG

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Audit Committee

Ms. Wenjie WU (Chairman)

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Remuneration Committee

Mr. Shun Tak WONG (Chairman)

Mr. Jun LEI

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Nomination Committee

Mr. Shun Tak WONG (Chairman)

Mr. Chi Ping LAU

Ms. Wenjie WU

Board Secretary/Company Secretary

Mr. Yuk Keung NG

Authorised Representatives

Mr. 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

14th Floor, Hutchison House

10 Harcourt Road

Hong Kong

Principal Bankers

Shanghai Pudong Development Bank Co.,Ltd.

China Guangfa Bank Co., Ltd.

Hang Seng Bank Limited

China Merchants Bank Co., Ltd.

Bank of communications Co., Ltd.

Industrial and Commercial Bank of China Co., Ltd.

Bank of East Asia

Investor and Media Relations

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FINANCIAL HIGHLIGHTS

Consolidated Statement of Profit or Loss

	Year ended 31 December				
	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	**2014 RMB'000**
Revenue:					
Online game	640,917	689,519	851,402	1,095,913	**1,252,753**
Cheetah Mobile	207,276	134,305	286,931	694,389	**1,674,060**
Office software and others	123,204	196,684	272,828	382,967	**423,320**
	971,397	1,020,508	1,411,161	2,173,269	**3,350,133**
Cost of revenue	(130,998)	(147,812)	(186,939)	(297,104)	**(589,655)**
Gross profit	840,399	872,696	1,224,222	1,876,165	**2,760,478**
Research and development costs, net of government grants	(271,046)	(303,848)	(385,409)	(596,491)	**(956,097)**
Selling and distribution expenses	(129,216)	(125,873)	(234,115)	(382,848)	**(797,416)**
Administrative expenses	(111,143)	(127,498)	(147,954)	(192,245)	**(297,412)**
Share-based compensation costs	(42,119)	(17,266)	(48,472)	(61,387)	**(201,922)**
Other income	31,528	44,051	28,609	45,949	**35,818**
Other expenses	(38,203)	(10,747)	(22,971)	(7,263)	**(29,873)**
Operating profit	280,200	331,515	413,910	681,880	**513,576**
Other gains, net	118,974	(1,973)	16,010	37,097	**299,748**
Finance income	33,162	65,130	97,973	129,462	**238,900**
Finance costs	(721)	(3,461)	(8,702)	(24,466)	**(75,944)**
Share of profits and losses of:					
Joint ventures	(6,360)	(1,945)	9,532	4,827	**(7,657)**
Associates	14,433	(4,070)	(930)	(3,748)	**(6,868)**
Profit before tax	439,688	385,196	527,793	825,052	**961,755**
Income tax expense	(65,155)	(50,162)	(61,359)	(71,178)	**(95,188)**
Profit for the year	374,533	335,034	466,434	753,874	**866,567**
Attributable to:					
Owners of the parent	372,480	324,729	432,589	670,746	**768,783**
Non-controlling interests	2,053	10,305	33,845	83,128	**97,784**
	374,533	335,034	466,434	753,874	**866,567**
Proposed final and special dividends	376,000	92,241	102,132	109,387	**119,438**
	RMB	RMB	RMB	RMB	**RMB**
Earnings per share attributable to ordinary equity holders of the parent					
Basic	0.34	0.29	0.38	0.58	**0.66**
Diluted	0.32	0.28	0.37	0.55	**0.63**

Consolidated Statement of Financial Position (Selected items)

	As at 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Cash and bank deposits	1,656,157	1,953,770	2,416,259	4,481,188	**6,983,699**
Pledged deposit	—	85,000	19,000	19,588	**19,978**
Assets of a disposal group classified as held for sale	—	—	200,621	—	**—**
Total assets	2,444,813	3,014,519	3,641,269	5,804,333	**10,381,604**
Total equity	1,934,061	2,213,120	2,674,932	3,830,691	**6,116,544**

Consolidated Statement of Cash Flows (Selected Items)

	Year ended 31 December				
	2010	**2011**	**2012**	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Net cash flows from operating activities	391,336	451,768	555,946	938,124	**952,264**
Net cash flows from/(used in) investing activities	390,305	(616,353)	(1,063,120)	(44,019)	**(3,367,589)**
Net cash flows from financing activities	464	179,199	9,943	1,121,716	**2,950,177**
Net increase/(decrease) in cash and cash equivalents	782,105	14,614	(497,231)	2,015,821	**534,852**

CHAIRMAN'S STATEMENT

Business Review

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

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

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

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

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

The past year marked a year of change for Kingsoft WPS Office. Total revenue from WPS Office, net of advertising revenue derived from cooperation with Cheetah posted a slight growth of 1% year-over-year to reach RMB290.7 million in 2014. The monetization on traffic from of WPS Office Personal Edition users exceeded our expectation, driven by the rising usage of WPS Office, our improved monetization capability as well as the cooperation with Cheetah. The MAU of WPS Personal

Edition continued to increase and exceeded 82 million in December 2014, compared to 62 million a year ago. However, we have observed a slight decline in WPS sales to government agencies, following a peak in the year of 2013. During the year of 2014, WPS Office focused its efforts on the mobile office application development and global user base expansion. In July 2014, WPS Mail and WPS Mail for Xiaomi phones were launched, adding a key function to our mobile WPS productivity suit, which enhanced the email experience of Android phone users. Our global mobile MAU of WPS family increased 96% year-over-year to 85.6 million in December 2014, amongst which mobile MAU of WPS Office were 65.5 million.

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

Prospects

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

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

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

In the past year, we have established competitive capabilities in providing cloud services to meet the needs of rapid growing mobile internet companies, with phenomenal successes in mobile user data storage service and mobile game platform service. In 2015, with increased investment, we will accelerate our effort in extending our storage service capabilities into new markets and vertical applications. We expect revenue from Kingsoft cloud storage will continue its strong growth momentum, driven by the fast growing shipments of smart devices and mobile user data, as well as the penetration of cloud service into new sectors. Also, we will increase our investment in cloud computing services to ensure we continue expanding our share in mobile game platform market and extending to other non-game industries. We expect revenue from our cloud computing services will also gain strong growth momentum. To accommodate the explosive growth in demand of cloud services and achieve our business goals, we will invest heavily in building cloud service infrastructure.

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

Jun Lei
Chairman

The PRC, 20 March 2015

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	31 December 2014	**30 September 2014**	**30 June 2014**	**31 March 2014**	31 December 2013	30 September 2013	30 June 2013	31 March 2013
Online Games								
Daily Average Peak Concurrent Users ("ADPCU")	**661,002**	**617,717**	**572,374**	**599,384**	632,171	614,263	616,285	631,098
Monthly Average Paying Accounts ("APA")	**2,717,443**	**2,374,699**	**2,255,404**	**1,972,027**	1,869,433	1,791,194	2,002,414	1,768,190
Monthly Average Revenue per Paying User ("ARPU") (RMB)	**39**	**41**	**43**	**48**	49	48	43	47

	In December 2014	**In September 2014**	**In June 2014**	**In March 2014**	In December 2013	In September 2013	In June 2013	In March 2013
Cheetah Mobile								
Mobile Monthly Active Users ("MAU") (Million)	**395.4**	**340.7**	**284.3**	**222.5**	166.2	120.3	80.0	45.8
% of Mobile MAU from Overseas Markets	**69%**	**65%**	**67%**	**63%**	53%	N/A	N/A	N/A
Mobile Users Installations (Million)	**1,089.1**	**862.2**	**662.2**	**502.1**	346.6	N/A	N/A	N/A

For the Year Ended 31 December 2014

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

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

Revenue

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

— Online game

Revenue from the online game business mainly consists of revenues from operations of proprietary PC-based online games, mobile games, and game licensing services, which are generated from the Group's companies, other than Cheetah Mobile and its subsidiaries, through research, development and provision of online games across devices. Revenue from the online game business for the year of 2014 increased 14% year-over-year to RMB1,252.8 million. The increase was primarily due to the strong performance of JX Online III driven by continuous optimization, innovation of the game, and introduction of new excitements through expansion packs on quarterly basis.

— Cheetah Mobile

Revenue from Cheetah Mobile business mainly consists of revenues from online marketing services, internet value-added services, internet security services and others, which are generated from Cheetah Mobile and its subsidiaries through research, development and operation of information security software, internet browser, mission critical mobile applications, and operation of games and provision of global content distribution channel for its business partners. Revenue from Cheetah Mobile business for the year of 2014 increased 141% year-over-year to RMB1,674.1 million. The rapid increase was primarily due to the increase in revenues from online marketing services and internet value-added services ("IVAS"). The increase in revenue from online marketing services was supported by strengthened monetization capabilities of PC user traffic and accelerating mobile monetization in the global market. The increase in revenue from IVAS was mainly driven by the increase in the number of PC and mobile games published on the game platform of Cheetah Mobile business and the increase in the number of monthly paying users.

— Office Software and others

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

Cost of Revenue and Gross Profit

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

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

Research and Development ("R&D") Costs

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Share-based Compensation Costs

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

Operating Profit before Share-based Compensation Costs

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

Other Gains, Net

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

Finance Income

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

Income Tax Expense

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

Profit attributable to Owners of the Parent

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

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

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

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

Liquidity and Financial Resource

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

As at 31 December 2014, the Group's gearing ratio, which represents total liabilities divided by total assets, was 41%, compared to 34% as at 31 December 2013. As at 31 December 2014, the Group had HK$3,539.0 million (equivalent of RMB2,792.3 million) debt of convertible bonds and HK$20.0 million (equivalent of RMB15.8 million) bank loan.

Foreign Currency Risk Management

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

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

Net Cash Generated from Operating Activities

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

Net cash generated from operating activities was RMB952.3 million and RMB938.1 million for the years ended 31 December 2014 and 31 December 2013, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, property, land use right, fixed assets and intangible assets. Cash used for capital expenditures was RMB834.1 million and RMB135.1 million for the years ended 31 December 2014 and 31 December 2013, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

HongJiang ZHANG, aged 54, is an executive Director and the chief executive officer ("CEO") of the Company. He is also a director and the CEO of Kingsoft Cloud, and a director of Cheetah Mobile Inc. (NYSE: CMCM) which is a subsidiary of the Company. Dr. ZHANG is also a director of Xunlei Limited (NASDAQ: XNET) and a director of 21Vianet Group, Inc. (NASDAQ: VNET). 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 the Company.

Yuk Keung NG, aged 50, is currently an executive Director and the chief financial officer ("CFO") of the Company. Mr. NG is also a director of Cheetah Mobile Inc. (NYSE: CMCM) which is a subsidiary 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, 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, CFO and company secretary of China NT Pharma Group Company Limited, a major pharmaceutical company listed on the Stock Exchange of Hong Kong Limited ("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 CFO 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, being responsible for advising on accounting matters. From 2004 to 2006, Mr. NG was the deputy CFO, 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 CFO 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 CFO of the Company in 2012 and became an executive director of the Company from 1 March 2013. Mr. NG is also a director of certain subsidiaries of the Company.

Tao ZOU, aged 39, is currently a senior vice president of the Company and the CEO of Westhouse Holdings Limited who is responsible for the overall management of Westhouse Holdings Limited and its subsidiaries, 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 Company 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 the Company.

Non-executive Directors

Jun LEI, aged 45, 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. Mr. LEI is also a director of certain subsidiaries of the Company.

Mr. LEI co-founded 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). Mr. LEI is also the chairman of Cheetah Mobile Inc. (NYSE: CMCM) which is a subsidiary of the Company.

Mr. LEI graduated from Wuhan University in 1991 with a bachelor's 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 50, 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's 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 the Company.

Chi Ping LAU, aged 41, 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). 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 joining 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. On 10 March 2014, Mr. LAU was appointed as a director of JD.com, an online direct sales company listed on NASDAQ. On 31 March 2014, Mr. LAU was appointed as a director of Leju Holdings Limited, an online-to-offline real estate provider listed on the New York Stock Exchange.

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

Shun Tak WONG, aged 54, 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. Currently Mr. WONG is serving as consultant and operating partner of CITIC Capital Partners Ltd.. He currently is also a co-founder and acting as CFO of Rokid Corporation Ltd., an artificial intelligence devices design and development company. He served as an executive Director and CFO of the Company from October 2011 to July 2012, and also acted as an independent non-executive Director, chairman of the Audit Committee and member of the Remuneration Committee of the Company from April 2007 to September 2011.

Mr. WONG was vice president for Finance & Corporate Controller of Alibaba Group from August 2007 to September 2011, a family of internet-based businesses that includes business-to-business international trade, retail and payment platforms and data-centric cloud computing services. During his service with Alibaba Group, he also acted as chairman of Group Financial Control Committee of Alibaba Group.

Mr. WONG served as the CFO of Goodbaby Children Products Group ("Goodbaby") from August 2003 to August 2007, a leading juvenile product manufacturer in China. Before joining Goodbaby, Mr. WONG worked as the vice president for finance in IDT International Limited, a Hong Kong listed company between September 2001 and July 2003.

In the past, Mr. WONG held key executive positions in various multi-nationals companies, including as the financial controller of AMF Bowling, Inc. from November 1996 to March 1998 and International Distillers China Ltd. from December 1993 to October 1996. Mr. WONG has extensive experience in financial control, operations, strategic planning and implementation, private equity investments and exit strategies.

Mr. WONG has a master's degree in Finance from the University of Lancaster in the United Kingdom and a master's degree in Accounting from Charles Stuart University in Australia. Mr. WONG is also a fellow CPA member of the Hong Kong Institute of Certified Public Accountants and a fellow CPA member of Australian Society of CPAs.

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's 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 wellknown 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 RMB60 billion. Mr. TANG also has worked as adviser 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 positions 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.

Wenjie WU, aged 40, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Ms. WU has been serving as the chief strategy officer ("CSO") of Ctrip.com International, Ltd. ("Ctrip.com", NASDAQ: CTRP), a China's leading online travel services provider, since November 2013. Ms. WU is also a director of Xunlei Limited (NASDAQ: XNET). Ms. WU joined Ctrip.com as deputy CFO in December 2011, then was 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.

Senior Management

For the biography details of Dr. HongJiang ZHANG, Mr. Yuk Keung NG and Mr. Tao ZOU, please refer the paragraph headed "Executive Directors" above in this report.

Sheng FU, aged 37, is currently a senior vice president of the Company and the CEO of Cheetah Mobile Inc. who is responsible for the overall internet security business of the Group. 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 CEO and chairman of Conew Network Technology (Beijing) Co., Ltd. from September 2009. Mr. FU has become a senior vice president of the Company 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 the Company.

Ke GE, aged 42, is currently a senior vice president of the Company, and the CEO of Kingsoft Office 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 Group. 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 Company.

CORPORATE GOVERNANCE REPORT

OVERVIEW OF CORPORATE GOVERNANCE PRACTICES

The Group 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the code provision A.6.7 and C.1.2 of the Code.

The code provision A.6.7 of the Code is regarding non-executive directors' attendance to general meetings. Non-executive director Mr. Chi Ping LAU and independent non-executive director Mr. Guangming George LU did not attend the annual general meeting of the Company held on 28 May 2014 as they were traveling at that time due to other engagements. Non-executive directors Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Chi Ping LAU, and independent non-executive directors Mr. Guangming George LU, David Yuen Kwan TANG and Ms. Wenjie WU did not attend the extraordinary general meeting held on 2 January 2014 due to previously arranged engagements. Non-executive director Mr. Chi Ping LAU and independent non-executive director Mr. Shun Tak WONG did not attend the extraordinary general meeting held on 26 December 2014 due to previously arranged engagements. The code provision C.1.2 of the Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive directors overseeing the daily operation of the Group and the effective communication between the executive directors, the management and the non-executive directors (including the independent non-executive directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

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 2014:

(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 endeavors to enhance its enterprise value, ensure the Company's long-term and stable development and benefit its shareholders and other stakeholders. The Group emphasizes 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 2014 are set out 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 2014 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 the Directors' Report of this annual report.

The Company has also established written guidelines on no less exacting terms than the Model Code 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 2014.

THE BOARD

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 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 2014, 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 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 in the Directors and Senior Management of this annual report. Save for the disclosure in 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 2014, the Board comprises the following Directors:

Executive Directors:

Mr. HongJiang ZHANG

Mr. Yuk Keung NG

Mr. Tao ZOU

Non-executive Directors:

Mr. Jun LEI

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

Independent Non-executive Directors:

Mr. Guangming George LU (resigned on 15 July 2014)

Mr. Shun Tak WONG (appointed on 15 July 2014)

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

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 15 July 2014, the Board considered and approved the resignation of Mr. Guangming George LU as an independent non-executive Director and the appointment of Mr. Shun Tak WONG as an independent non-executive Director, both taking effect from 15 July 2014.

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 provides 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 2014, all Directors namely, the executive Directors Mr. HongJiang ZHANG, Mr. Yuk Keung NG 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. Guangming George LU (resigned on 15 July 2014), Mr. Shun Tak WONG (appointed on 15 July 2014), Mr. David Yuen Kwan TANG and Ms. Wenjie WU 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 2014, 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 2014 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 all other Board meetings, our Directors are given reasonable notice. 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 should be dealt with a physical board meeting rather than a written resolution. Independent non-executive Directors who, and whose close associates, have no material interest in the transaction should be present and vote at such Board meeting.

Directors' Attendance Records

There were 5 Board meetings and 3 general meetings held during the year ended 31 December 2014. The attendance records of each Director at the Board meetings and general meetings during the year of 2014 are set out below:

Name of Director	Attendance/ Number of Board meetings	Attendance/ Number of general meetings
Executive Directors		
Mr. HongJiang ZHANG	5/5	3/3
Mr. Yuk Keung NG	5/5	3/3
Mr. Tao ZOU	5/5	3/3
Non-Executive Directors		
Mr. Jun LEI	5/5	2/3
Mr. Pak Kwan KAU	5/5	2/3
Mr. Chi Ping LAU	5/5	0/3
Independent Non-executive Directors:		
Mr. Guangming George LU (resigned on 15 July 2014)	2/2	0/2
Mr. Shun Tak WONG (appointed on 15 July 2014)	3/3	0/1
Ms. Wenjie WU	5/5	2/3
Mr. David Yuen Kwan TANG	5/5	2/3

Chairman and CEO

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, 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), Remuneration Committee (established on 3 September 2007), Nomination Committee (established on 3 September 2007), and Strategy Committee (established on 20 December 2007).

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 ended 31 December 2014:

Audit Committee

Membership and Responsibilities

During the year ended 31 December 2014, our Audit Committee comprised of three independent non-executive Directors, namely Ms. Wenjie WU (chairman of the Audit Committee), Mr. David Yuen Kwan TANG, Mr. Guangming George LU (resigned as member of the Audit Committee on 15 July 2014) and Mr. Shun Tak WONG (appointed as member of the Audit Committee on 15 July 2014). In compliance with rule 3.21 of the Listing Rules, both Mr. Shun Tak WONG and Ms. Wenjie WU of the Audit Committee possess the appropriate professional qualifications on 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 2014 includes reviewing and/ or approving:

- our 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;
- 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 2014. The attendance records of each member of the Audit Committee are set out below:

Members	Attendance/ Number of meetings held
Ms. Wenjie WU	4/4
Mr. Guangming George LU (resigned on 15 July 2014)	2/2
Mr. Shun Tak WONG (appointed on 15 July 2014)	2/2
Mr. David Yuen Kwan TANG	4/4

Remuneration Committee

Membership and Responsibilities

The Remuneration Committee currently consists of four Directors with three of them being independent non-executive Directors, namely, Mr. Shun Tak WONG (appointed as chairman and a member of the Remuneration Committee on 15 July 2014), Mr. Guangming George LU (resigned as chairman and a member of the Remuneration Committee on 15 July 2014), Mr. David Yuen Kwan TANG, Ms. Wenjie WU and one non-executive Director, 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 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 to the Group. The information regarding the remuneration of the Directors during the year ended 31 December 2014 is set out in note 9 to the financial statements. When a meeting is convened to discuss certain Directors' remuneration, the Directors in discussion cannot determine their own remuneration.

Summary of principal work performed

The following is a summary of work performed by the Remuneration Committee during the year ended 31 December 2014:

- 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

The Remuneration Committee held two meetings during the year ended 31 December 2014. The attendance records of each member of the Remuneration Committee are set out below:

Members	Attendance/ Number of meetings held
Mr. Shun Tak WONG (appointed on 15 July 2014)	0/0
Mr. Guangming George LU (resigned on 15 July 2014)	2/2
Ms. Wenjie WU	2/2
Mr. David Yuen Kwan TANG	2/2
Mr. Jun LEI	2/2

Nomination Committee

Membership and Responsibilities

The Nomination Committee comprises two independent non-executive Directors, namely Mr. Shun Tak WONG (appointed as chairman and a member of the Nomination Committee on 15 July 2014), Mr. Guangming George LU (resigned as chairman and a member of the Nomination Committee on 15 July 2013), and Ms. Wenjie WU, and one non-executive Director, Mr. Chi Ping LAU.

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.

The Nomination Committee has also established the basic principles of the board diversity policy of the Company, including: open gender; for the cultural and academic background or professional experience, a director shall, in general, possess an advanced level of education, and his/her expertise and experience shall be considered according to its relevance with the business of the Company or the management of listed companies.

Summary of principal work performed

The following is a summary of work performed by the Nomination Committee during the year ended 31 December 2014:

- 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

The Nomination Committee held 1 meeting during the year ended 31 December 2014. The attendance records of each member of the Nomination Committee are set out below:

Members	Attendance/ Number of meetings held
Mr. Shun Tak WONG (appointed on 15 July 2014)	0/0
Mr. Guangming George LU (resigned on 15 July 2014)	1/1
Mr. Chi Ping LAU	1/1
Ms. Wenjie WU	1/1

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 2014. 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 of this annual report.

During the year ended 31 December 2014, the remunerations paid or payable to Ernst & Young regarding the audit and non-audit services (together with the comparative figures for 2013) are set out as follows:

	2014 RMB' Mil	2013 RMB' Mil
Audit services	**9.14**	6.03
Non-audit services	**6.37**	3.06
Total	**15.51**	9.09

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 objective 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. 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 investors' understanding of the Company'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 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, to use 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.

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 providing 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 2014, the Company's senior management presented its results in Hong Kong, New York, San Francisco, Singapore City, 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 investor relations section of the Company's website, www.kingsoft.com, provides information of the Company such as financial results, announcements, press releases 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, 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 2014.

On behalf of the Board
Jun LEI
Chairman

The PRC, 20 March 2015

The Board of the Company submits its report together with the audited financial statements of the Group for the year ended 31 December 2014.

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 2014 are set out in the consolidated statement of comprehensive income of this annual report.

The state of affairs of the Group and the Company as at 31 December 2014 is set out in the consolidated statement of financial position of this annual report and in the statement of financial position of the annual report, respectively.

The consolidated statement of cash flows of the Group for the year is also set out in this annual report.

During the year, a final dividend for year 2013 of HK$0.12 per ordinary share, which excluded the dividend related to the shares held under the Share Award Scheme, was paid to shareholders on 25 June 2014.

The Directors recommend the payment of a final dividend of HK$0.13 per ordinary share (2013: HK$0.12 per ordinary share) totalling approximately HK$151 million (2013: HK$139 million), which excluded the dividend related to the shares held under the Share Award Scheme, based on the number of total issued shares of 1,184,842,493 as at 31 December 2014 in respect of the year to shareholders whose names appear on the register of members of the Company on 1 June 2015. Such proposed dividends will be subject to approval of the shareholders at the forthcoming annual general meeting ("AGM") to be held on 20 May 2015. Such proposed dividends will be payable on 19 June 2015. 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 2014, 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, 14 May 2015 to Wednesday, 20 May 2015, and Wednesday, 27 May 2015 to Monday, 1 June 2015, 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, 13 May 2015 and Tuesday, 26 May 2015 respectively.

Reserves

For the year ended 31 December 2014, the profit attributable to owners of the parent company amounted to RMB768.8 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 2014, the Company had distributable reserves amounting to RMB668.4 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 2014 are set out in the consolidated statement of changes in equity of this annual report, and in note 39(b) to the financial statements, respectively.

Donations

During the year, the Group made charitable and other donations totalling RMB0.6 million (2013: RMB3.7 million).

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 note2 to the financial statements.

Employee and Remuneration Policy

As at 31 December 2014, the Group employed approximately 5,296 full-time employees (2013: 4,163) inclusive of all its staff in Mainland China and overseas offices, most of whom are based at the Company's offices in Beijing and Zhuhai.

The 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 2014 and 2013 were approximately RMB1,288.0 million and RMB735.2 million, respectively.

Please refer to note 37 to the financial statements for the share options and awarded shares granted to certain Directors and employees of the Group, note 9 to the financial statements for Directors' and senior executives' remuneration, and note 7 to the financial statements for the employee benefit expense.

Subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2014 are set out in note 38 to the financial statements.

Material Investment and Acquisition

On 3 April 2014, King Venture Holdings Limited ("King Venture", a wholly-owned subsidiary of the Company), Xunlei Limited ("Xunlei") and other parties entered into a share purchase agreement, pursuant to which, King Venture agreed to subscribe for 31,939,676 Xunlei Series E Preferred Shares for a total consideration of US$90 million. For details of this transaction, please refer to the announcement of the Company dated 3 April 2014.

On 29 November 2014, King Venture entered into a purchase agreement with 21Vianet Group, Inc. ("21 Vianet") and other parties, pursuant to which 21Vianet agreed to issue and allot to King Venture, and King Venture agreed to purchase and subscribe for from 21Vianet, 39,087,125 Class A ordinary shares and 18,250,268 Class B ordinary shares for an aggregate purchase price of US$172,012,179. For details of this transaction, please refer to the announcement of the Company dated 1 December 2014.

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 2010, 2011, 2012, 2013 and 2014, is set out as below. The summary does not form part of the audited financial statements.

	YEAR ENDED 31 DECEMBER				RMB'000
	2010	2011	2012	2013	2014
Profit for the year	374,533	335,034	466,434	753,874	**866,567**

	AS AT 31 DECEMBER				
	2010	2011	2012	2013	2014
Total assets	2,444,813	3,014,519	3,641,269	5,804,333	**10,381,604**
Total liabilities	510,752	801,399	966,337	1,973,642	**4,265,060**

Contract of Significance

Save as disclosed in the annual report, none of Directors was materially interested, directly or indirectly, in any contracts of significance to the Group subsisting during or at the end of the year.

Bank Borrowings

Particulars of bank loans as at 31 December 2014 are set out in note 31 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 2014 are set out in note 15 to the financial statements. No assets of the Group are charged during the year ended 31 December 2014.

Future Plans for Material Investments or Capital Assets

Save as those disclosed in note 49 to the financial statements, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2014.

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 2014 are set out in note 36 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, respectively. Pursuant to the shareholders resolutions of Kingsoft Japan Inc. ("Kingsoft Japan") dated 2 November 2006 and 31 July 2007, Kingsoft Japan adopted the share option schemes ("2006–2007 Kingsoft Japan Share Option Scheme"). 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 ("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, and was terminated on 24 September 2014. All the options granted but not excised under the 2013 Kingsoft Jingcai Share Option Scheme were cancelled before the termination as of the same date. 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. The equity incentive scheme of Cheetah (the "2014 Cheetah Equity Incentive Scheme") was approved by the shareholders of the Company and adopted by Cheetah on 2 January 2014. The share option scheme of Kingsoft Japan (the "2014 KJ Share Option Scheme") was approved by the shareholders of the Company on 2 January 2014 and adopted by the shareholders of Kingsoft Japan on 28 March 2014. Details of these schemes are stated in note 37 to the financial statements.

Details of the movements in share options of the Group for the year ended 31 December 2014 are set out in note 37 to the financial statements. During the year ended 31 December 2014, 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 2014, 53,400,000, nil, 710,000, 56,176,131 and nil number of share options have been granted under 2013 Kingsoft Cloud Share Option Scheme, 2013 Kingsoft Jingcai Share Option Scheme, 2013 Westhouse Share Option Scheme, 2014 Cheetah Equity Incentive Scheme and 2014 KJ Share Option Scheme respectively, details of these granted share options were included in note 37 to the financial statements.

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	2014 Cheetah Equity Incentive Scheme	2014 KJ 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 and its subsidiaries (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 Kingsoft Jingcai and its subsidiaries (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 Westhouse and its subsidiaries (the "Westhouse Group") and/or to enable the Westhouse Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Westhouse Group and any invested entity.	To aid Cheetah and affiliates of Cheetah in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of Cheetah and its affiliates by providing incentives through the granting of awards, including but not limited to, the Cheetah options.	To provide 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 invested entities.
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.	Employee(s) (whether full time or part time employee(s)) of Cheetah and its affiliates.	Employee(s) (whether full time or part time employee(s)) of Kingsoft Japan, its subsidiaries and invested entities.

	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	2014 Cheetah Equity Incentive Scheme	2014 KJ 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.	The maximum number of the Cheetah ordinary shares which may be issued under the scheme is 64,497,718 Cheetah ordinary shares, unless otherwise (i) approved by the shareholders of the Company and Cheetah, or (ii) in case Cheetah ceases being a subsidiary of the Company, approved by the shareholders of Cheetah.	The total number of shares which may be issued upon exercise of all options to be granted shall not in aggregate exceed 2,837 shares, unless otherwise approved by the shareholders of Kingsoft Japan and the Company 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 HK$5 million, 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 and Westhouse.	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% of the total number of shares in issue, unless separately approved by the shareholders of the Company and Cheetah 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 Cheetah.	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% of the total number of shares in issue, unless separately approved by the shareholders of the Company and Kingsoft Japan 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 Japan.

	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	2014 Cheetah Equity Incentive Scheme	2014 KJ Share Option Scheme
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.	As may be determined by the compensation committee of the board of Cheetah, but in no event shall an option be exercisable more than ten years after the date it is granted.	Such period as the board of Kingsoft Japan 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.
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 HK$1 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 of 28 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.	As the compensation committee of the board of Cheetah may determine.	An offer of grant of an option may be accepted by a participant within a period of 28 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 US$4.80 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 such price as 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.	The subscription price shall be such price as determined by the compensation committee of the Cheetah Board in its absolute discretion but in any case shall be in compliance with the Listing Rules from time to time unless Cheetah ceases to be a subsidiary of the Company. In the event that the Company resolves to seek a separate listing of Cheetah on the Stock Exchange or an overseas stock exchange, the subscription price of options granted after the Company resolves to seek such listing and up to the listing date of Cheetah must be adjusted to not lower than the new issue price of Cheetah upon such listing. In particular, any Cheetah options granted during the period commencing six months before the lodgement of Form A1 (or its equivalent for listing on GEM or the overseas stock exchange) and up to the listing date of Cheetah are subject to the requirement. Such grant of Cheetah Options during such period shall also comply with the then applicable Listing Rules (or GEM Listing Rules).	The subscription price in respect of any particular option shall be such price as determined by the board of Kingsoft Japan but in any case the subscription price of options granted after Kingsoft Japan or the Company has resolved to seek a separate initial public offering and up to date of the Kingsoft Japan's initial public offering must not be lower than the new issue price (if any) in the Kingsoft Japan'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 the Kingsoft Japan'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 the Kingsoft Japan's initial public offering. Such grant of Kingsoft Japan options during such period shall also comply with the then applicable Listing Rules (or GEM Listing Rules)
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 was terminated on 24 September 2014.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It shall be effective as of 2 January 2014 and shall terminate ten years later, subject to earlier termination by Cheetah in general meeting pursuant to the scheme.	It shall be valid and effective for a period of ten (10) years.

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.

2004 and 2007 Pre-IPO Share Option Schemes

The following share options were outstanding under 2004 and 2007 Pre-IPO Share Option Schemes ended 31 December 2014:

	NUMBER OF SHARE OPTIONS					
NAME OR CATEGORY OF PARTICIPANT	**AT 1 JAN 2014**	**EXERCISED DURING THE PERIOD**	**FORFEITED DURING THE PERIOD**	**AT 31 DEC 2014**	**DATE OF GRANT OF SHARE OPTIONS**	**EXERCISE PRICE OF SHARE OPRIONS US$ PER SHARE**
Other employees						
In aggregate	500,500	500,500	—	0	1 January 2000*	0.0005
	60,300	60,300	—	0	1 August 2004	0.0353
	84,500	31,260	—	53,240	1 August 2005	0.2118
	7,125,300	1,850,800	—	5,274,500	1 February 2007**	0.2400
	10,000	—	—	10,000	8 May 2007**	0.2400
	194,000	166,000	—	28,000	1 August 2007**	0.4616
	7,974,600	2,608,860	—	5,365,740		

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

** The options were granted under the 2007 Pre-IPO Share Option Scheme, while others were granted under the 2004 Pre-IPO Share Option Scheme.

2011 Share Option Scheme

The following share options were outstanding under the 2011 Share Option Schemes ended 31 December 2014:

	NUMBER OF SHARE OPTIONS						
NAME OR CATEGORY OF PARTICIPANT	**AT 1 JAN 2014**	**GTANTIED DURING THE PERIOD**	**EXERCISED DURING THE PERIOD**	**FORFEITED DURING THE PERIOD**	**AT 31 DEC 2014**	**DATE OF GRANT OF SHARE OPTIONS**	**EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE**
Executive directors							
HongJiang ZHANG	7,500,000	—	1,000,000	—	6,500,000	20 Dec 2011	2.89
Yuk Keung NG	3,000,000	—	600,000	—	2,400,000	20 July 2012	3.28
	10,500,000	—	1,600,000	—	8,900,000		

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 2014, the Company granted 4,168,000 awarded shares.

The purpose of the Share Award Scheme is to recognise the contributions by certain employees (including without limitation 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 37 to the financial statements.

Share Award Scheme Adopted by Cheetah

On 26 May 2011 (the "Cheetah Adoption Date"), the directors of Cheetah, a subsidiary of the Company, approved and adopted a share award scheme (the "Cheetah Share Award Scheme"). Unless early terminated by the directors of Cheetah, the Cheetah Share Award Scheme shall be valid and effective for a term of ten years commencing on the Cheetah Adoption Date. During the year ended 31 December 2014, 13,244,380 shares (2013: 14,945,000 shares) were awarded to a number of employees under the Cheetah Share Award Scheme.

The purpose of the Cheetah 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 Cheetah and its subsidiaries ("Cheetah Group") and to attract suitable personnel for further development of Cheetah Group.

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

More details regarding the Cheetah Share Award Scheme are set out in note 37 to the financial statements.

Share Award Scheme Adopted by Kingsoft Office Software Holdings Limited ("KSO")

On 3 December 2012 (the "KSO Adoption Date"), the directors of KSO, a subsidiary of the Company, approved and adopted a share award scheme (the "KSO Share Award Scheme"), for the purpose of providing incentives and rewards to eligible participants, in which selected employees of KSO and its subsidiaries ("KSO Group") are entitled to participate. Unless early terminated by the directors of KSO, the KSO Share Award Scheme shall be valid and effective for a term of ten years commencing on the KSO Adoption Date. The KSO share Award Scheme was amended by the board of KSO on 27 November 2014 to refresh the limit of the scheme. The directors of KSO 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 54,000,000 shares, as at the date of such grant. During the year ended 31 December 2014, 14,750,000 shares were awarded to a number of employees, and will be vested by several tranches over a vesting period not less than four years. 600,000 shares were forfeited during the year 31 December 2014 (2013: 1,250,000).

More details regarding the KSO Share Award Scheme are set out in note 37 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 the 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. Pursuant to the KC Share Award Scheme, 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 2014, no awarded share under KC Share Award Scheme was granted.

More details regarding the KC Share Award Scheme are set out in note 37 to the financial statements.

Share Award Scheme Adopted by Kingsoft Jingcai

On 11 April 2013 (the "KJ Adoption Date"), the directors of Kingsoft Jingcai approved and adopted a share award scheme (the "KJ 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 KJ Share Award Scheme shall be valid and effective for a term of ten years commencing on the KJ 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 2014, no awarded share under KJ Share Award Scheme was granted. The KJ Share Award Scheme was terminated on 24 September 2014. Upon the termination of the KJ Share Award Scheme, Kingsoft Jingcai is irrevocably released and discharged of all obligations and liabilities under the KJ Share Award Scheme, the award and the award notice, and the rights and obligations of the selected employees under the KJ Share Award Scheme, the award and the award notice shall be irrevocably terminated.

More details regarding the KJ Share Award Scheme are set out in note 37 to the financial statements.

Share Award Scheme Adopted by Cheetah Mobile in 2014

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

More details regarding the 2014 Cheetah Share Award Scheme are set out in note 37 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. Shun Tak WONG (王舜德)	15 July 2014	N/A	N/A
Mr. Guangming George LU (魯光明)	30 April 2007	15 July 2014	N/A
Mr. David Yuen Kwan TANG (鄧元鋆)	6 May 2013	N/A	N/A
Ms. Wenjie WU (武文潔)	1 March 2013	N/A	N/A

In accordance with Article 108 of the Articles of Association, Mr. Jun LEI, Ms. Wenjie WU and Mr. David Yuen Kwan TANG, and in accordance with Article 112 of the Articles of Association, Mr. Shun Tak WONG will retire at the forthcoming AGM of the Company and, being eligible, will offer themselves for re-election.

The Company has received from each Independent Non-executive Director an annual confirmation of his/her 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 16 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 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 2014.

Directors' and Chief Executive's Interests in Securities

As at 31 December 2014, 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 of the Company

Name of director	Capacity	No. of shares interested	% of issued share capital (Note 1)	Nature of Shares held
Jun LEI	Interest of controlled corporation	174,818,191	14.75	Long position
	Other	142,714,003	12.05	Long position
		(total: 317,532,194 (Note 2))	(total: 26.80)	
Pak Kwan KAU	Interest of controlled corporation	108,032,566 (Note 3)	9.12	Long position
Yuk Keung NG	Beneficial owner	2,600,000	0.22	Long position
HongJiang ZHANG	Beneficial owner	11,266,044	0.95	Long position
Tao ZOU	Beneficial owner	409,307	0.03	Long position

Notes:

1. % of issued share capital was calculated on basis of the total issued shares of the Company as at 31 December 2014, which was 1,184,842,493.

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

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

Interests in shares and underlying shares of an associated corporation of the Company

Cheetah (Note 1)

Name of director	Capacity	No. of shares interested	% of issued share capital (Note 2)	Nature of Shares held
Jun LEI (Note 3)	Interest of controlled corporation	14,285,714	4.94	Long position
Pak Kwan KAU	Beneficial owner	540,160	0.19	Long position
Yuk Keung NG	Beneficial owner	1,200	0.00	Long position

Notes:

1. Cheetah is a non-wholly owned subsidiary of the Company listed on the NYSE.

2. % of issued share capital in class was calculated on basis of the issued Class A ordinary shares of Cheetah ("Cheetah Shares") as at 31 December 2014, which was 288,988,560.

3. As at 31 December 2014, Mr Jun LEI held 56.42% of the voting power of Xiaomi Corporation, which in turn was deemed to be interested in appropriately 4.94% of the Cheetah Shares held by Xiaomi Corporation under the SFO.

Save as disclosed above, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2014.

Substantial Shareholders

As at 31 December 2014, 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 (Note 1)	Nature of Shares held
Color Link Management Limited (Note 2)	Beneficial owner	174,818,191	14.75	Long position
Tencent Holdings Limited (Note 3)	Interest of controlled corporation	149,082,572	12.58	Long position
Credit Suisse Trust Limited (Note 4)	Trustee	108,032,566	9.12	Long position
Kau Management Limited (Note 4)	Interest of controlled corporation	108,032,566	9.12	Long position
Topclick Holdings Limited (Note 4)	Beneficial owner	108,032,566	9.12	Long position
Morgan Stanley	Interest of controlled corporation	81,605,320 63,630,980	6.89 5.37	Long position Short position

Notes:

1. % of issued share capital was calculated on basis of the total issued shares of the Company as at 31 December 2014, which was 1,184,842,493.

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

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

4. 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 would vote in the same way as Mr. Jun LEI with these shares.

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

During the year ended 31 December 2014, the Company repurchased a total of 3,802,000 of its own ordinary shares on the Stock Exchange at a total cost of approximately HK$57.2 million. The company considered that it is in the best interest of the shareholders to return some surplus funds to them which will in turn enhance shareholders' value.

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

Month of Repurchase in 2014	No. of Shares Repurchased	Repurchase Consideration Per Share Highest Price Paid HK$	Lowest Price Paid HK$	Aggregate Consideration Paid HK$
December	3,802,000	15.20	14.90	57,217,800

Issue of Convertible Bonds by the Company

The Company completed the issue of convertible bonds in the principal amount of HK$1,356,000,000 on 23 July 2013 ("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 net proceeds from the subscription of the Bonds, after deduction of commissions and other related expenses, are estimated to be approximately HK$1,327 million. Assuming full conversion of the Bonds at the initial conversion price of HK$16.9363 per share and no further issue of shares, the Bonds will be convertible into approximately 80,064,713 shares of the Company (with an aggregate nominal value of approximately US$40,032). The net price for each conversion share was approximately HK$16.5741, and the initial conversion price was HK$16.9363, which represented a premium of approximately 25.27% over the closing price of HK$13.52 per share as quoted on the Stock Exchange on 2 July 2013, being the last trading day prior to the announcement of the issue of the Bonds. The Bonds were offered and sold to no less than six independent placees (who were independent individual, corporate and/or institutional investors). The 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 Bonds, payable semi-annually in arrear in equal installments of HK$15,000 per calculation amount (i.e. interest in respect of any Bond shall be calculated per HK$1,000,000 in principal amount of the Bonds) on 23 January and 23 July in each year, subject to adjustment for non-business days. The Company intended to use the net proceeds from the Bonds issue primarily to repay existing short-term bank loans, for general corporate purposes and to supplement working capital. As of 31 December 2014, the net proceeds raised from the issue of the Bonds (being approximately HK$1,327 million) had been used as follows: (1) approximately HK$591 million had been used to repay existing short-term bank loans; and (2) approximately HK$736 million had been used for general corporate purposes and to supplement the working capital. All the net proceeds from the Bonds issue has been used up for the year ended 31 December 2014. Reference for principal terms of the Bonds may be made to the announcements of the Company dated 3 July 2013 and 23 July 2013.

During the year ended 31 December 2014, the Company completed the issue of the convertible bonds in the principal amount of HK$2,327,000,000 on 11 April 2014 (the "Convertible Bonds"). Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Convertible Bond at its principal amount together with accrued and unpaid interest thereon on 11 April 2019. The proceeds from the subscription of the Convertible Bonds, after deduction of commissions and other related expenses, are estimated to be approximately HK$2,277 million. Assuming full conversion of the Convertible Bonds at the initial conversion price of HK$43.89 per share and no further issue of shares, the Convertible Bonds will be convertible into approximately 53,018,910 shares of the Company. The net price for each conversion share is approximately HK$42.95, and the initial conversion price was HK$43.89, which represented a premium of approximately 40.00% over the closing price of HK$31.35 per share as quoted on the Stock Exchange on 3 April 2014, being the last trading day prior to the announcement of the issue of the Convertible Bonds. The Convertible Bonds were offered and sold to no less than six independent placees (who were independent individual, corporate and/or institutional investors). The Convertible Bonds has been listed on the SGX-ST since 14 April 2014. The interest is 1.25% per annum of the principal amount of the Convertible Bonds, payable semi-annually in arrear in equal installments of HK$6,250 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 11 April and 11 October in each year, subject to adjustment for non-business days. The Company intended to use the net proceeds from the subscription primarily for general corporate purposes, for strategic investments and acquisitions, if appropriate, and to supplement working capital. As of 31 December 2014, the net proceeds raised from the issue of the Convertible Bonds (being approximately HK$2,277 million) had been used as follows: (1) approximately HK$315 million had been used for general corporate purposes; (2) approximately HK$94 million had been used for strategic investments and acquisitions; and (3) approximately HK$100 million had been used to supplement the working capital. Reference for principal terms of the Convertible Bonds may be made to the announcements of the Company dated 4 April 2014 and 11 April 2014.

Grant of Convertible securities, Options, Warrants or Similar Rights by Subsidiaries of the Company

On 6 June 2014, the Company entered into a loan agreement with Kingsoft Cloud pursuant to which the Company agreed to grant a loan facility in an aggregate principal amount equivalent to RMB100 million to Kingsoft Cloud. The term of the loan agreement shall be six (6) months commencing from the date of the first disbursement of Kingsoft Cloud and shall be subject to further extensions. Under the loan agreement, in the event that (i) any outstanding amount of the Loan and/or the accrued interests become due and payable, and (ii) Kingsoft Cloud fails to repay in full within the time period as provided, the Company shall not demand payment in cash but instead will have the right to exercise, at any time and from time to time, one of the following options: (a) to convert all or any of the outstanding amount of the loan and the accrued but unpaid interests into the ordinary shares of Kingsoft Cloud; or (b) to extend the term of the loan for subsequent six (6) month periods on the same terms and conditions as set forth in the Loan Agreement until Kingsoft Cloud repays in full or the Company exercises its conversion right on all the then outstanding loan. The conversion price shall be calculated based on the formula: conversion price = V/N, where V is US$50,000,000, being the agreed pre-money valuation of Kingsoft Cloud on a fully-diluted basis; and N is the number of shares of Kingsoft Cloud which are (i) issued and outstanding, or (ii) reserved for issuance or issued to the trustee as restricted shares under the employee stock incentive plans approved by the board of directors of Kingsoft Cloud, calculated on a fully-diluted and as-converted basis, as of the date of the conversion notice.

On 21 August 2014, the Company, Xiaomi, Kingsoft Cloud Group and other shareholders of Kingsoft Cloud entered into a shareholders' agreement. Pursuant to the shareholders' agreement, Kingsoft Cloud agreed to grant warrants to the Company and Xiaomi, respectively, to subscribe for not more than 26,948,000 Kingsoft Cloud Series A Preferred Shares and not more than 161,688,000 Kingsoft Cloud Series A Preferred Shares at the exercise price of US$0.0742 per Kingsoft Cloud Series A Preferred Share. "Kingsoft Cloud Series A Preferred Share" means the series A preferred shares of Kingsoft Cloud with par value of US$0.001 per share.

On 1 December 2014, the Company entered into a loan agreement with Kingsoft Cloud and Xiaomi Corporation ("Xiaomi") pursuant to which the Company agreed to grant a loan facility in an aggregate principal amount equivalent to US$500 million to Kingsoft Cloud within a three-year period commencing from 1 January 2015 to 31 December 2017. Under the loan agreement, Kingsoft Cloud granted options to the Company and Xiaomi respectively. In the event that Kingsoft Cloud fails to repay any outstanding principal amount of the loan facility and the accrued interests, the Company shall have the option to, at any time no later than the full payment of the outstanding principal amount and the accrued but unpaid interests by Kingsoft Cloud, convert the outstanding principal amount and accrued but unpaid interest which has not been secured, or has not been realized by certain security measures, in whole or in part, into certain number of fully-paid and nonassessable preferred shares of Kingsoft Cloud. The conversion formula shall be as: number of preferred shares of Kingsoft Cloud = outstanding amount that the Company elects to convert/the applicable purchase price per share. The applicable purchase price per share refers to (i) in the event that the latest private financing is taken place within six months before the applicable conversion notice date, the purchase price per share applicable in the latest private financing as of the applicable conversion notice date; or (ii) in the event that the latest private financing is taken place more than six months before the applicable conversion notice date, the fair market price appraised by a qualified and independent third party and confirmed and approved by the Company, Xiaomi and the board of Kingsoft Cloud. In the event that Xiaomi repays the principal amount and the accrued interests guaranteed by Xiaomi, Xiaomi shall have the option to, at any time no later than the full payment of the outstanding principal amount and the accrued but unpaid interest Kingsoft Cloud, convert such amount, in whole or in part, into certain number of fully-paid and non-assessable preferred shares of Kingsoft Cloud. The conversion formula shall be as: number of preferred shares of Kingsoft Cloud = the amounts paid by Xiaomi and elected by Xiaomi to convert/the applicable purchase price per share.

Major Customers and Suppliers

For the year ended 31 December 2014, the 5 largest customers of the Group accounted for 32% of the total revenue, while the largest customer accounted for 9% of the total revenue. For the year ended 31 December 2014, the 5 largest suppliers of the Group accounted for 19% of the total purchases, while the largest supplier accounted for 6% of the total purchases.

None of the Directors of the Company or any of their close 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

Capital Contribution to Moxiu Technology by Beike Internet

On 11 February 2014, Beike Internet (Beijing) Security Technology Co., Ltd. ("Beike Internet", 貝殼網際（北京）安全技術有限公司) entered into the Capital Contribution Agreement with Moxiu Technology (Beijing) Co., Ltd. ("Moxiu Technology", 魔秀科技（北京）有限公司) and its shareholders, 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 in consideration of RMB20 million in cash, representing a premium of RMB19,428,961. Further, 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 million as part of the capital contribution. Upon completion of the capital contribution, the equity interest of Moxiu Technology will be owned as to 28.26% by Beike Internet.

Moxiu Technology is a connected person of the Company by virtue of Rule 14A.07(4) of the Listing Rules. As such, the capital contribution to Moxiu Technology by Beike Internet constitutes a connected transaction of the Company under the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the capital contribution exceeds 0.1% but is less than 5%, the capital contribution is subject to reporting, annual review 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 11 February 2014.

Issue of Ordinary Shares by Westhouse to Kingsoft Entertainment and Xiaomi Ventures

On 14 February 2014, Kingsoft Entertainment Software Holdings Limited ("Kingsoft Entertainment"), Xiaomi Ventures Limited ("Xiaomi Ventures"), Westhouse and its subsidiaries, WestGame Holdings Limited ("WestGame") and the founders of WestGame entered into the Share Purchase Agreement, pursuant to which Westhouse will issue 10,000,000 ordinary shares to Kingsoft Entertainment for a consideration of US$5 million and 40,000,000 ordinary shares to Xiaomi Ventures for a consideration of US$20 million, respectively. Upon completion of the Share Purchase Agreement, the equity interest of Westhouse will be owned as to 4.7059% by Xiaomi Ventures, 76.4706% by Kingsoft Entertainment and 18.8235% by WestGame. Westhouse will continue to be a subsidiary of the Company.

Xiaomi Ventures is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The transaction contemplated under the Share Purchase Agreement constitutes a connected transaction of the Company under the Listing Rules. Further, as the shareholding held by Kingsoft Entertainment in Westhouse will be diluted upon completion of the Share Purchase Agreement, such issue of ordinary shares to Xiaomi Ventures by Westhouse will constitute a deemed disposal by the Company under the Listing Rules.As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Share Purchase Agreement exceeds 0.1% but is less than 5%, the Share Purchase Agreement and the transaction contemplated thereunder are 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 14 February 2014.

Transfer of Equity Interest in Kingsoft Japan

On 18 March 2014, the Company entered into the Equity Transfer Agreement with Cheetah Technology Corporation Limited ("Cheetah Technology"), pursuant to which the Company agreed to sell and Cheetah agreed to purchase 7,224 ordinary shares of Kingsoft Japan Inc. ("Kingsoft Japan"), representing 20% of the total issued share capital of Kingsoft Japan, in consideration of JPY614,040,000 (equivalent to approximately HK$46,482,967). Upon completion of the transaction, the Company will continue to hold 51% of the equity interests of Kingsoft Japan directly and indirectly. Further, as Cheetah Technology shall, pursuant to the Equity Transfer Agreement, vest its entire voting power at any general meeting of Kingsoft Japan to the Company for an indefinite term such that the Company may exercise such voting power in its absolute discretion, the Company will continue to control the exercise of an aggregate of 51% voting power in Kingsoft Japan. Kingsoft Japan will continue to be a subsidiary of the Company upon completion of the Transaction.

Cheetah Technology is a connected subsidiary of the Company by virtue of Rule 14A.07 (5) of the Listing Rules. As such, the entering into the Equity Transfer Agreement between the Company and Cheetah Technology 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 Transaction exceeds 0.1% but is less than 5%, the transaction is subject to reporting, annual review 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 18 March 2014.

Intellectual Property Transfer and License Framework Agreement with Cheetah

On 1 April 2014, the Company entered into the Intellectual Property Transfer and License Framework Agreement with Cheetah, pursuant to which (i) the Group (excluding Cheetah Group) agreed to transfer the registered trademarks and the trademark applications to be transferred as described under the Intellectual Property Transfer and License Framework Agreement ("Transferable Trademarks"), and grant the right to use the registered trademarks and the trademark applications to be granted for exclusive and non-exclusive use as described under the Intellectual Property Transfer and License Framework Agreement to Cheetah Group for an aggregate consideration of RMB10.90 million (tax inclusive); (ii) the Group (excluding Cheetah Group) agreed to transfer the software copyrights and the registered patents and the patent applications to be transferred as described under the Intellectual Property Transfer and License Framework Agreement ("Transferable Patents"), and grant the right to use the registered patents and the patent applications to be licensed as described under the Intellectual Property Transfer and License Framework Agreement to Cheetah Group for an aggregate consideration of approximately RMB2.68 million (tax inclusive); and (iii) upon completion of the transfer of the Transferable Trademarks and Transferable Patents, Cheetah Group agreed to grant the right to use the Transferable Trademarks to the Group (excluding Cheetah Group) for a consideration of approximately RMB0.27 million (tax inclusive) and grant the technology license to the Transferable Patents to the Group (excluding Cheetah Group) for a consideration of approximately RMB0.13 million (tax inclusive).

Cheetah is a connected subsidiary of the Company by virtue of Rule 14A.07 (5) of the Listing Rules. As such, the entering into the Intellectual Property Transfer and License Framework Agreement between the Company and Cheetah 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 transactions under the Intellectual Property Transfer and License Framework Agreement exceeds 0.1% but is less than 5%, the Intellectual Property Transfer and License Framework Agreement is subject to reporting, annual review 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 1 April 2014.

Subscription of Shares of Cheetah

On April 25, 2014, the Company, Baidu Holdings Limited ("Baidu") and Xiaomi Ventures entered into the Subscription Agreement with Cheetah. The Subscription Agreement provides for the following: (i) the Company will, concurrent with the initial public offering of Cheetah, subscribe for such number of Cheetah Shares at the initial public offering price subject to a maximum consideration of US$10,000,000; (ii) Baidu will, concurrent with the initial public offering of Cheetah, subscribe for such number of Cheetah Shares at the initial public offering price subject to a maximum consideration of US$20,000,000; and (iii) Xiaomi Ventures will, concurrent with the initial public offering of Cheetah, subscribe for such number of Cheetah Shares at the initial public offering price subject to a maximum consideration of US$20,000,000. The terms of the Subscription Agreement were determined after arm's length negotiations among the parties. The obligations of the Purchasers are several and each Purchaser's obligation to subscribe for Cheetah Shares is not conditional upon the other Purchasers subscribing their Cheetah Shares. The initial public offering price of the Cheetah Shares will be determined by Cheetah and the underwriters to the Offering in due course (shortly before the date of the initial public offering).

Cheetah is a connected subsidiary of the Company by virtue of Rule 14A.07(5) of the Listing Rules. The issue and sale by Cheetah of Cheetah Shares to the Company is therefore a connected transaction. The subscription by the Company of Cheetah Shares pursuant to the Subscription Agreement is on normal commercial terms. The Company has calculated the relevant percentage ratios based on the maximum aggregate consideration payable by the Company under the Subscription Agreement and each such ratio is less than 5%. Xiaomi Ventures is a wholly-owned subsidiary of Xiaomi. As such, Xiaomi Ventures is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The issue and sale by Cheetah of Cheetah Shares to Xiaomi Ventures is therefore a connected transaction. The subscription by Xiaomi Ventures of Cheetah Shares pursuant to the Subscription Agreement is on normal commercial terms. The Company has calculated the relevant percentage ratios based on the maximum aggregate consideration payable by Xiaomi Ventures under the Subscription Agreement and each such ratio is less than 5%. As each of the applicable ratios is less than 5%, under Rule 14A.32 of the Listing Rules, the Company is subject to the reporting and announcement requirements and is not required to obtain Shareholders' approval for the Subscription Agreement.

For details of the connected transaction, please refer to the announcement of the Company dated 28 April 2014.

Participation by TCH Copper Limited in the Proposed Initial Public Offering of Cheetah

On 5 May 2014, The Company and TCH Copper Limited ("TCH") entered into a letter agreement (the "Letter Agreement"). TCH confirmed its intention to participate in the initial public offering of American depositary shares by Cheetah. through placing purchase orders up to an amount of US$20,000,000, by itself or through one of its affiliates, with one or more underwriters in the initial public offering.

TCH is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The entry into of the Letter Agreement may therefore constitute a connected transaction. The terms of the Letter Agreement are on normal commercial terms. The Company has calculated the relevant percentage ratios and each such ratio is less than 5%. As such, the Company is subject to the reporting and announcement requirements and is not required to obtain shareholders' approval.

For details of the connected transaction, please refer to the announcement of the Company dated 5 May 2014.

Acquisition of Equity Interest of Moxiu Technology from Starsinhand by Beike Internet

On 12 August 2014, Beike Internet, a non-wholly-owned subsidiary of the Company, entered into the Share Purchase Agreement with Beijing Starsinhand Technology Company Limited ("Starsinhand", 北京市掌中星天下信息技術有限公司), a subsidiary of Tencent, pursuant to which Beike Internet agreed to acquire and Starsinhand agreed to sell approximately 22.2379% equity interest of Moxiu Technology for a consideration of RMB30 million in cash. Upon completion of the Share Purchase Agreement, Moxiu Technology will be owned as to approximately 50.5028% equity interest by Beike Internet. Moxiu Technology will become a subsidiary of the Company.

Starsinhand is a connected person of the Company by virtue of Rule 14A.07(4) of the Listing Rules. The Share Purchase Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under the Listing Rules. As the highest relevant applicable percentage ratio (as defined in the Listing Rules) in respect of the Share Purchase Agreement exceeds 0.1% but is less than 5%, the Share Purchase Agreement and the transactions contemplated thereunder are subject to the reporting, annual review 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 12 August 2014.

Connected Transaction Relating to the Grant of Warrants by Kingsoft Cloud

On 21 August 2014, the Company, Xiaomi, Kingsoft Cloud Group and other shareholders of Kingsoft Cloud entered into a shareholders' agreement. Pursuant to the shareholders' agreement, Kingsoft Cloud agreed to grant warrants to the Company and Xiaomi, respectively, to subscribe for not more than 26,948,000 Kingsoft Cloud Series A Preferred Shares and not more than 161,688,000 Kingsoft Cloud Series A Preferred Shares at the exercise price of US$0.0742 per Kingsoft Cloud Series A Preferred Share.

Xiaomi is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The grant of warrants to Xiaomi under the shareholders' agreement constitutes a connected transaction of the Company. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the grant of warrants to Xiaomi is higher than 0.1% but less than 5%, the grant of warrants to Xiaomi is only subject to the reporting and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the aforementioned deemed disposal is higher than 0.1% but less than 5%, such deemed disposal is only subject to the reporting and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules.

For details of the connected transaction, please refer to the announcement of the Company dated 21 August 2014.

Capital Contribution and Share Purchase Agreement between Chendu Westhouse and Zhuhai Funova

On 15 September 2014, Chengdu Westhouse Interactive Entertainment Co., Ltd. ("Chengdu Westhouse", 成都西山居互動娛樂科技有限公司), Zhuhai Funova Technology Co., Ltd. ("Zhuhai Funova", 珠海樂趣科技有限公司) and the shareholders of Zhuhai Funova including Beijing Tuda Technology Co., Ltd. ("Tuda Technology", 北京途達科技有限責任公司) entered into the Capital Contribution and Share Purchase Agreement, pursuant to which (i) Zhuhai Funova will increase its registered capital by approximately RMB0.49 million and Chengdu Westhouse will subscribe for all such additional registered capital in full at a subscription price of approximately RMB40 million, representing a premium of approximately RMB39.51 million, to hold 16% equity interest of Zhuhai Funova; (ii) Chengdu Westhouse will further acquire an aggregate of 4% equity interest of Zhuhai Funova held by the Existing Shareholders at the time of transfer for a total consideration of approximately RMB10 million. Upon completion of the Capital Contribution and Share Purchase Agreement, the Company, through its subsidiary Chengdu Westhouse, will hold 20% equity interest in Zhuhai Funova and Zhuhai Funova will not become a subsidiary of the Company.

Tuda Technology is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. As such, Tuda Technology is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. As the Capital Contribution and Share Purchase Agreement involves Tuda Technology, one of the Existing Shareholders, the Capital Contribution and Share Purchase Agreement constitutes a connected transaction of the Company. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Capital Contribution and Share Purchase Agreement is higher than 0.1% but less than 5%, the Capital Contribution and Share Purchase Agreement and the transactions contemplated thereunder are only subject to the reporting and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules.

For details of the connected transaction, please refer to the announcement of the Company dated 15 September 2014.

Termination of Options Representing Subscription Rights to Purchase Partial Ordinary Shares in VNG

On 1 August 2010, Kingsoft Entertainment Software Corporation Limited ("KES"), a subsidiary of the Company, and VNG Corporation ("VNG"), an independent third party as at the date of the Option Agreement, entered into the Option Agreement in relation to the grant of the options representing the subscription rights exercisable by KES to purchase 1,859,251 ordinary shares in VNG.

On 24 October 2014, KES and VNG amended the Option Agreement in the form of the Exhibit, pursuant to which, the options representing the rights to subscribe for an aggregate of 826,334 ordinary shares in VNG ("Terminated Option") shall be terminated with immediate effect and the options representing the rights to subscribe for an aggregate of 1,032,917 ordinary shares in VNG will subsist and continue to be valid.

As at the date of the Exhibit, VNG is an associate of Tencent Holdings Limited, who is the substantial shareholder of the Company. As such, VNG is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The termination of the Terminated Option constitutes a connected transaction of the Company. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the termination of the Terminated Option is higher than 0.1% but less than 5%, such termination of the Terminated Option is subject to the reporting and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules.

For details of the connected transaction, please refer to the announcement of the Company dated 24 October 2014.

Grant of Loan Facility by the Company to Kingsoft Cloud; and Grant of options by Kingsoft Cloud to the Company and Xiaomi

On 1 December 2014, the Company entered into the Loan Agreement with Kingsoft Cloud and Xiaomi pursuant to which the Company agrees to grant a Loan Facility in an aggregate principal amount equivalent to US$500 million to Kingsoft Cloud within a three-year period commencing from 1 January 2015 to 31 December 2017. For the loan advanced in Renminbi, the interest rate is 1.1 times of the applicable Renminbi loan datum interest rate published by PBOC with the same term on the drawdown date. In the event that the aforementioned interest rate is not available, the interest rate is the higher of (a) the interest rate same as that applicable to the loan advanced in Renminbi immediately before the drawdown date; or (b) 6% per annum. For the loan advanced in Hong Kong dollar, the interest rate is 6% per annum.

Xiaomi will unconditionally and irrevocably guarantee the punctual repayment of certain unpaid balance of the Loan Facility and the accrued interests. Xiaomi guaranteed amount = the unpaid balance of the Loan Facility × Xiaomi's direct and indirect shareholding percentage in Kingsoft Cloud as of the date on which the Company claims to Xiaomi.

KSC Partner Holdings Limited will pledge its entire equity interest in Kingsoft Cloud, being 139,500,000 ordinary shares of Kingsoft Cloud, to secure certain outstanding principal amount of the Loan Facility and the accrued interests. Certain outstanding principal amount of the Loan Facility and the accrued interests will be secured by a first charge over any and all shares of Kingsoft Cloud held by all existing and future participants of Kingsoft Cloud's share option plan and other equity incentive plans.

In the event that Kingsoft Cloud fails to repay any outstanding principal amount of the Loan Facility and the accrued interests, the Company shall have the option to convert such amount which has not been secured, or has not been realized by such security measures into certain number of preferred shares of Kingsoft Cloud. In the event that Xiaomi repays the guaranteed principal amount and the accrued interests, Xiaomi shall have the option to convert such amount into certain number of preferred shares of Kingsoft Cloud.

Kingsoft Cloud is a connected subsidiary of the Company by virtue of Rule 14A.16 of the Listing Rules. As such, (i) the provision of Loan Facility by the Company to Kingsoft Cloud, (ii) the grant of options by Kingsoft Cloud to the Company, and (iii) the grant of options by Kingsoft Cloud to Xiaomi under the Loan Agreement, will constitute connected transactions of the Company under the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the grant of the Loan Facility is higher than 5%, the grant of Loan Facility under the Loan Agreement is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the grant of options to the Company exceeds 0.1% but less than 5%, the grant of options to the Company is subject to the reporting and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the grant of options to Xiaomi exceeds 5% but is less than 25%, the grant of options to Xiaomi constitutes a discloseable transaction, which is subject to the reporting and announcement requirements but exempted from the shareholders' approval under Chapter 14 of the Listing Rules. The grant of options to Xiaomi also constitutes a connected transaction. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the grant of options to Xiaomi exceeds 5%, the grant of options to Xiaomi is subject to the reporting, announcement and 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 1 December 2014.

Entering into the Limited Partnership Agreement for the Establishment of the Fund

On 5 December 2014, Beijing Zhigu Technology Consulting Services Co., Ltd. ("Beijing Zhigu", 北京智穀技術諮詢服務有限公司), as the General Partner, and Chengdu Kingsoft Interactive Entertainment Co., Ltd. ("Chengdu Interactive Entertainment", 成都金山互動娛樂科技有限公司), Tianjin Jinmi Investment Partnership (Limited Partnership) ("Jinmi", 天津金米投資合夥企業(有限合夥)) and other investors, as the Limited Partners, entered into the Limited Partnership Agreement in relation to the establishment and management of Beijing Ruichuang Investment Management Center (Limited Partnership) (the "Fund", 北京睿創投資管理中心(有限合夥)). The Fund will be established in the PRC as a limited partnership for the purpose of carrying on investment activities relating to intellectual properties. Pursuant to the Limited Liability Agreement, the Company, through its wholly-owned subsidiary, Chengdu Interactive Entertainment, will invest an amount of RMB10 million as a Limited Partner, and the total capital commitment of the Fund is expected to be RMB200 million.

Jinmi and Beijing Zhigu are both associates of Mr. Jun LEI, a Director and substantial shareholder of the Company. As such, Jinmi and Beijing Zhigu are connected persons of the Company pursuant to Chapter 14A of the Listing Rules. The transactions contemplated under the Limited Partnership Agreement constitute connected transactions of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the transactions contemplated under the Limited Partnership Agreement is higher than 0.1% and less than 5%, the transactions contemplated under the Limited Partnership Agreement are subject to the reporting, annual review and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules.

For details of the connected transaction, please refer to the announcement of the Company dated 5 December 2014.

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. ("Kingsoft Qijian", 北京金山奇劍數碼科技有限公司), its shareholders Weiqin Qiu and Peili Lei, and Chendu Kingsoft Digital Entertainment Co., Ltd. ("Chengdu Digital Entertainment", 成都金山數字娛樂科技有限公司), which enable the Group to exercise control over Kingsoft Qijian, Beijing Kingsoft Digital Entertainment Technology Co., Ltd. ("Beijing Digital Entertainment", 北京金山數字娛樂科技有限公司) 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 2014 financial year

To streamline the corporate structure of the Group, the Group has comenced an internal reorganization exercise. In 2010, the Group has (i) entered into structure contracts relating to Zhuhai Qiwen Office Software Co., Ltd. ("Zhuhai Qiwen", 珠海奇文辦公軟件有限公司); and (ii) entered into structure contracts relating to Beijing Conew Technology Development Co., Ltd. ("Conew Technology", 北京可牛科技發展有限公司). In 2011, the Group has (i) entered into structure contracts relating to Beike Internet; (ii) entered into structure contracts relating to the Zhuhai Kingsoft Online Game Technology Co., Ltd. ("Zhuhai Online Game"); (iii) as part of the Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Qiwen. In 2012, the Group has (i) entered into structure contracts relating to Beijing Kingsoft Network Technology Co., Ltd. ("Beijing Network Technology", 北京金山網絡科技有限公司); (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", 成都西山居世遊科技有限公司) 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 Beike Internet. In 2013, the Group (i) entered into structure contracts relating to Beijing Antutu Technology Co., Ltd. ("Antutu Technology"); (ii) entered into structure contracts relating to Guangzhou Kingsoft Network Co., Ltd. ("Guangzhou Network"); (iii) entered into structure contracts relating to Zhuhai Westhouse Shiyou and Guangzhou Westhouse Shiyou Technology Co., Ltd. ("Guangzhou Westhouse Shiyou"); (iv) as part of the Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Qiwen and Zhuhai Cloud Technology; and (v) as part of the Group's internal restructuring, the structure contracts in relation to Zhuhai Online Game has been cancelled in 2013.

The structure contracts which were pre-existing during the 2014 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 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 notifi es 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 2014; 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 Office Software Co., Ltd. ("Zhuhai Kingsoft Office", 珠海金山辦公軟件有限公司), 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 Office of its obligation under the intellectual property license agreement (as described below).

(vii) Zhuhai Software (as the licensor) and Zhuhai Kingsoft Office (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 Office 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 Office under the intellectual property license agreement dated 8 February 2010.

(vi) Zhuhai Software, Beijing Kingsoft Office Software Co., Ltd. ("Beijing Office Software", 北京金山辦公軟件有限公司) 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 Office entered into a termination agreement on 29 December 2011, pursuant to which Zhuhai Software, Zhuhai Qiwen, New Shareholders and Zhuhai Kingsoft Office 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 Office 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 Office (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 Office 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 Office 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 said structure contracts in relation to Zhuhai Qiwen were recloned in 2013, the details of which are disclosed herein below.

Original Structure Contracts III 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 Office 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.

The independent non-executive Directors have reviewed the structure contracts in relation to Zhuhai Qiwen, 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 Qiwen for the year ended 31 December 2014; 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.

(vii) Conew Network has executed a financial support undertaking letter addressed to Conew Technology, pursuant to which Conew Network irrevocably undertakes to provide unlimited financial support to Conew Technology to the extent permissible under the applicable PRC laws and regulations, regardless of whether Conew Technology has incurred an operational loss. The form of financial support includes but is not limited to cash, entrusted loans and borrowings. Conew Network will not request repayment of any outstanding loans or borrowings from Conew Technology if Conew Technology or its shareholders do not have sufficient funds or are unable to repay such loans or borrowings. The letter is effective from the date of full execution of the other agreements in connection with the VIE structure until the earlier of (i) the date on which all of the equity interests of Conew Technology have been acquired by Conew Network or its designated representative(s), and (ii) the date on which Conew Network in its sole and absolute discretion unilaterally terminates this letter.

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 2014; 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 Beike 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 Beike 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 Beike Internet to Beijing Security Software or its designated third party. Sheng Fu, Weiqin Qiu and 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 Beike 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 Beike Internet to Beijing Security Software or its designated third party.

(ii) Sheng Fu, Weiqin Qiu, Beijing Security Software and Beike 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 Beike Internet) in Beike Internet to persons designated by Beijing Security Software.

(iii) Sheng Fu, Weiqin Qiu, Beijing Security Software and Beike 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 Beike Internet at any time at a nominal amount subject to applicable PRC laws.

(iv) Beijing Security Software and Beike 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 Beike Internet exclusively and Beike 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 Beike Internet entered into a business operation agreement on 1 January 2011, pursuant to which, Sheng Fu, Weiqin Qiu and Beike Internet will make relevant undertakings and guarantee to Beijing Security Software for the daily operation of Beike Internet for a term of 10 years, unless otherwise terminated by Beijing Security Software, to ensure that Beike 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 Beike 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 Beike 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 Beike Internet, Sheng Fu, Weiqin Qiu, Beijing Security Software and Beike 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 Beike 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 Beike 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.

(vii) Beijing Security has executed a financial support undertaking letter addressed to Beike Internet, pursuant to which Beijing Security irrevocably undertakes to provide unlimited financial support to Beike Internet to the extent permissible under the applicable PRC laws and regulations, regardless of whether Beike Internet has incurred an operational loss. The form of financial support includes but is not limited to cash, entrusted loans and borrowings. Beijing Security will not request repayment of any outstanding loans or borrowings from Beike Internet if Beike Internet or its shareholders do not have sufficient funds or are unable to repay such loans or borrowings. The letter is effective from the date of full execution of the other agreements in connection with the VIE structure until the earlier of (i) the date on which all of the equity interests of Beike Internet have been acquired by Beijing Security or its designated representative(s), and (ii) the date on which Beijing Security in its sole and absolute discretion unilaterally terminates this letter.

The arrangement relating to Beike 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 Beike 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 Beike Internet to the holders of their equity interest for the year ended 31 December 2014; 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 Beijing Network Technology

(i) A loan agreement dated 20 June 2012 was entered into between Ming Xu, Wei Liu and 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.

(vii) Conew Network has executed a financial support undertaking letter addressed to Beijing Network Technology, pursuant to which Conew Network irrevocably undertakes to provide unlimited financial support to Beijing Network Technology to the extent permissible under the applicable PRC laws and regulations, regardless of whether Beijing Network Technology has incurred an operational loss. The form of financial support includes but is not limited to cash, entrusted loans and borrowings. Conew Network will not request repayment of any outstanding loans or borrowings from Beijing Network Technology if Beijing Network Technology or its shareholders do not have sufficient funds or are unable to repay such loans or borrowings. The letter is effective from the date of full execution of the other agreements in connection with the VIE structure until the earlier of (i) the date on which all of the equity interests of Beijing Network Technology have been acquired by Conew Network or its designated representative(s), and (ii) the date on which Conew Network in its sole and absolute discretion unilaterally terminates this letter.

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 2014; 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 Cloud Technology

(i) Weiqin Qiu, Jin Wang and 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 Zhuhai Qi Dun Security Software Limited (珠海奇盾安全軟件有限公司, subsequently renamed as Zhuhai Cloud Technology Co., Ltd., "Zhuhai Cloud Technology", 珠海金山雲科技有限公司) 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 Beijing Kingsoft Cloud Technology Co., Ltd.) ("Beijing Cloud Technology", 北京金山雲科技有限公司) 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 Beijing Kingsoft Cloud Network Technology Co., Ltd. ("Beijing Cloud Network", 北京金山雲網絡技術有限公司) 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 said structure contracts in relation to Zhuhai Cloud Technology were recloned in 2013, the details of which are disclosed herein below.

Original Structure Contracts II 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 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 2014; 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 2014; 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 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.

The independent non-executive Directors have reviewed the structure contracts relating to Zhuhai Westhouse Shiyou and Guangzhou 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 Guangzhou Westhouse Shiyou for the year ended 31 December 2014; 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 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 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.

(vii) Beijing Security has executed a financial support undertaking letter addressed to Antutu Technology, pursuant to which Beijing Security irrevocably undertakes to provide unlimited financial support to Antutu Technology to the extent permissible under the applicable PRC laws and regulations, regardless of whether Antutu Technology has incurred an operational loss. The form of financial support includes but is not limited to cash, entrusted loans and borrowings. Beijing Security will not request repayment of any outstanding loans or borrowings from Antutu Technology if Antutu Technology or its shareholders do not have sufficient funds or are unable to repay such loans or borrowings. The letter is effective from the date of full execution of the other agreements in connection with the VIE structure until the earlier of (i) the date on which all of the equity interests of Antutu Technology have been acquired by Beijing Security or its designated representative(s), and (ii) the date on which Beijing Security in its sole and absolute discretion unilaterally terminates this letter.

The independent non-executive Directors have reviewed the structure contracts relating to Antutu 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 any other distributions to the holders of their equity interests were made by Antutu Technology for the year ended 31 December 2014; 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 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 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.

(vii) Beijing Security has executed a financial support undertaking letter addressed to Guangzhou Network, pursuant to which Beijing Security irrevocably undertakes to provide unlimited financial support to Guangzhou Network to the extent permissible under the applicable PRC laws and regulations, regardless of whether Guangzhou Network has incurred an operational loss. The form of financial support includes but is not limited to cash, entrusted loans and borrowings. Beijing Security will not request repayment of any outstanding loans or borrowings from Guangzhou Network if Guangzhou Network or its shareholders do not have sufficient funds or are unable to repay such loans or borrowings. The letter is effective from the date of full execution of the other agreements in connection with the VIE structure until the earlier of (i) the date on which all of the equity interests of Guangzhou Network have been acquired by Beijing Security or its designated representative(s), and (ii) the date on which Beijing Security in its sole and absolute discretion unilaterally terminates this letter.

The independent non-executive Directors have reviewed the structure contracts relating to Guangzhou Network, 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 Guangzhou Network for the year ended 31 December 2014; 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 2014 financial year

In 2014, as part of the Group's internal restructuring, the Group has recloned several structure contracts in relation to Zhuhai Qiwen and Zhuhai Cloud Technology, enabling the Group to exercise its control over 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 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 an announcement and shareholders' approval under Chapter 14A of the Listing Rules.

Structure Contracts in relation to Zhuhai Qiwen

(i) Weiqin Qiu and Jin Wang entered into equity transfer agreement on 26 June 2014, pursuant to which Jin Wang transferred 1% equity interests in Zhuhai Qiwen to Weiqin Qiu at a consideration of RMB680,000, calculated based on the Jin Wang's contribution amount in registered capital of Zhuhai Qiwen.

(ii) In connection with the above equity transfer agreement, Weiqin Qiu, Jin Wang and Beijing Office Software entered into a debt assumption agreement on 26 June 2014, pursuant to which Weiqin Qiu agreed to assume the liability of RMB680,000 which was the proportion liable to be paid by the Jin Wang to Beijing Office Software under the loan agreements dated 30 July 2013 as a settlement for the transfer of 1% of the registered capital in Zhuhai Qiwen from the Jin Wang.

(iii) In connection with the equity transfer agreements, 1) Weiqin Qiu, Jin Wang, and Ke Ge (collectively referred to as "Original Shareholders"); 2) Beijing Office Software; and 3) Zhuhai Qiwen entered into a termination agreement on 26 June 2014, pursuant to which Original Shareholders, 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 30 July 2013.

(iv) Weiqin Qiu and Ke Ge (collectively referred to as "New Shareholders") and Beijing Office Software entered into a loan agreement on 26 June 2014, 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 26 June 2014, 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 26 June 2014, and the performance of obligation by Zhuhai Kingsoft Office 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 26 June 2014, 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 26 June 2014, 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 26 June 2014 as stated in (iv) above.

Structure Contracts in relation to Zhuhai Cloud Technology

(i) Gang Yang and Jin Wang entered into equity transfer agreement with Weiqin Qiu on 13 June 2014 respectively, pursuant to which Gang Yang transferred 19.4946% shares in Zhuhai Cloud Technology to Weiqin Qiu at a consideration of RMB179,180; and Jin Wang transferred 0.009% shares in Zhuhai Cloud to Weiqin Qiu at a consideration of RMB1,000.

(ii) In connection with the above equity transfer agreement, Weiqin Qiu, Gang Yang and Beijing Digital Entertainment entered into a debt assumption agreement on 20 June 2014, pursuant to which Weiqin Qiu agreed to assume the liability of RMB179,180 which was the proportion liable to be paid by Gang Yang to Beijing Digital Entertainment under the loan agreements between them as a settlement for the transfer of 19.4946% of the registered capital in Beijing Digital Entertainment from Gang Yang. Weiqin Qiu, Jin Wang and Beijing Cloud Technology entered into a debt assumption agreement on 20 June 2014, pursuant to which Weiqin Qiu agreed to assume the liability of RMB1,000 which was the proportion liable to be paid by Jin Wang to Beijing Cloud Technology under the loan agreements dated 9 November 2012 as a settlement for the transfer of 0.0090% of the registered capital in Beijing Cloud Technology from Jin Wang.

(iii) In connection with the equity transfer agreements, 1) Weiqin Qiu, Jin Wang, and Gang Yang (collectively referred to as "Original Shareholders"); 2) Beijing Digital Entertainment and Zhuhai Cloud Technology; and 3) Beijing Cloud Technology entered into a termination agreement on 13 June 2014, pursuant to which Original Shareholders, Beijing Digital Entertainment, Zhuhai Cloud Technology and Beijing Cloud Technology agreed to terminate the 1) Equity Pledge Agreement; 2) Shareholder Voting Agreement; and 3) Exclusive Option Agreement dated 18 March 2013.

(iv) Weiqin Qiu and Beijing Cloud Technology entered into a loan agreement on 20 June 2014, pursuant to which Beijing Cloud Technology provided interest free replacement loans of RMB179,180 to Weiqin Qiu for the purpose of repaying the liability incurred by her for the acquisition of the entire equity interests in Zhuhai Cloud Technology. The loans have no fixed maturity date, and Beijing Cloud Technology may demand repayment at any time. Subject to the applicable laws, Weiqin Qiu shall repay the loans by transferring her equity interests in Zhuhai Cloud Technology to Beijing Cloud Technology or its designated third party.

(v) Weiqin Qiu, Beijing Digital Entertainment (collectively referred to as "New Shareholders"), Zhuhai Cloud Technology and Beijing Cloud Technology entered into a shareholder voting entrustment agreement on 20 June 2014, 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.

(vi) All New Shareholders, Zhuhai Cloud Technology and Beijing Cloud Technology entered into an exclusive option agreement on 20 June 2014, 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 at an amount equal to the corresponding portion of liability borne by the respective New Shareholders under the loan agreement dated 20 June 2014.

(vii) All New Shareholders, Beijing Cloud Technology and Zhuhai Cloud Technology entered into an equity pledge agreement on 20 June 2014, pursuant to which New Shareholders agreed to pledge all equity interests they respectively held in Zhuhai Cloud Technology and any increase in their capital contribution in favor of Beijing Cloud Technology and Zhuhai Cloud Technology as security for the performance of their obligations under the loan agreement, the shareholder voting entrustment agreement and the exclusive option agreement dated 20 June 2014, and for the performance of obligations by Beijing Cloud Network under the exclusive consultation and technological services agreement dated 9 November 2012.

The Independent Non-executive Directors have reviewed the structure contracts relating to 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 Zhuhai Qi Wen and Zhuhai Cloud Technology to the holders of their equity interest for the year ended 31 December 2014; 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 among Cheetah, Beijing Security Software and Kingsoft Japan

On 1 December 2009, Beijing Security Software, a subsidiary of Cheetah, entered into the Original Licensing Agreement with Kingsoft Japan, pursuant to which, Beijing Security Software 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, Cheetah, Beijing Security Software and Kingsoft Japan entered into the Framework Licensing Agreement, pursuant to which (i) Cheetah Group (including Beijing Security Software) will grant Kingsoft Japan Group the exclusive right to use certain software technologies in consideration of payment of licensing fees; and (ii) Cheetah 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.

Cheetah was a connected subsidiary of the Company by virtue of Rule 14A.07 (5) of the Listing Rules at the date of the Framework Licensing Agreement. 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 2014 are set out as follows:

	Annual Cap for 2014 RMB million	Actual Amount for 2014 RMB million
the licensing fees in respect of the mobile device products payable by Kingsoft Japan Group to Cheetah Group	5	0.98
the licensing fees in respect of the personal computer platform products payable by Kingsoft Japan Group to Cheetah Group	6.5	3
the joint operation fees in respect of the mobile device products payable by Cheetah Group to Kingsoft Japan Group	1	—

Continuing Connected Transactions with Cheetah and its subsidiaries

On 27 December 2013, the Company and Cheetah entered into a Cooperation Framework Agreement to regulate, among other things, the provision of services and the leasing transactions between the Group and Cheetah 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 Cheetah 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 Cheetah 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 Cheetah Group and iv) the Group will provide miscellaneous services to Cheetah Group, including but not limited to, administration assistance services and technology support services. On 1 April 2014, the Company and Cheetah entered into the Supplemental Agreement to revise the original annual caps in relation to the promotion services. All existing major terms and conditions under the Cooperation Framework Agreement remain unchanged.

On 15 October 2014, the Company and Cheetah entered into the Joint Operation Framework Agreement For Games. Pursuant to which, the Group (excluding Cheetah Group) and Cheetah Group will jointly operate the games developed and owned by the Group (excluding Cheetah Group) on the platforms provided by Cheetah Group, including but not limited to the website, software, PC products and mobile platform. The Joint Operation Framework Agreement For Games will expire on 31 December 2015.

Cheetah was a connected subsidiary of the Company by virtue of Rule 14A.07 (5) of the Listing Rules at the date of the Cooperation Framework Agreement. 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 announcements of the Company dated 27 December 2013, 1 April 2014 and 15 October 2014.

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 2014 are set out as follows:

	Annual Cap for 2014 RMB million	Actual Amount for 2014 RMB million
fees payable by Cheetah Group to the Group		
Provision of promotion services	44	24.48
Provision of Licensing Services	9.4	1.79
Leasing transactions	3.5	1.74
Provision of Miscellaneous Services	9	3.51
Joint Operation in Games	42	4.91
fees payable by the Group to Cheetah Group		
Provision of promotion services	49	—
Provision of Licensing Services	11.5	—

Continuing Connected Transactions with Xiaomi Group

On 24 April 2013, the Company and 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, expanded the scope of services to include (i) 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; (ii) Xiaomi Group will provide promotion services via its products or websites for the sale of the Group's products. In addition, according to this 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. On 1 April 2014, the Company and Xiaomi entered into a supplemental agreement to amend the Cooperation Framework Agreement, (i) expanded the scope of services to include the Group will jointly operate with Xiaomi Group the games provided by Xiaomi Group via a third party's platform; (ii) revise the annual caps for the service fees payable by Xiaomi Group in relation to the promotion services for the sale of Xiaomi's products and the joint operation of games provided by the Group under the Cooperation Framework Agreement; and revise the annual caps for the service fees payable by the Group to Xiaomi Group in relation to the promotion services for the sale of the Group's products and the joint operation of games provided by Xiaomi Group. On 18 November 2014, the Company and Xiaomi entered into a supplemental agreement to amend the Cooperation Framework Agreement, pursuant to which revise the annual caps for the fees payable by Xiaomi Group in respect of the provision of cloud services the joint operation in games provided by the Group; and revise the annual caps for the service fees payable by the Group to Xiaomi Group in respect of the provision of promotion services.

On 1 December 2014 the Company and Xiaomi entered into the Framework Agreement to replace the previous framework agreement and supplyment agreements. The previous framework agreement and supplyment agreements will be terminated immediately upon the effective date of the Framework Agreement and the transactions thereunder for the year ending 31 December 2015 (where applicable) will be governed by the Framework Agreement. Pursuant to the Framework Agreement, (i) the Group will provide the various services to Xiaomi Group, mainly including the cloud services and promotion services; (ii) Xiaomi Group will provide various services to the Group, mainly including the promotion services; (iii) the Group will jointly operate games with Xiaomi Group; and (iv) the Group will purchase Xiaomi Group's products, for a term of two years ending 31 December 2016.

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. As such, Xiaomi is a connected person of the Company. Therefore, the entering into the Framework Agreement between the Company and Xiaomi and the transactions contemplated thereunder will become 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 1 December 2014.

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 2014 are set out as follows:

	Annual Cap for 2014 RMB million	**Actual Amount for 2014 RMB million**
fees payable by Xiaomi Group		
provision of comprehensive services by the Group, including:	95	60.79
(i) Provision of cloud services	80	56.93
(ii) Provision of promotion services by the Group	15	3.86
Joint operation of games provided by Group	23	5.21
fees payable by the Group		
Provision of services by Xiaomi Group	15	2.92
Joint operation of games provided by Xiaomi Group	4	3.09
Purchase of Xiaomi's products	15	11.69

Continuing Transactions involving Kingsoft Cloud and its subsidiaries

On 21 August 2014, Xiaomi acquired 161,688,000 preferred shares of Kingsoft Cloud from Apoletto Limited. Upon completion of the aforementioned acquisition, Xiaomi held approximately 20.76% equity interest in Kingsoft Cloud on the assumption that all the preferred shares of Kingsoft Cloud are fully converted into the ordinary shares of Kingsoft Cloud based on the conversion ratio of 1:1 and no shares under the employee stock incentive plans of Kingsoft Cloud are issued. Therefore, Kingsoft Cloud Group became connected subsidiaries of the Company by virtue of Rule 14A.16 of the Listing Rules. Kingsoft Cloud Group and the Group (excluding Kingsoft Cloud Group) had entered into certain agreements in relation to ongoing transactions conducted on a regular and continuing basis before Kingsoft Cloud became a connected subsidiary of the Company. Such agreements and the transactions contemplated thereunder will become continuing connected transactions of the Company under the Listing Rules, in respect of which an announcement was published on 21 August 2014. Details of such agreements are summarized below:

(i) Pursuant to the cloud engine service rental agreement between Beijing Cloud Network and Zhuhai Kingsoft Office dated 10 May 2014, Zhuhai Kingsoft Office Software Co., Ltd. shall lease the cloud engine from Beijing Cloud Network for a term from 10 May 2014 to 9 May 2015.

 For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB0.21 million.

(ii) Pursuant to cloud engine service rental agreement between Beijing Cloud Network and Beijing Network Technology, dated 19 May 2014, Beijing Network Technology shall lease the cloud engine from Beijing Cloud Network for a term from 19 May 2014 to 18 May 2015.

 For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB0.63 million.

(iii) Pursuant to the technology service agreement between Beijing Cloud Network and Beijing Office Software dated 1 July 2014, the transaction party of the Group shall provide the end users with cloud storage space service in its designated software, and Beijing Cloud Network shall provide Beijing Office Software with bandwidth as well as cloud storage space necessary for the cloud storage space service., for a term from 1 July 2014 to 30 June 2015.

 For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB0.27 million.

(iv) Pursuant to the cloud engine service rental agreement between Beijing Cloud Network and Chengdu Westhouse Shiyou dated 12 July 2014, Chengdu Westhouse Shiyou shall lease the cloud engine from Beijing Cloud Network for a term from 12 July 2014 to 11 July 2015.

 For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB0.06 million.

(v) Pursuant to the cloud engine service rental agreement between Beijing Cloud Network and Chengdu Westhouse Shiyou dated 15 July 2014, Chengdu Westhouse Shiyou shall lease the cloud engine from Beijing Cloud Network for a term from 15 July 2014 to 14 July 2015.

 For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB0.09 million.

(vi) Pursuant to the borrowing agreement between Kingsoft Cloud and the Company dated 15 March 2013, Kingsoft Cloud, as the lender, shall provide the loan in an amount of US$2,100,000 to the Company for supplementing its daily operation funding with 3% annual interest rate for a term of three years commencing from the borrowing remittance date.

 For the year ended 31 December 2014, the actual amount of the loan under the said agreement was US$2,100,000, and the actual amount of the interest under this transaction was RMB0.39 million.

(vii) Pursuant to the facility rental contract and supplemental agreement thereto between Beijing Cloud Network Technology and Kingsoft Japan dated 1 January 2013, Kingsoft Japan shall lease the server facility from Beijing Cloud Network for its self-operated business in the PRC for a term from 1 January 2013 to 30 June 2016.

 For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB0.14 million.

(viii) Pursuant to the entrusted service agreement between Beijing Cloud Network and Chengdu Digital Entertainment dated 30 November 2012, Beijing Cloud Network shall entrust Chengdu Digital Entertainment to provide such services, including: Taobao order service description, Weibo private message service description and Kingsoft Kuaipan explicit link content review business description with cost plus certain profit for a term from 30 November 2012 to 29 November 2017.

For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB0.20 million.

(ix) Pursuant to the property leasing agreement between Beijing Cloud Network and Beijing Kingsoft Software Co., Ltd. (北京金山軟件有限公司) dated 1 January 2014, Beijing Kingsoft Software Co., Ltd. shall rent the office located in Beijing to Beijing Kingsoft Cloud Network Technology Co., Ltd. for the cloud storage space service for a term from 1 January 2014 to 31 December 2014.

For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB2.00 million.

(x) Pursuant to the service agreement between Beijing Kingsoft Cloud Network Technology Co., Ltd. and Beijing Kingsoft Software Co., Ltd. dated 1 January 2014, Beijing Kingsoft Software Co., Ltd. shall provide Beijing Kingsoft Cloud Network Technology Co., Ltd. with the miscellaneous services, such as administrative support for a term from 1 January 2014 to 31 December 2014.

For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB0.86 million.

(xi) Pursuant to the property leasing agreement between Beijing Kingsoft Cloud Technology and Beijing Kingsoft Software Co., Ltd. dated 1 January 2014, Beijing Kingsoft Software Co., Ltd. shall rent the office located in Beijing to Beijing Cloud Technology for the cloud storage space service for a term from 1 January 2014 to 31 December 2014.

For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB1.40 million.

(xii) Pursuant to the service agreement between Beijing Cloud Technology and Beijing Kingsoft Software Co., Ltd. dated 1 January 2014, Beijing Kingsoft Software Co., Ltd. shall provide Beijing Cloud Technology with the miscellaneous services, such as administrative support for a term from 1 January 2014 to 31 December 2014.

For the year ended 31 December 2014, the actual amount of the transactions conducted under the said agreement was RMB0.76 million.

(xiii) Pursuant to the entrusted loan agreement between Beijing Cloud Network and Chengdu Interactive Entertainment dated 1 January 2014, Chengdu Interactive Entertainment shall entrust Bank of East Asia (China) Limited, Beijing Branch to grant an entrusted loan of RMB13 million to Beijing Cloud Network with 4.2% annual interest rate for a term of three years commencing from the first withdrawal date.

For the year ended 31 December 2014, the actual amount of the loan under the said agreement was RMB13 million, and the actual amount of the interest under this transaction was RMB0.55 million.

(xiv) Pursuant to the loan agreement between Kingsoft Cloud and the Company dated 6 June 2014, the Company shall provide a loan of RMB100 million to Kingsoft Cloud with 6% annual interest rate, for a term from 12 June 2014 to 12 December 2014.

For the year ended 31 December 2014, the actual amount of the loan under the said agreement was RMB56.94 million, and the actual amount of the interest under this transaction was RMB0.53 million.

In order to regulate the ongoing transactions between the Group (excluding Kingsoft Cloud Group) and Kingsoft Cloud Group, the Company and Kingsoft Cloud entered into the Framework Agreement on 30 December 2014, pursuant to which, (i) the Group (excluding Kingsoft Cloud Group) will provide the comprehensive leasing services to Kingsoft Cloud Group, including but not limited to rent the office located and miscellaneous services such as administrative support; (ii) Kingsoft Cloud Group will provide cloud services to the Group (excluding Kingsoft Cloud Group), including but not limited to the cloud storage and cloud computing services, for a term of three years ending 31 December 2017.

For details of the continuing connected transactions, please refer to the announcements of the Company dated 30 December 2014.

Continuing Connected Transactions between Cheetah Group and Tencent Shenzhen

On 27 December 2013, Cheetah entered into a Strategic Cooperation Agreement with Tencent Shenzhen, pursuant to which, Cheetah 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.

On 31 July 2014, Cheetah and Tencent Shenzhen entered into a supplemental agreement to revise the annual caps of the fees in respect of the provision of promotion services payable by Tencent Group to Cheetah Group for the two years ending 31 December 2015 were revised to RMB100 million and RMB105 million, respectively.

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 Cheetah Group 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 announcements of the Company dated 27 December 2013 and 31 July 2014.

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 2014 are set out as follows:

	Annual Cap for 2014 RMB million	Actual Amount for 2014 RMB million
Annual revenues of the Group	100	73.99

Continuing Connected Transactions Joint Operation Framework Agreement for Games with Huaduo

On 23 May 2014, Chengdu Digital Entertainment entered into the Game Joint Operation Agreement with Guangzhou Huaduo Internet Technology Limited Zhuhai Branch ("Huaduo Zhuhai", 廣州華多網絡科技有限公司珠海分公司) for the joint operation of MaLaJiangHu — YY JiangHu (麻辣江湖 — YY 江湖) on the website platform provided by Huaduo Zhuhai in the PRC, pursuant to which Chengdu Digital Entertainment agreed to provide the game contents and the relevant updates and Huaduo Zhuhai agreed to provide the website platform and the ancillary services.

On 30 December 2014, the Company and Guangzhou Huaduo Internet Technology Limited ("Huaduo", 廣州華多網絡科技有限公司) entered into the Joint Operation Framework Agreement For Games. Pursuant to which, the Group and Huaduo Group will jointly operate the games developed and owned by the Group or the games licensed to be operated by the Group.

Huaduo and Huaduo Zhuhai are associates of Mr. Jun LEI, a Director and substantial shareholder of the Company, and accordingly, Huaduo is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Joint Operation Framework Agreement and the Joint Operation Framework Agreement For Games 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 23 May 2014 and 30 December 2014.

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 2014 are set out as follows:

	Annual Cap for 30 Dec to 31 Dec 2014 RMB million	Actual Amount for 30 Dec to 31 Dec 2014 RMB million
Annual revenues of the Group	0.1	0.08

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 Hong Kong Stock Exchange.

Related Party Transactions

Details of the related party transactions for the year are included in note 44 to the financial statements. Certain related party transactions disclosed in note 44 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 2014, 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 in this annual report for full details.

Auditors

The consolidated financial statements of the Company for the year ended 31 December 2014 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 or the laws of the Cayman Islands, which would oblige our Company to offer new shares on a pro-rata basis to existing shareholders.

Significant Subsequent Events

Issue of Series B Preferred Shares by Kingsoft Cloud

On 27 March 2015, the Company, Celestial Power Limited ("IDG Investor"), Kingsoft Cloud Group and other parties entered into a share purchase agreement, pursuant to which, among others, Kingsoft Cloud agreed to issue and the Company and IDG Investor agreed to subscribe for 79,873,872 and 67,199,728 Kingsoft Cloud Series B Preferred Shares, respectively, for a consideration of US$28.60 million and US$24.06 million, respectively. "Kingsoft Cloud Series B Preferred Shares" means series B preferred shares of Kingsoft Cloud with par value of US$0.001. For details of the issue please refer to the announcement of the Company dated 27 March 2015.

Exercise of Warrants

As disclosed on page 41 of this annual report, Kingsoft Cloud has granted warrants to the Company and Xiaomi pursuant to the shareholders agreement dated 21 August 2014. On 30 March 2015, the Company and Xiaomi exercised their warrants in full respectively, at the exercise price of US$2 million and US$12 million, respectively, under the shareholders' agreement. For details of the exercise please refer to the announcement of the Company dated 30 March 2015.

By order of the Board
Jun LEI
Chairman
The PRC, 20 March 2015

INDEPENDENT AUDITORS' REPORT

Ernst & Young
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Central, Hong Kong

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TO THE SHAREHOLDERS OF KINGSOFT CORPORATION LIMITED
(Continued in 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 78 to 208, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 2014, 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
Hong Kong

20 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
REVENUE	5	**3,350,133**	2,173,269
Cost of revenue		**(589,655)**	(297,104)
Gross profit		**2,760,478**	1,876,165
Research and development costs, net of government grants		**(956,097)**	(596,491)
Selling and distribution expenses		**(797,416)**	(382,848)
Administrative expenses		**(297,412)**	(192,245)
Share-based compensation costs	37	**(201,922)**	(61,387)
Other income	5	**35,818**	45,949
Other expenses		**(29,873)**	(7,263)
Other gains, net	6	**299,748**	37,097
Finance income	8	**238,900**	129,462
Finance costs	8	**(75,944)**	(24,466)
Share of profits and losses of:			
Joint ventures	19	**(7,657)**	4,827
Associates	20	**(6,868)**	(3,748)
PROFIT BEFORE TAX	7	**961,755**	825,052
Income tax expense	11	**(95,188)**	(71,178)
PROFIT FOR THE YEAR		**866,567**	753,874
Attributable to:			
Owners of the parent	12	**768,783**	670,746
Non-controlling interests		**97,784**	83,128
		866,567	753,874
		RMB	**RMB**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		**0.66**	0.58
Diluted		**0.63**	0.55

Details of the dividends proposed for the year are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

	NOTE	2014 RMB'000	2013 RMB'000
PROFIT FOR THE YEAR		**866,567**	753,874
OTHER COMPREHENSIVE LOSS			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Change in fair value, net of tax		**(234,439)**	20,927
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss			
— gain on disposal		**(3,465)**	—
— impairment losses		**6,545**	—
Exchange differences on translation of foreign operations		**(7,099)**	(23,483)
Share of other comprehensive income of associates		**(688)**	—
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(239,146)**	(2,556)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**627,421**	751,318
Attributable to:			
Owners of the parent	12	**538,769**	669,418
Non-controlling interests		**88,652**	81,900
		627,421	751,318

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**583,637**	385,067
Prepaid land lease payments	16	**281,066**	42,260
Goodwill	17	**267,288**	53,994
Other intangible assets	18	**197,425**	60,104
Investments in joint ventures	19	**118,153**	—
Investments in associates	20	**30,718**	34,852
Available-for-sale investments	21	**566,672**	56,723
Other financial assets	22	**10,063**	27,699
Loan receivables	23	**13,555**	15,976
Deferred tax assets	35	**77,988**	52,406
Long term prepayments		**40,246**	—
Other long term receivables	24	**122,524**	—
Total non-current assets		**2,309,335**	729,081
CURRENT ASSETS			
Inventories	25	**6,945**	3,528
Trade receivables	26	**411,137**	185,161
Prepayments, deposits and other receivables	27	**397,808**	144,966
Due from related parties	44	**117,411**	142,285
Available-for-sale investments	21	**56,913**	55,780
Other financial assets	22	**78,378**	—
Pledged deposit	28	**19,978**	19,588
Cash and bank deposits	28	**6,983,699**	4,481,188
		8,072,269	5,032,496
Investment in a joint venture classified as held for sale	24	**—**	42,756
Total current assets		**8,072,269**	5,075,252
CURRENT LIABILITIES			
Trade payables	29	**79,324**	32,463
Other payables and accruals	30	**931,437**	498,964
Interest-bearing bank loan	31	**15,778**	15,724
Deferred revenue	32	**310,983**	202,105
Due to related parties	44	**1,020**	—
Income tax payable		**56,806**	39,338
Total current liabilities		**1,395,348**	788,594
NET CURRENT ASSETS		**6,676,921**	4,286,658
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,986,256**	5,015,739

	NOTES	2014 RMB'000	2013 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,986,256**	5,015,739
NON-CURRENT LIABILITIES			
Other liabilities	30	**22,272**	7,401
Deferred revenue	32	**13,535**	31,533
Deferred tax liabilities	35	**41,583**	30,545
Liability component of convertible bonds	33	**2,792,322**	1,037,587
Liability component of redeemable convertible preferred shares	34	**—**	77,982
Total non-current liabilities		**2,869,712**	1,185,048
Net assets		**6,116,544**	3,830,691
EQUITY			
Equity attributable to owners of the parent			
Issued capital	36	**4,730**	4,718
Share premium account	36	**99,769**	259,665
Treasury shares	36	**(83,964)**	(53,890)
Statutory reserves	39(a)	**185,513**	173,228
Share-based compensation reserve		**231,360**	166,756
Other capital reserve	39(a)	**1,192,967**	500,055
Available-for-sale investment revaluation reserve		**(211,898)**	12,596
Equity component of convertible bonds	33	**74,505**	8,500
Equity component of redeemable convertible preferred shares	34	**—**	10,015
Foreign currency translation reserve		**(94,797)**	(89,277)
Retained earnings		**3,043,752**	2,278,468
Proposed final dividend	13	**119,438**	109,387
		4,561,375	3,380,221
Non-controlling interests		**1,555,169**	450,470
Total equity		**6,116,544**	3,830,691

HongJiang ZHANG
Director

Yuk Keung NG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	ATTRIBUTABLE TO OWNERS OF THE PARENT														
	ISSUED CAPITAL (NOTE 36) RMB'000	SHARE PREMIUM ACCOUNT (NOTE 36) RMB'000	TREASURY SHARES (NOTE 36) RMB'000	STATUTORY RESERVES (NOTE 39(a)) RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	OTHER CAPITAL RESERVE (NOTE 39(a)) RMB'000	AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE RMB'000	EQUITY COMPONENT OF CONVERTIBLE BONDS (NOTE 33) RMB'000	EQUITY COMPONENT OF REDEEMABLE CONVERTIBLE PREFERRED SHARES (NOTE 34) RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED EARNINGS RMB'000	PROPOSED FINAL DIVIDENDS RMB'000	TOTAL RMB'000	NON-CONTROLLING INTERESTS RMB'000	TOTAL EQUITY RMB'000
At 1 January 2013	4,690	347,965	(82,127)	156,462	160,833	275,739	–	–	–	(75,353)	1,624,488	102,132	2,514,829	160,103	2,674,932
Profit for the year	–	–	–	–	–	–	–	–	–	–	670,746	–	670,746	83,128	753,874
Other comprehensive income for the year:															
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	12,596	–	–	–	–	–	12,596	8,331	20,927
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	(13,924)	–	–	(13,924)	(9,559)	(23,483)
Total comprehensive income for the year	–	–	–	–	–	–	12,596	–	–	(13,924)	670,746	–	669,418	81,900	751,318
Approved and paid final dividend in respect of the previous year	–	631	–	–	–	–	–	–	–	–	–	(102,132)	(101,501)	–	(101,501)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(20,460)	(20,460)
Share-based compensation costs	–	–	–	–	44,300	–	–	–	–	–	–	–	44,300	15,235	59,535
Profit appropriations	–	–	–	16,766	–	–	–	–	–	–	(16,766)	–	–	–	–
Exercise of share options	28	20,456	–	–	(10,140)	–	–	–	–	–	–	–	10,344	–	10,344
Vested awarded shares transferred to employees	–	–	28,237	–	(28,237)	–	–	–	–	–	–	–	–	–	–
Capital contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	3,000	3,000
Issue of convertible bonds (note 33)	–	–	–	–	–	–	–	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 13)	–	(109,387)	–	–	–	–	–	–	–	–	–	109,387	–	–	–
Changes in the ownership interests in subsidiaries	–	–	–	–	–	224,316	–	–	–	–	–	–	224,316	204,507	428,823
At 31 December 2013	4,718	259,665	(53,890)	173,228	166,756	500,055	12,596	8,500	10,015	(89,277)	2,278,468	109,387	3,380,221	450,470	3,830,691

	ATTRIBUTABLE TO OWNERS OF THE PARENT														
	ISSUED CAPITAL (NOTE 36) RMB'000	SHARE PREMIUM ACCOUNT (NOTE 36) RMB'000	TREASURY SHARES (NOTE 36) RMB'000	STATUTORY RESERVES (NOTE 39(a)) RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	OTHER CAPITAL RESERVE (NOTE 39(a)) RMB'000	AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE RMB'000	EQUITY COMPONENT OF CONVERTIBLE BONDS (NOTE 33) RMB'000	EQUITY COMPONENT OF REDEEMABLE CONVERTIBLE PREFERRED SHARES (NOTE 34) RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED EARNINGS RMB'000	PROPOSED FINAL DIVIDENDS RMB'000	TOTAL RMB'000	NON-CONTROLLING INTERESTS RMB'000	TOTAL EQUITY RMB'000
At 1 January 2014	**4,718**	**259,665**	**(53,890)**	**173,228**	**166,756**	**500,055**	**12,596**	**8,500**	**10,015**	**(89,277)**	**2,278,468**	**109,387**	**3,380,221**	**450,470**	**3,830,691**
Profit for the year	–	–	–	–	–	–	–	–	–	–	768,783	–	768,783	97,784	866,567
Other comprehensive income for the year:															
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	(224,494)	–	–	–	–	–	(224,494)	(6,865)	(231,359)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	–	(4,832)	–	–	(4,832)	(2,267)	(7,099)
Share of other comprehensive income of associates	–	–	–	–	–	–	–	–	–	(688)	–	–	(688)	–	(688)
Total comprehensive income for the year	–	–	–	–	–	–	(224,494)	–	–	(5,520)	768,783	–	538,769	88,652	627,421
Approved and paid final dividend in respect of the previous year	–	(1,336)	–	–	–	–	–	–	–	–	–	(109,387)	(110,723)	–	(110,723)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(45,605)	(45,605)
Share-based compensation costs	–	–	–	–	107,496	–	–	–	–	–	–	–	107,496	95,287	202,783
Exercise of share options	12	11,844	–	–	(4,701)	–	–	–	–	–	–	–	7,155	–	7,155
Vested awarded shares transferred to employees	–	–	15,089	–	(38,191)	23,102	–	–	–	–	–	–	–	–	–
Issue of convertible bonds (note 33)	–	–	–	–	–	–	–	66,005	–	–	–	–	66,005	–	66,005
Extinguishing of redeemable convertible preferred shares with issuance of subsidiary's convertible preferred shares and warrants	–	–	–	–	–	–	–	–	(10,015)	–	–	–	(10,015)	71,952	61,937
Repurchase of shares	–	–	(45,163)	–	–	–	–	–	–	–	–	–	(45,163)	–	(45,163)
Distribution in specie	–	(50,966)	–	–	–	–	–	–	–	–	–	–	(50,966)	–	(50,966)
Profit appropriation	–	–	–	12,285	–	–	–	–	–	–	(12,285)	–	–	–	–
Subsidiaries business combination under common control	–	–	–	–	–	–	–	–	–	–	8,786	–	8,786	(8,786)	–
Proposed final 2014 dividend (note 13)	–	(119,438)	–	–	–	–	–	–	–	–	–	119,438	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	47,821	47,821
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	71,576	71,576
Changes in the ownership interests in subsidiaries	–	–	–	–	–	669,810	–	–	–	–	–	–	669,810	783,802	1,453,612
At 31 December 2014	**4,730**	**99,769**	**(83,964)**	**185,513**	**231,360**	**1,192,967**	**(211,898)**	**74,505**	**–**	**(94,797)**	**3,043,752**	**119,438**	**4,561,375**	**1,555,169**	**6,116,544**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**961,755**	825,052
Adjustments for:			
Loss on disposal of items of property, plant and equipment	7	**181**	1,679
Depreciation	7	**87,504**	64,963
Impairment of other intangible assets	7	**9,187**	—
Amortisation of prepaid land lease payments	7	**3,194**	941
Amortisation of other intangible assets	7	**73,488**	32,968
Finance costs	8	**75,944**	24,466
Interest income		**(238,900)**	(129,462)
Fair value loss on financial instruments at fair value through profit or loss	6	**6,401**	10,355
Gain on disposal of a subsidiary	6	**—**	(47,452)
Share-based compensation costs		**201,922**	60,961
Write-down of inventories	7	**7**	962
Impairment of trade and other receivables	7	**19,751**	14,484
Reversal of impairment of investments in a joint venture	7	**—**	(13,400)
Share of losses/(profits) of joint ventures	19	**7,657**	(4,827)
Share of losses of associates	20	**6,868**	3,748
Foreign exchange differences, net	7	**(5,619)**	(24)
Impairment loss of available-for-sale investments	6	**8,664**	—
Impairment loss of investment in an associate	6	**472**	—
Gain on disposal of an investment in a joint venture classified as held for sale	6	**(116,845)**	—
Gain on disposal of available-for-sale investments	6	**(1,968)**	—
Gain on extinguish redeemable convertible preferred shares	6	**(9,892)**	—
Gain on disposal of a business	6	**(193,632)**	—
Loss on disposal of other financial asset	6	**7,052**	—
Deemed disposal gain of an intangible asset		**—**	(3,600)
		903,191	841,814
Increase in trade receivables		**(218,758)**	(53,345)
Increase in prepayments, deposits and other receivables		**(115,497)**	(52,566)
Increase in loan receivables		**(962)**	(3,964)
(Increase)/decrease in inventories		**(3,424)**	12,516
Increase in other long term receivable		**(9,855)**	—
Increase in trade payables		**46,797**	9,374
Increase in deferred revenue		**92,462**	35,302
Increase in other payables and accruals		**270,893**	123,692
		61,656	71,009
Interest received		**91,358**	80,539
Income tax paid		**(103,941)**	(55,238)
Net cash flows from operating activities		**952,264**	938,124

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**144,071**	63,931
Proceeds from disposal of items of property, plant and equipment		**—**	3,463
Purchases of items of property, plant and equipment		**(237,281)**	(82,980)
Purchases of other intangible assets		**(153,398)**	(7,826)
Addition of capitalised software costs	18	**—**	(9,367)
Addition of prepaid land lease payments	16	**(242,000)**	—
(Increase)/decrease in time deposits with original maturity of over three months when acquired	28	**(1,986,215)**	32,911
Purchase of other financial assets		**(61,547)**	(6,100)
Acquisition of a business, net of cash acquired	40	**(201,478)**	(55,785)
Investments in joint ventures		**(104,400)**	(6,000)
Investments in associates		**(2,910)**	(35,682)
Purchase of available-for-sale investments		**(774,304)**	(30,728)
Proceeds from government grant		**9,510**	—
Disposal of a subsidiary	41	**—**	79,058
Advance of a loan to a related party		**(8,103)**	—
Advance of loan to third parties		**(2,765)**	(8,940)
Payment of prepaid investment		**(6,000)**	—
Proceeds from disposal of a business	42	**200,958**	—
Proceeds from disposal of short term investment		**16,669**	—
Proceeds from disposal of investment in a joint venture classified as available for sale		**12,544**	—
Repayment of loans from related parties		**21,620**	20,026
Repayment of loans from third parties		**7,440**	—
Net cash flows used in investing activities		**(3,367,589)**	(44,019)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible bonds	33	**1,805,872**	1,055,529
Proceeds from issue of redeemable convertible preferred shares	34	**—**	87,567
Proceeds from issue of convertible preferred shares		**—**	484,928
Payment of extinguishment on financial liabilities	34	**(12,362)**	—
Acquisition of non-controlling interests		**141,024**	3,000
Repurchase of shares of an subsidiary from non-controling interests		**(60,987)**	—
Exercise of share options		**7,155**	10,344
Dividends paid to owners of the parent	13	**(143,605)**	(101,302)
Dividends paid to non-controlling interests		**(45,605)**	(20,460)
Proceeds from initial public offering and private placement of Cheetah Mobile, net of cost		**1,347,477**	—
Repurchase of share for cancellation		**(45,163)**	—
Repayment of bank loans		**—**	(575,286)
New bank loans		**—**	184,315
Interest paid		**(43,629)**	(6,919)
Net cash flows from financing activities		**2,950,177**	1,121,716
NET INCREASE IN CASH AND CASH EQUIVALENTS		**534,852**	2,015,821
Cash and cash equivalents at beginning of year		**2,677,248**	696,499
Effect of foreign exchange rate changes, net		**(18,166)**	(35,072)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,193,934**	2,677,248
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**1,026,446**	559,028
Time deposits with original maturity of less than three months when acquired	28	**2,167,488**	2,118,220
Cash and cash equivalents as stated in the statement of cash flows		**3,193,934**	2,677,248

STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	38	**482,347**	394,518
Property, plant and equipment	15	**94**	—
Investments in associates	20	**30,600**	28,701
Other long term receivables	24	**112,669**	—
Total non-current assets		**625,710**	423,219
CURRENT ASSETS			
Prepayments, deposits and other receivables	27	**52,801**	5,070
Due from subsidiaries	38	**1,174,391**	658,691
Due from related parties		**28,349**	27,659
Pledged deposit	28	**19,978**	19,588
Cash and bank deposits	28	**1,892,264**	682,545
		3,167,783	1,393,553
Investment in a joint venture classified as held for sale	24	**—**	42,756
Total current assets		**3,167,783**	1,436,309
CURRENT LIABILITIES			
Other payables and accruals	30	**24,478**	19,040
Interest-bearing bank loan	31	**15,778**	15,724
Income tax payable		**18,246**	—
Due to subsidiaries	38	**286,958**	151,608
Total current liabilities		**345,460**	186,372
NET CURRENT ASSETS		**2,822,323**	1,249,937
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,448,033**	1,673,156
NON-CURRENT LIABILITIES			
Liability component of convertible bonds	33	**2,792,322**	1,037,587
Total non-current liabilities		**2,792,322**	1,037,587
Net assets		**655,711**	635,569
EQUITY			
Issued capital	36	**4,730**	4,718
Share premium account	36	**99,769**	259,665
Treasury shares	36	**(83,964)**	(53,890)
Share-based compensation reserve	39(b)	**137,224**	127,668
Equity component of convertible bonds	33	**74,505**	8,500
Foreign currency translation reserve	39(b)	**(145,151)**	(149,381)
Retained earnings	39(b)	**449,160**	328,902
Proposed final dividend	13	**119,438**	109,387
Total equity		**655,711**	635,569

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, the Company was redomiciled to the Cayman Islands under the Company Law (2004 revision) of the Cayman Islands. The registered office of the Company is located at Clifton House, 75 Fort Street, George Town, Grand Cayman, Cayman Islands. The Company's shares have been listed on the Stock Exchange of Hong Kong Limited since 9 October 2007.

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

The financial statements have been prepared under the historical cost convention, except for available-for-sale investments and other financial assets, which have been measured at fair value. Investment in a joint venture classified as held for sale is stated at the lower of the carrying amount and fair value less costs to sell 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 2014. 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 37). The Group has the power to govern the financial and operating policies of the Share Award Scheme Trust and derive benefits from the services of the employees who have been awarded 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 the share award scheme.

Cheetah Mobile Incorporation ("Cheetah Mobile") (originally named Kingsoft Internet Software Holdings Limited ("KIS Holdings"), which was renamed as Cheetah Mobile on 25 March 2014), a subsidiary of the Company, has set up a trust (the "KIS Share Award Scheme Trust") for the purpose of administering and holding Cheetah Mobile's shares for the share award scheme adopted on 26 May 2011 (the "Cheetah Mobile Share Award Scheme", note 37). 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 through their continued employment with the Group, the assets and liabilities of the KIS Share Award Scheme Trust are included in the 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 37). 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 the consolidated statement of financial position.

Kingsoft Cloud Holdings Limited ("Kingsoft Cloud"), a subsidiary of the Company, has set up a trust (the "KC Share Award Scheme Trust") for the purpose of administering and holding Kingsoft Cloud's shares for the share award scheme adopted on 22 February 2013 (the "KC Share Award Scheme", note 37). 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 the 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 37). 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 the consolidated statement of financial position before the JC Share Award Scheme was cancelled during the year ended 31 December 2014.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

1 Effective from 1 July 2014

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

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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*[4]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to IAS 1	*Disclosure Initiative*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	*Amendments to a number of IFRSs*[1]
Annual Improvements 2011-2013 Cycle	*Amendments to a number of IFRSs*[1]
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*[2]

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

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

3 Effective for annual periods beginning on or after 1 January 2017

4 Effective for annual periods beginning on or after 1 January 2018

5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

The amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The Annual Improvements to IFRSs 2010-2012 Cycle issued in December 2013 sets out amendments to a number of IFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

IFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

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).

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 Non-current Assets Held for Sale and Discontinued Operations 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.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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 assets 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.

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 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 of 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 operation disposed of 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 and financial assets), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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.

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 a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

Purchased software, user base and license rights for games

Purchased software, user base and license rights for games are stated at cost less any impairment losses and are amortised on the straight-line basis over the shorter of the estimated economic life and the license period as below.

	ESTIMATED USEFUL LIFE
Purchased software	1–10 years
User base	1–4 years
License rights for games	1–5 years

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. 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, held-to-maturity investments, 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:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. 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 "fair value gain/(loss) on financial instruments at fair value through profit or loss" in 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 if 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. 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 in other gains or losses, 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 asset. 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and 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 flows 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 and all collateral has been realised or has been transferred to the Group.

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 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.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 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.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

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.

When 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised 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.

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, and assets similar in nature to cash 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 customers to allow them to install unlimited copies of the Group's application software over a period of one to three years 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 customers. Revenue from multi-year licensing arrangements is recognised upon the delivery of the software master copy and the portion in relation to post-contract customer support is deferred and amortised over the license period.

(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 to the distributors which in turn sell them to players, or prepaid online points to players at the Group's website. All prepaid fees received from distributors and players are initially recognised as deferred revenue. Revenue is recognised when the services are provided.

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, players pay for a pre-specified length of game playing time within a specified period of time. Revenue is recognised, based on the actual game playing time consumed by players and amortised over the period.

For item-billing model, there are in-game items and premium features sold in the game, commonly known as "virtual items", which are regarded as value-added services and are rendered at a point in time, over a pre-specified period or throughout the whole game life. The revenue from these virtual items is recognised over the estimated practical usage period or the estimated player life or 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(c) Online game services (continued)

Upon expiry of prepaid game cards or prepaid 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 or prepaid online points include certain discounts from the face value of the cards. The Group recognises revenue net of the discounts.

(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 players' accounts in a given region or country. The usage-based royalties are recognised when they are earned, provided that the collection is probable.

The Group also enters into the multi-year licensing arrangements by charging a certain fee. During the licensing period, the Group is required to provide post contact services. Revenue from such licensing arrangements is recognised as revenue ratably over the licensing period upon the delivery of the services.

(e) Mobile games

The Group operates both self-developed and licensed mobile games under an item-billing model, and generates revenues from the sale of in-game virtual currency that can be redeemed in virtual items.

The Group operates its mobile games through cooperation with various third-party game distribution platforms and derives its revenue from sales of in-game virtual currency and virtual items. The Group is responsible for providing ongoing updates of new contents, and technical support for the operation of the games. The platforms are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase the in-game virtual currency through the platforms' own charging systems by remitting the payment directly to the platforms. After deducting the commission charged by the platforms, the platforms remit the rest of net proceeds to the Group. In general, the portion of the proceeds received by the Group is calculated based on the standard price of in-game virtual currency sold and agreed share ratio in contracts with platforms. As these third-party platforms offer various marketing discounts from time to time to players to encourage spending on these platforms, the actual prices paid by individual players may be lower than the standard prices of virtual currency. Such marketing discounts are neither available to be tracked reliably nor borne by the Group. As such, the Group is not able to make a reasonable estimate of the gross revenue (i.e., the actual prices paid by the players). For revenue related to these platforms, it is measured at the fair value of the consideration received or receivable, which is the net amount received by the Group from these third-party platforms.

Under the item-billing model, the Group has determined that an implied obligation exists to the players to continue displaying the purchased virtual items within the game over the virtual items' estimated useful lives. Therefore, the Group recognises revenue from the sale of in-game virtual currency and virtual items over estimated player life.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(f) *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 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 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 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 recognises the net commission it earns as revenue in the same month in which the services are provided.

The Group also earns service income from online lottery purchase services by processing lottery purchase order from end users through its website. The service income is from the authorized ticket offices and lottery machine operators based on the pre-determined service fee and the total amount of the processed orders. The revenue is recognized on a net basis because the Group acts as an agent in the distribution and administration of the lottery products.

(g) *Online marketing services*

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, apps 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 collectability is reasonably assured. For the hyperlinks embedded in the Group's software and/or websites, the advertisers pay the Group based on the number of clicks on the hyperlinks or other performance criteria. The Group recognises revenue when the services are provided, revenue can be measured reliably and the collectability is reasonably assured.

The Group acts as advertising agents to earn performance-based sales commission from the online media platforms, which is equal to certain percentage of the purchase price for qualifying advertising resource purchased and utilized by advertising clients the Group represents. As the Group acts as an agent for the clients and online media platforms in such transactions, the revenue is recognized on a net basis deducting the purchase rebates to the client, when the amounts of the commissions and purchase rebates are probable and reasonable estimable.

(h) *Rental income*

Rental income is recognised on a time proportion basis over the lease term.

(i) *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 over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(j) *Dividend income*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred revenue

Deferred revenue represents cash received or receivables from the sale of application softwares, subscription received for membership services of information security software, payment for online and mobile games 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 directors) 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 details of the fair values of share options and awarded shares granted are given in note 37 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity as "share-based compensation 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.

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 is 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 subsidiaries which operate in Mainland China are required to participate in a defined contribution scheme operated by the local municipal government. These subsidiaries are required to contribute a 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits 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$"), Japanese Yen ("JPY"), Malaysia Ringgit ("MYR"), United States Dollars ("US$") 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 translated 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 translation 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.

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 statement 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 JUDGEMENTS AND 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Accounting for companies governed under contractual arrangements as subsidiaries

The Company and some of its subsidiaries do not hold any equity interests in certain of their subsidiaries. Nevertheless, under the contractual agreements entered into between the Group and the shareholders who are the registered owners of those subsidiaries, the directors of the Company determine that the Group has the power to govern the financial and operating policies of those subsidiaries so as to obtain benefits from their activities. As such, those subsidiaries are accounted for as subsidiaries of the Group for accounting purposes.

The Group's revenue generated from the above entities which are controlled by the Group through the contractual agreements described above amounted to approximately RMB2,440,715,000 (2013: RMB1,507,601,000) for the year ended 31 December 2014. At 31 December 2014, total assets and total liabilities of these entities amounted to approximately RMB2,327,509,000 (2013: RMB1,710,917,000) and RMB835,568,000 (2013: RMB452,901,000), respectively.

Estimation uncertainty

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 assets

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 RMB10,063,000 as at 31 December 2014 (2013: RMB21,796,000). Further details are included in note 22 to the financial statements.

The fair values of the investments in debt securities from two unlisted companies are determined by the discounted cash flow model. Significant judgement about factors, such as risk-free rate, redemption premium rate, and expected volatility, is required to be made by the directors as the parameter for applying the discounted cash flow model. The Company engaged an independent valuer to assess the fair values of the debt securities. The fair values of the debt securities were approximately RMB72,076,000 and RMB6,302,000 as at 31 December 2014, respectively (2013: Nil and RMB5,903,000, respectively). Further details are included in note 22 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(b) 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 2014, the best estimate of the carrying amount of capitalised development costs was approximately RMB4,147,000 (2013: RMB17,761,000).

(c) 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 2014 was nil (2013: Nil). The amount of unrecognised tax losses at 31 December 2014 was RMB417,758,000 (2013: RMB222,886,000). Future details are contained in note 35 to the financial statements.

(d) 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 2014 was approximately RMB267,288,000 (2013: RMB53,994,000). Further details are given in note 17 to the financial statements.

(e) Impairment of available-for-sale investments

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions considering factors such as the profitability, the period of trading of the shares and the marco market situation, etc. about whether there is an impairment that should be recognised in the statement of profit or loss. The decrease of share price is not an sole indicator of the impairment of available-for-sale investments. At 31 December 2014, impairment losses of RMB8,664,000 have been recognised for available-for-sale investments (2013: Nil). The carrying amount of available-for-sale investments was RMB623,585,000 (2013: RMB112,503,000). Future details are contained in note 21 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(g) Impairment of trade receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

(h) Impairment of related parties and other receivables

The Group maintains an allowance for the estimated loss arising from the inability of its related parties or vendors to make the required payments or required services. The Group makes its estimates based on the ageing of due from related parties balances/prepayment balances, their business operation as well as historical write-off experience. If the financial condition of the related parties/vendors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance.

(i) The useful lifes of virtual items in the item-billing games

Virtual items include items consumed at a single point in time, over a pre-specified period or throughout the whole game life. 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. 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.

(j) Recognition of share-based compensation costs

The Company and some of the Group's subsidiaries adopted their own share award schemes and/or share option schemes, including the Company's 2004 and 2007 Pre-IPO Share Option Schemes, the Company's 2011 Share Option Scheme, Cheetah Mobile Share Option Scheme, Kingsoft Japan Share Option Scheme, 2014 Kingsoft Japan Share Option Scheme, Share Award Scheme adopted by the Company, Kingsoft Cloud Share Option Scheme, JC Holdings Share Option Scheme, Westhouse Holdings Share Option Scheme, Cheetah Mobile Share Award Scheme, Share Award Scheme adopted by KOS Holdings, Share Award Scheme adopted by Kingsoft Cloud, 2014 Cheetah Mobile Share Award Scheme and Share Award Scheme adopted by JC Holdings. The Company and 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 2014 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 2014 was approximately RMB563,615,000 (2013: RMB57,150,000).

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 the research and development of games, and the provision of online games, mobile games and casual game services;

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

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

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

For the purpose of making decisions about resources allocation and performance assessment after the listing of Cheetah Mobile, the directors of the Company decided to make some reclassification among the three business units. Segment information of the comparative period has been restated to conform to the current period's presentation to facilitate comparison in accordance with IFRS 8 Operating Segments.

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2014	ENTERTAINMENT SOFTWARE RMB'000	INFORMATION SECURITY AND INTERNET SERVICES RMB'000	OFFICE SOFTWARE AND OTHERS RMB'000	TOTAL RMB'000
SEGMENT REVENUE:				
Sales to external customers	1,252,753	1,674,060	423,320	3,350,133
Intersegments sales	22,950	4,146	67,229	94,325
	1,275,703	1,678,206	490,549	3,444,458
SEGMENT RESULTS	581,340	399,994	25,631	1,006,965
Reconciliation:				
Administrative expenses				(297,412)
Share-based compensation costs				(201,922)
Other income				35,818
Other expenses				(29,873)
Other gains, net				299,748
Finance income				238,900
Finance costs				(75,944)
Share of profits and losses of:				
Joint ventures				(7,657)
Associates				(6,868)
PROFIT BEFORE TAX				961,755
OTHER SEGMENT INFORMATION:				
Impairment loss	(14,940)	(22,406)	(735)	(38,081)
Depreciation and amortisation	(35,804)	(72,702)	(55,680)	(164,186)
Capital expenditure*	(60,089)	(242,199)	(465,246)	(767,534)
Share of profits/(losses) of joint ventures and associates	(4,250)	(23,519)	13,244	(14,525)

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments and other intangible assets including assets from the acquisition of subsidiaries.

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2013	ENTERTAINMENT SOFTWARE RMB'000	INFORMATION SECURITY AND INTERNET SERVICES RMB'000	OFFICE SOFTWARE AND OTHERS RMB'000	TOTAL RMB'000
SEGMENT REVENUE:				
Sales to external customers	1,095,913	694,389	382,967	2,173,269
Intersegments sales	16,098	964	44,691	61,753
	1,112,011	695,353	427,658	2,235,022
SEGMENT RESULTS	578,028	184,603	134,195	896,826
Reconciliation:				
Administrative expenses				(192,245)
Share-based compensation costs				(61,387)
Other income				45,949
Other expenses				(7,263)
Other gains, net				37,097
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:				
Impairment (loss)/reversal	(254)	(11,384)	9,592	(2,046)
Depreciation and amortisation	(32,476)	(26,589)	(39,807)	(98,872)
Capital expenditure	(37,752)	(56,913)	(30,194)	(124,859)
Share of profits/(losses) of Joint ventures and associate	(6,000)	(1,849)	8,928	1,079

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) *Revenue from external customers:*

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

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

(b) *Non-current assets:*

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

The non-current asset information above is based on the locations of the assets and excludes available-for-sale investments, other financial assets, loan receivables, deferred tax assets, and other long term receivables.

There was no single customer from whom the Group has derived revenue of 10% or more of the Group's revenue during the year ended December 31, 2014 (2013: none).

5. REVENUE AND OTHER INCOME

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 and other income is as follows:

	2014 RMB'000	2013 RMB'000
Revenue		
Game services	**1,315,851**	998,002
Online marketing services	**1,261,092**	603,110
Internet value-added services	**307,704**	82,902
Software and related services	**385,440**	369,704
Royalties	**64,986**	97,911
Others	**15,060**	21,640
	3,350,133	2,173,269

	2014 RMB'000	2013 RMB'000
Other income		
Government grants	**29,332**	32,657
Exchange gain	**5,619**	24
Others	**867**	13,268
	35,818	45,949

6. OTHER GAINS, NET

	NOTES	2014 RMB'000	2013 RMB'000
Gain on disposal of a subsidiary	41	**—**	47,452
Gain on disposal of a business	42	**193,632**	—
Loss on disposal of other financial asset		**(7,052)**	
Gain on disposal of an investment in a joint venture classified as held for sale	24	**116,845**	—
Gain on disposal of available-for-sale investments	21	**1,968**	—
Gain on extinguishing redeemable convertible preferred shares	34	**9,892**	—
Impairment loss of available-for-sale investments	21	**(8,664)**	—
Impairment loss of investment in an associate	20	**(472)**	—
Fair value loss on financial instruments at fair value through profit or loss		**(6,401)**	(10,355)
		299,748	37,097

7. PROFIT BEFORE TAX

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

	NOTES	2014 RMB'000	2013 RMB'000
Employee benefit expenses (including directors' remuneration (note 9)):			
Wages and salaries		**840,865**	524,150
Social insurance costs and staff welfare		**167,821**	103,086
Share-based compensation costs		**201,922**	61,387
Pension plan contributions		**77,374**	46,562
		1,287,982	735,185
Minimum lease payments under operating leases:			
Bandwidth and server		**178,771**	90,425
Buildings		**68,160**	39,279
		246,931	129,704
Cost of inventories sold		**14,423**	8,163
Cost of services provided		**374,725**	206,723
Depreciation	(a), 15	**87,504**	64,963
Amortisation of prepaid land lease payments	(a), 16	**3,194**	941
Amortisation of other intangible assets	(a), 18	**73,488**	32,968
Write-down of inventories to net realisable value**		**7**	962
Loss on disposal of items of property, plant and equipment**		**181**	1,679
Foreign exchange differences, net		**(5,619)**	(24)
Impairment of other intangible assets**	18	**9,187**	—
Impairment of trade and other receivables**		**19,751**	14,484
Reversal of impairment of investment in a joint venture**		**—**	(13,400)
Donation**		**60**	3,690
Auditors' remuneration		**15,510**	9,090
Government grants:			
— Recorded as a reduction to research and development costs*		**(6,387)**	(7,350)
— Recorded in other income and gains	5	**(29,332)**	(32,657)
		(35,719)	(40,007)

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

Note:

(a) Depreciation of property, plant and equipment, and amortisation of prepaid land lease payments and other intangible assets

	2014 RMB'000	2013 RMB'000
Included in:		
Cost of revenue	**102,405**	31,080
Research and development costs	**42,595**	54,063
Selling and distribution expenses	**2,372**	3,108
Administrative expenses	**16,814**	10,621
	164,186	98,872

8. FINANCE INCOME AND FINANCE COSTS

An analysis of finance costs is as follows:

	NOTES	2014 RMB'000	2013 RMB'000
Interest on convertible bonds	33	**69,403**	16,642
Interest on redeemable convertible preferred shares	34	**6,133**	2,974
Interest on bank loans		**408**	4,850
		75,944	24,466

An analysis of finance income is as follows:

	2014 RMB'000	2013 RMB'000
Interest income from loans to related parties	**2,565**	2,867
Bank interest income	**236,330**	126,595
Interest income from long term receivables	**5**	—
	238,900	129,462

9. 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 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	GROUP	
	2014 RMB'000	**2013 RMB'000**
Fees	**715**	591
Other emoluments:		
Salaries, allowances and benefits in kind	**7,631**	7,290
Discretionary bonuses	**2,156**	108
Pension scheme contributions	**72**	64
Share-based compensation	**5,692**	7,542
	16,266	15,595

	2014					
	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION SCHEME CONTRIBUTIONS RMB'000	SHARE-BASED COMPENSATION RMB'000	TOTAL RMB'000
Executive directors:						
HongJiang Zhang	—	4,392	929	40	3,460	8,821
Yuk Keung Ng	—	2,012	614	—	1,995	4,621
Tao Zou	—	770	613	16	237	1,636
Non-executive directors:						
Pak Kwan Kau	—	218	—	—	—	218
Jun Lei	—	239	—	16	—	255
Chi Ping Lau[1]	—	—	—	—	—	—
Independent non-executive directors:						
Guangming George Lu[2]	106	—	—	—	—	106
David Yuen Kwan Tang	218	—	—	—	—	218
Wenjie Wu	279	—	—	—	—	279
Shun Tak Wong[3]	112	—	—	—	—	112
	715	7,631	2,156	72	5,692	16,266

1 Mr. Chi Ping Lau agreed to waive his remuneration during the year.

2 Mr. Guangming George Lu resigned as an independent non-executive director on 15 July 2014.

3 Mr. Shun Tak Wong was appointed as an independent non-executive director on 15 July 2014.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

	2013					
	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION SCHEME 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 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 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.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST EMPLOYEES

The five highest paid employees during the year included three directors (2013: two directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining two highest paid employees who are neither a director nor chief executive of the Company are as follows:

	GROUP	
	2014	**2013**
	RMB'000	**RMB'000**
Salaries, allowances and benefits in kind	**1,581**	2,331
Discretionary bonuses	**2,121**	1,140
Pension scheme contributions	**79**	109
Share-based compensation	**1,035**	2,294
	4,816	5,874

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	NUMBER OF EMPLOYEES	
	2014	**2013**
RMB1,000,001 to RMB1,500,000	**—**	1
RMB1,500,001 to RMB2,000,000	**—**	—
RMB2,000,001 to RMB2,500,000	**1**	2
RMB2,500,001 to RMB3,000,000	**1**	—
	2	3

During the year, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 37 to the financial statements. The fair value of such options, 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 non-director and non-chief executive highest paid employees' remuneration disclosure.

11. 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% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2014 (2013: 16.5%).

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

The Group's subsidiary in Malaysia was granted the Multimedia Super Corridor Malaysia Status ("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.

11. INCOME TAX (continued)

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

		GROUP	
	NOTE	2014 RMB'000	2013 RMB'000
Current — Mainland China		**94,107**	67,879
Current — Hong Kong		**16,308**	10,322
Current — Elsewhere		**13,177**	5,353
Deferred	35	**(28,404)**	(12,376)
Total tax charge for the year		**95,188**	71,178

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			
	2014 RMB'000	%	2013 RMB'000	%
Profit before tax	**961,757**		825,052	
Tax at the statutory tax rate	**240,439**	**25.0**	206,263	25.0
Effect of lower tax rates for entities entitled to tax holiday or preferential tax rates	**(199,145)**	**(20.7)**	(114,293)	(13.9)
Effect of different tax rates in different jurisdictions	**(10,982)**	**(1.1)**	(3,674)	(0.4)
Effect on deferred tax of change in tax rates	**(13,150)**	**(1.4)**	(6,900)	(0.8)
Income not subject to tax	**(2,421)**	**(0.2)**	(2,462)	(0.3)
Expenses not deductible for tax	**40,767**	**4.2**	7,449	0.9
Research and development super deduction	**(23,861)**	**(2.5)**	(28,834)	(3.5)
Profits/(losses) attributable to associates and joint ventures	**(1,319)**	**(0.1)**	(162)	—
Tax losses and temporary differences not recognised	**51,068**	**5.3**	41,407	5.0
Tax losses and other deductible temporary differences utilised from previous periods	**(1,427)**	**(0.1)**	(31,283)	(3.8)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**6,503**	**0.7**	11,879	1.4
Effect of withholding tax on disposal of an investment in a joint venture classified as hold for sale	**11,694**	**1.2**	—	—
Effect of withholding tax on the shares transfer of a subsidiary within the Group	**6,552**	**0.7**	—	—
Adjustments in respect of current tax of previous periods	**(9,530)**	**(1.0)**	(8,212)	(1.0)
Tax charge at the Group's effective income tax rate	**95,188**	**9.9**	71,178	8.6

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a profit of RMB120,258,000 (2013: RMB87,007,000) which has been dealt with in the financial statements of the Company (note 39(b)).

13. DIVIDENDS

	2014 RMB'000	2013 RMB'000
Proposed final dividend (notes (a) and (b)):		
HK$0.13 (2013: HK$0.12) per share based on issued share capital as at year end	**121,509**	111,386
Less: Dividend for shares held for share award scheme as at year end	**(2,071)**	(1,999)
	119,438	109,387

Notes:

(a) The actual amount of the 2013 dividend finally paid was RMB110,723,000, after eliminating the amount of RMB1,737,000 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.

Distribution in specie

In May 2014, Cheetah Mobile completed its initial public offering on the New York Stock Exchange. In accordance with the requirements of Practice Note 15 ("PN15") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Company must give due regard to the interests of its existing shareholders by providing them with an assured entitlement to shares in Cheetah Mobile, either by way of a distribution in specie of existing shares in Cheetah Mobile or by way of preferred application in any offering of existing or new shares in Cheetah Mobile.

The Company has provided the shareholders with choice of American depositary shares ("ADS")/Class A shares of Cheetah Mobile, or cash payment in lieu, with value of each ADS to be HK$108.5, based on Cheetah Mobile's initial public offering price of US$14.0 per ADS translated into HK$ at the exchange rate of US$1 to HK$7.75.

According to the final record of the distribution in specie, total amount of cash payment distributed to the Company's shareholders electing to receive cash was HK$41.4 million (equivalent to RMB32.9 million), the total number of Class A shares distributed to the Company's shareholders electing to receive ADSs was 641,810 shares, and the total number of Class A shares distributed to the shareholders, who are Cheetah Mobile affiliates and electing to receive Class A shares, was 1,460,170 shares.

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

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

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the convertible bonds and the share option schemes and the share award schemes adopted by the 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 into ordinary shares.

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

	2014 RMB'000	2013 RMB'000
EARNINGS		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**768,783**	670,746
Increase in earnings adjusted for the warrants, convertible bonds and the share option schemes and the share award schemes adopted by the Group's subsidiaries	**31,704**	2,055
	800,487	672,801

	NUMBER OF SHARES 2014	2013
SHARES		
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the year used in the basic earnings per share calculation	**1,165,055,520**	1,154,128,710
Effect of dilution — weighted average number of ordinary shares:		
Share options	**13,711,658**	17,538,811
Awarded shares	**10,228,899**	11,841,127
Convertible bonds*	**80,064,713**	35,535,571
	1,269,060,790	1,219,044,219

Because the diluted earnings per share amount is increased when taking into account the convertible bond issued in April 2014, the convertible bond issued in April 2014 had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, only the impact of the convertible bond issued in 2013 was adjusted on the calculation of the diluted earnings per share during the year.

15. PROPERTY, PLANT AND EQUIPMENT

GROUP	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 2014							
At 31 December 2013 and 1 January 2014:							
Cost	**256,539**	**252,824**	**123,512**	**4,320**	**15,751**	**40,229**	**693,175**
Accumulated depreciation	**(19,254)**	**(170,784)**	**(108,383)**	**(1,783)**	**(7,904)**	**—**	**(308,108)**
Net carrying amount	**237,285**	**82,040**	**15,129**	**2,537**	**7,847**	**40,229**	**385,067**
At 1 January 2014, net of accumulated depreciation	**237,285**	**82,040**	**15,129**	**2,537**	**7,847**	**40,229**	**385,067**
Additions	**—**	**265,936**	**6,364**	**581**	**4,885**	**19,112**	**296,878**
Acquisition from business combination (note 40)	**—**	**949**	**—**	**—**	**—**	**—**	**949**
Government grants received	**—**	**(11,091)**	**—**	**—**	**—**	**—**	**(11,091)**
Disposals	**—**	**(1,356)**	**(250)**	**—**	**—**	**—**	**(1,606)**
Depreciation provided during the year	**(4,451)**	**(67,613)**	**(9,699)**	**(690)**	**(5,051)**	**—**	**(87,504)**
Exchange realignment	**—**	**1,201**	**—**	**—**	**(257)**	**—**	**944**
At 31 December 2014, net of accumulated depreciation	**232,834**	**270,066**	**11,544**	**2,428**	**7,424**	**59,341**	**583,637**
At 31 December 2014:							
Cost	**256,539**	**502,680**	**129,109**	**4,901**	**20,433**	**59,341**	**973,003**
Accumulated depreciation	**(23,705)**	**(232,614)**	**(117,565)**	**(2,473)**	**(13,009)**	**—**	**(389,366)**
Net carrying amount	**232,834**	**270,066**	**11,544**	**2,428**	**7,424**	**59,341**	**583,637**
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

15. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended 31 December 2014, the Company acquired property, plant and equipment amounting to RMB116,000 (2013: Nil), and depreciation charge RMB22,000 (2013: Nil) was provided. As at 31 December 2014, the cost, accumulated depreciation and net carrying amount of the electronic equipment of the Company amounted to RMB120,000, RMB26,000,and RMB94,000, respectively.

16. PREPAID LAND LEASE PAYMENTS

	GROUP	
	2014	**2013**
	RMB'000	**RMB'000**
Carrying amount at 1 January	**42,260**	43,201
Addition	**242,000**	—
Amortisation during the year	**(3,194)**	(941)
Carrying amount at 31 December	**281,066**	42,260
At 31 December:		
Cost	**288,206**	46,206
Accumulated amortisation	**(7,140)**	(3,946)
Net carrying amount	**281,066**	42,260

The Group's leasehold lands are situated in Mainland China and are held under the following lease terms:

	2014	**2013**
	RMB'000	**RMB'000**
Long term leases	**246,786**	—
Medium term leases	**34,280**	42,260
	281,066	42,260

17. GOODWILL

GROUP	NOTE	RMB'000
At 1 January 2013:		
Cost		14,559
Accumulated impairment		—
Net carrying amount		14,559
Cost at 1 January 2013, net of accumulated impairment		14,559
Acquisition of subsidiaries	40	39,995
Exchange realignment		(560)
At 31 December 2013		53,994
At 31 December 2013:		
Cost		53,994
Accumulated impairment		—
Net carrying amount		53,994
Cost at 1 January 2014, net of accumulated impairment		**53,994**
Acquisition of subsidiaries	40	**215,328**
Exchange realignment		**(2,034)**
Cost and net carrying amount at 31 December 2014		**267,288**
At 31 December 2014:		
Cost		**267,288**
Accumulated impairment		**—**
Net carrying amount		**267,288**

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the information security and internet services cash-generating unit for impairment testing:

The recoverable amount of the information security and internet services cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial forecast approved by senior management covering a period of five year and the assumption that the operation can generate cash flows perpetually with an annual growth rate of 3% (2013: 3%). The discount rate applied to the cash flow projections is 21% (2013: 20.5%), which is determined by reference to the average rates for similar industry and the business risk of the relevant business unit.

17. GOODWILL (continued)

Impairment testing of goodwill (continued)

The carrying amount of goodwill allocated to the cash-generating unit is as follows:

	INFORMATION SECURITY AND INTERNET SERVICES	
	2014 RMB'000	2013 RMB'000
Carrying amount of goodwill	**267,288**	53,994

Assumptions were used in the value in use calculation of the cash-generating units for 31 December 2014 and 31 December 2013. 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 2014 (2013: Nil).

18. OTHER INTANGIBLE ASSETS

GROUP	PURCHASED SOFTWARE RMB'000	LICENSE RIGHTS FOR GAMES RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	CAPITALISED TELEVISION PROGRAM PRODUCTION COSTS RMB'000	USER BASE RMB'000	OTHERS RMB'000	TOTAL RMB'000
31 DECEMBER 2014							
At 31 December 2013 and at 1 January 2014:							
Cost	49,620	—	100,911	19,865	13,537	3,921	187,854
Accumulated amortisation and impairment	(17,473)	—	(83,150)	(19,865)	(6,476)	(786)	(127,750)
Net carrying amount	32,147	—	17,761	—	7,061	3,135	60,104
Cost at 1 January 2014, net of accumulated amortisation and impairment	32,147	—	17,761	—	7,061	3,135	60,104
Additions	12,190	67,668	—	—	21,098	12,816	113,772
Acquisition from business combination (note 40)	54,679	—	—	—	59,256	—	113,935
Amortisation provided during the year	(21,608)	(15,191)	(13,614)	—	(21,257)	(1,818)	(73,488)
Impairment during the year	(883)	(8,304)	—	—	—	—	(9,187)
Disposals	(5,901)	—	—	—	—	—	(5,901)
Exchange realignment	(1,481)	28	—	—	(357)	—	(1,810)
At 31 December 2014	69,143	44,201	4,147	—	65,801	14,133	197,425
At 31 December 2014:							
Cost	137,713	67,668	100,911	—	93,534	16,737	416,563
Accumulated amortisation and impairment	(68,570)	(23,467)	(96,764)	—	(27,733)	(2,604)	(219,138)
Net carrying amount	69,143	44,201	4,147	—	65,801	14,133	197,425
31 DECEMBER 2013							
At 1 January 2013:							
Cost	66,700	—	91,544	19,865	—	3,771	181,880
Accumulated amortisation and impairment	(39,858)	—	(68,363)	(19,865)	—	(533)	(128,619)
Net carrying amount	26,842	—	23,181	—	—	3,238	53,261
Cost at 1 January 2013, net of accumulated amortisation and impairment	26,842	—	23,181	—	—	3,238	53,261
Additions	8,138	—	9,367	—	—	—	17,505
Acquisition from business combinations (note 40)	10,270	—	—	—	13,537	150	23,957
Amortisation provided during the year	(11,452)	—	(14,787)	—	(6,476)	(253)	(32,968)
Disposals	(1,339)	—	—	—	—	—	(1,339)
Exchange realignment	(312)	—	—	—	—	—	(312)
At 31 December 2013	32,147	—	17,761	—	7,061	3,135	60,104
At 31 December 2013 and at 1 January 2014:							
Cost	49,620	—	100,911	19,865	13,537	3,921	187,854
Accumulated amortisation and impairment	(17,473)	—	(83,150)	(19,865)	(6,476)	(786)	(127,750)
Net carrying amount	32,147	—	17,761	—	7,061	3,135	60,104

19. INVESTMENTS IN JOINT VENTURES

	GROUP 2014 RMB'000	2013 RMB'000
Share of net assets	**70,963**	—
Goodwill on acquisition	**47,190**	—
	118,153	—

Particulars of the principal joint ventures are as follows:

NAME	PLACE OF REGISTRATION/ INCORPORATION AND BUSINESS	NOMINAL VALUE OF REGISTERED CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Shanghai Westhouse Quwan Network Corporation Limited ("Shanghai Quwan")(1)	Mainland China	RMB2,000,000	38.87	Research and development of games
Beijing Moxiu Technology Corporation Limited ("Beijing Moxiu")(2)	Mainland China	RMB2,020,314	24.88	Technology development and mobile launchers
Zhuhai Lequ Corporation Limited ("Zhuhai Lequ")(3)	Mainland China	RMB3,042,327	15.24	Research and development of mobile games
Shenzhen Lvbi Age Network Corporation Limited(4)	Mainland China	RMB4,000,000	8.47	Research and development of mobile games
Beijing Shuangmi Interactive Information Technology Corporation Limited	Mainland China	RMB4,000,000	22.86	Research and development of mobile games
Beijing Shuangren technology Corporation Limited(4)	Mainland China	RMB6,000,000	12.70	Research and development of mobile games

19. INVESTMENTS IN JOINT VENTURES (continued)

* All the joint ventures were newly set up or acquired during the year of 2014, except Shanghai Quwan.

** All the joint ventures were held by the Group through its non-wholly-owned subsidiaries, and were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

*** The English names of these principal joint ventures which registered in Mainland China 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.

(1) The Group has discontinued the recognition of its share of losses of a joint venture, Shanghai Quwan, because the share of losses of the joint venture exceeded the Group's interest in the joint venture and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this joint venture for the current year and cumulatively were RMB4,692,000 (2013: RMB646,000) and RMB5,338,000 (2013: RMB646,000), respectively.

(2) On 11 February 2014, the Group through its non-wholly-owned subsidiary, Beike Internet (Beijing) Security Technology Co., Ltd. ("Beike Internet"), entered into a capital contribution agreement with Beijing Moxiu and the existing shareholders of Beijing Moxiu, pursuant to which Beijing Moxiu increased its registered capital by RMB571,000 and Beike Internet subscribed for all such additional registered capital at a consideration of RMB20,000,000 in cash, representing a capital premium of RMB19,429,000. In order to promote the business strategic cooperation between the Group and Beijing Moxiu, the Group also agreed to provide Beijing Moxiu promotion resources with a value of approximately RMB5,000,000 as part of its capital contribution. Upon completion of the capital contribution, Beike Internet held 28.3% equity interest in Beijing Moxiu. On 12 August 2014, Beike Internet entered into a share purchase agreement with Beijing Starsinhand Technology Company Limited ("Starsinhand", an existing shareholder of Beijing Moxiu), a subsidiary of Tencent Holdings Limited ("Tencent"), to acquire an additional 22.2% equity interest in Beijing Moxiu for a total consideration of RMB30 million in cash. Upon completion of the transaction, Beike Internet held approximately 50.5% equity interest in Beijing Moxiu. Based on the shareholders' agreement, decisions on operating and financial activities of Beijing Moxiu requires 2/3 of the shareholders' approval, therefore, the Group only has joint control over Beijing Moxiu. The investment in Beijing Moxiu is accounted for as an investment in joint venture using the equity method.

(3) On 15 September 2014, the Group through its non-wholly-owned subsidiary, Chengdu Westhouse Interactive Entertainment Co., Ltd. ("Chengdu Westhouse"), entered into a capital injection and share transfer agreement with Zhuhai Lequ and the existing shareholders of Zhuhai Lequ, pursuant to which, Chengdu Westhouse injected RMB20 million to Zhuhai Lequ and paid another RMB10 million to acquire certain equity interests of Zhuhai Lequ from its existing shareholders. Furthermore, the Group agreed to inject another RMB20 million to Lequ within six months upon the completion of the aforesaid capital injection and share transfer without obtaining extra shareholding interest. Upon completion on 25 September 2014, Chengdu Westhouse obtained 20% equity interest in Zhuhai Lequ with a total cash consideration of RMB50 million. Based on the amended articles of association of Zhuhai Lequ, Chengdu Westhouse could jointly control the operating and financing activities of Zhuhai Lequ, as all the material board resolutions shall be approved by the representative of Chengdu Westhouse in Zhuhai Lequ's board of directors. Therefore, the investment in Zhuhai Lequ is accounted for as an investment in joint venture using equity method.

(4) The Group treated them as joint ventures because the Group is able to exercise joint control on these investees through its representatives on the investees' board of directors.

19. INVESTMENTS IN JOINT VENTURES (continued)

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

	2014 RMB'000	2013 RMB'000
Share of the joint ventures' (loss)/profit for the year	**(7,657)**	4,827
Share of the joint ventures' total comprehensive (loss)/income	**(7,657)**	4,827
Aggregate carrying amount of the Group's investments in the joint ventures/Investment in a joint venture classified as held-for-sale	**118,153**	42,756

The above table lists the joint ventures of the Group 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 joint ventures would, in the opinion of the directors, result in particulars of excessive length.

20. INVESTMENTS IN ASSOCIATES

	GROUP		COMPANY	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Unlisted shares, at cost	**—**	—	**30,600**	28,701
Share of net assets	**29,912**	33,574	**—**	—
Goodwill on acquisition	**1,278**	1,278	**—**	—
	31,190	34,852	**30,600**	28,701
Impairment	**(472)**	—	**—**	—
	30,718	34,852	**30,600**	28,701

20. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

NAME	PLACE OF REGISTRATION/ INCORPORATION AND BUSINESS	NOMINAL VALUE OF REGISTERED CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Zhigu Holdings Limited****	Cayman Islands	US$1,081,250	23.08	Research and development of technology; provision of technology service
Beijing Weilaihongtu Education Technology Corporation Limited ("Weilaihongtu")*/**/****	Mainland China	RMB3,077,000	15.00	On-line education
Beijing Shangyao Technology Corporation Limited*/**/***/****	Mainland China	RMB1,000,000	16.75	Development of online games
Wuhan Antian Internet Security Technology Co., Ltd. ("Wuhan Antian")**/***/****	Mainland China	RMB2,000,000	19.70	Research and development of mobile security software
Beijing Kingsoft Security System Management Technology Co., Ltd.**/***/****	Mainland China	RMB12,000,000	19.70	Research and development of cloud security technology; provision of cloud technology service

* Associates newly set up during the year of 2014.

** The Group is able to exercise significant influence on the investees through its representatives on the investees' board of directors.

*** The Group holds these entities through its non wholly-owned subsidiary.

**** All the associates were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

***** The English names of these principal associates which registered in Mainland China 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.

The Group has discontinued the recognition of its share of losses of Wuhan Antian, because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were RMB478,000 (2013: Nil) and RMB478,000 (2013: Nil), respectively.

20. INVESTMENTS IN ASSOCIATES (continued)

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

	2014 RMB'000	2013 RMB'000
Share of the associates' losses for the year	**6,868**	3,748
Share of the associates' other comprehensive loss	**688**	—
Share of the associates' total comprehensive loss	**7,556**	3,748
Aggregate carrying amount of the Group's investments in the associates	**30,718**	34,852

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

21. AVAILABLE-FOR-SALE INVESTMENTS

	NOTES	2014 RMB'000	2013 RMB'000
AVAILABLE-FOR-SALE INVESTMENTS, AT FAIR VALUE — CURRENT			
Listed equity investments in United States	(1)	**6,913**	55,780
AVAILABLE-FOR-SALE INVESTMENTS, AT COST — CURRENT			
Unlisted equity investment		**50,000**	—
		56,913	55,780
AVAILABLE-FOR-SALE INVESTMENTS, AT FAIR VALUE — NON-CURRENT			
Listed equity investments in United States	(2)	**392,627**	—
AVAILABLE-FOR-SALE INVESTMENTS, AT COST — NON-CURRENT			
Unlisted equity investments	(3)	**174,045**	56,723
		566,672	56,723
		623,585	112,503

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

During the year, the gross loss in respect of the Group's available-for-sale investments at fair value recognised in other comprehensive income amounted to RMB234,439,000 (2013: gain of RMB20,927,000), of which loss of RMB3,080,000 (2013: Nil) was reclassified from other comprehensive income to the statement of profit or loss during the year.

21. AVAILABLE-FOR-SALE INVESTMENTS (continued)

(1) On 8 November 2013, the Group through its subsidiary, acquired 445,632 American Depositary Shares ("ADS") of Sungy Mobile Limited ("Sungy") at a consideration of US$5 million (equivalent to RMB30,485,000). Sungy was listed at NASDAQ on 22 November 2013. In July and August 2014, the Group disposed of 219,221 ADSs of Sungy with a gain of US$320,000 (equivalent to RMB1,968,000) recognised in profit or loss. As at 31 December 2014, the trading price of Sungy declined significantly, the investment was re-measured at fair value of RMB6,913,000 with an impairment loss of US$1,411,000 (equivalent to RMB8,664,000) recognised in profit or loss.

(2) On 3 April 2014, the Group through its subsidiary, entered into a share purchase agreement with Xunlei Limited ("Xunlei"), a NASDAQ listed company, to subscribe for 31,939,676 Series E Preferred Shares of Xunlei for a total consideration of US$90 million (equivalent to RMB557,655,000). On 27 September 2014, all the Series E Preferred Shares held by the Group were converted into ordinary shares, representing 10.01% of the total issued ordinary shares of Xunlei. As at 31 December 2014, the investment in Xunlei was re-measured at fair value of RMB336,887,000, with a loss in fair value of RMB220,768,000 recognised in other comprehensive income.

On 8 July 2014, the Group through its subsidiary entered into a subscription agreement with iDreamSky Technology Limited ("iDreamSky"), a NASDAQ listed company, to subscribe for ordinary shares of iDreamSky for a total consideration of US$8 million (equivalent to RMB49 million). On 8 August 2014, 2,133,333 ordinary shares of iDreamSky were duly allotted to the Group, which represents 1.3% of the total outstanding ordinary shares of iDreamSky. As at 31 December 2014, the investment in iDreamSky was re-measured at fair value of RMB55,740,000, with a gain in fair value of RMB6,514,000 recognised in other comprehensive income.

(3) As at 31 December 2014, the unlisted equity investments with a carrying amount of RMB174,045,000 (31 December 2013: RMB6,723,000) were stated at cost less impairment. The directors are of the opinion that the fair value of these investments cannot be reliably measured. The Group has no intention to dispose of these investments in the near future.

22. OTHER FINANCIAL ASSETS

		GROUP	
	NOTES	2014 RMB'000	2013 RMB'000
Current			
Unlisted debt investments	(1)	**78,378**	—
Non-current			
Ordinary share subscription option	(2)	**10,063**	21,796
Unlisted debt investments	(1)	**—**	5,903
		88,441	27,699

(1) These unlisted debt investments were, upon initial recognition, classified as a financial asset at fair value through profit or loss. The unlisted debt investments included:

a. A convertible note issued by Trustlook Inc. ("Trustlook"), which bears interest at 6% per annum with maturity of two years from July 2013;

b. A convertible note issued by NDP Media Corp ("NDP"), which bears no interest with maturity of one year from July 2014.

22. OTHER FINANCIAL ASSETS (continued)

(2) On 1 August 2010, the ordinary share subscription option (the "VNG Option") was granted by VNG Corporation ("VNG"), an independent third party in Vietnam, to a subsidiary of the Group, whereby the subsidiary or any of its designated subsidiaries can subscribe from VNG at a predetermined exercise price for a maximum of 1,859,251 ordinary shares of VNG, issued as fully-paid subject to adjustment. The VNG Option is exercisable in installments over a nine-year period with certain accelerating vesting conditions. The VNG Option was, upon initial recognition, classified as a financial asset at fair value through profit or loss. On 24 October 2014, the Group and VNG mutually agreed to amend the option agreement, pursuant to which, the option to subscribe for an aggregate of 826,334 ordinary shares of VNG was terminated as of 24 October 2014, and the remaining VNG Option to subscribe for an aggregate of 1,032,917 ordinary shares of VNG can be exercised from time to time at its full discretion on or before 31 December 2020. The Group has no intention to dispose or exercise these options in the near future.

23. LOAN RECEIVABLES

The loan receivables included interest-free housing loans granted to employees of RMB10,790,000 (2013: RMB9,828,000), which were carried at amortised cost with an effective interest rate of 6.40% per annum. The receivables of the housing loans are unsecured and repayable in three to five years. There were also loans granted to investors of an associate of RMB2,765,000 (2013: RMB6,148,000) with effective interest rates of 5.40% to 5.68%, which are unsecured and repayable in two to four years.

24. OTHER LONG TERM RECEIVABLES

The other long term receivables mainly included receivables in respect of the disposal of Sky Profit Limited ("Sky Profit"). As at 31 December 2013, the Company held a 29.28% equity interest in Sky Profit, which was classified as an investment in a joint venture held for sale as the Group decided to dispose of the investment in the first quarter of 2014. On 25 February 2014, the Group completed the disposal of its equity interest in Sky Profit, and recognised a gain on disposal of RMB117 million. According to the share purchase agreement, the consideration for the disposal is to be settled within 4 years, and the current and non-current portions of the consideration of RMB36 million and RMB113 million were recorded in other receivables and other long term receivables as at 31 December 2014, respectively.

25. INVENTORIES

	GROUP	
	2014	**2013**
	RMB'000	**RMB'000**
Packaging materials	**3,647**	207
Trading stocks	**3,298**	3,321
	6,945	3,528

26. TRADE RECEIVABLES

	GROUP 2014 RMB'000	2013 RMB'000
Trade receivables	**419,499**	193,812
Impairment	**(8,362)**	(8,651)
	411,137	**185,161**

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

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

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

The movements in provision for impairment of trade receivables are as follows:

	GROUP 2014 RMB'000	2013 RMB'000
At 1 January	**8,651**	2,955
Impairment losses recognised	**4,827**	5,824
Impairment losses reversed	**(875)**	—
Amount written off as uncollectible	**(4,241)**	(128)
	8,362	8,651

Included in the above provision for impairment of trade receivables is a provision for individual impaired trade receivables of RMB8,362,000 (2013:RMB8,651,000) with a carrying amount before provision of RMB8,362,000 (2013:RMB8,651,000).

26. TRADE RECEIVABLES(continued)

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.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	GROUP	
	2014	**2013**
	RMB'000	**RMB'000**
Neither past due nor impaired	**320,240**	53,725
0 to 30 days past due	**18,213**	81,609
31 to 60 days past due	**36,366**	19,202
61 to 90 days past due	**11,890**	6,324
91 to 365 days past due	**23,668**	16,589
Over one year past due	**760**	7,712
	411,137	185,161

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 RMB28,575,000 (2013: RMB4,484,000), and an amount due from a company controlled by a director of the Company of RMB10,591,000 (2013: Nil) which is repayable on credit terms similar to those offered to the major customers of the Group.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Prepayments	**47,563**	19,233	**381**	381
Value-added tax receivable	**32,733**	18,617	**—**	—
Deposits	**16,670**	15,165	**—**	—
Other receivables	**311,375**	102,702	**52,420**	4,689
	408,341	155,717	**52,801**	5,070
Impairment	**(10,533)**	(10,751)	**—**	—
	397,808	144,966	**52,801**	5,070

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The movements in provision for impairment of other receivables are as follows:

	GROUP	
	2014 RMB'000	**2013 RMB'000**
At 1 January	**10,751**	2,091
Impairment losses recognised	**1,282**	10,660
Impairment losses reversed	**—**	(2,000)
Amount written off as uncollectible	**(1,500)**	—
	10,533	10,751

28. CASH AND BANK DEPOSITS AND PLEDGED DEPOSIT

		GROUP	
	NOTES	**2014 RMB'000**	**2013 RMB'000**
Cash and bank balances	(a)	**1,026,446**	559,028
Time deposits with original maturity of three months or less when acquired	(a)	**1,167,798**	361,050
Principle protected structure deposits with original maturity of less or equal to three months when acquired		**999,690**	1,757,170
		3,193,934	2,677,248
Time deposits with original maturity of over three months when acquired	(a)	**1,726,451**	868,638
Principle protected structure deposits with original maturity of over three months when acquired		**2,083,292**	954,890
Less: Pledged time deposit for a bank loan (note 31)	(a)	**(19,978)**	(19,588)
Cash and bank deposits		**6,983,699**	4,481,188
Denominated in RMB	(b)	**3,819,527**	3,373,801
Denominated in US$		**1,444,859**	541,950
Denominated in HK$		**1,697,453**	541,710
Denominated in JPY		**21,611**	23,306
Denominated in MYR		**15**	327
Denominated in other currencies		**234**	94
		6,983,699	4,481,188

28. CASH AND BANK DEPOSITS AND PLEDGED DEPOSIT (continued)

		COMPANY	
	NOTE	2014 RMB'000	2013 RMB'000
Cash and bank balances	(a)	**14,294**	43,197
Time deposits with original maturity of three months or less when acquired	(a)	**615,253**	110,571
		629,547	153,768
Time deposits with original maturity of over three months when acquired	(a)	**1,282,695**	548,365
Less: Pledged time deposit for a bank loan (note 31)	(a)	**(19,978)**	(19,588)
Cash and bank deposits		**1,892,264**	682,545

(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 deposit are deposited with creditworthy banks with no recent history of default.

(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.

29. 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	
	2014 RMB'000	2013 RMB'000
0 to 30 days	**45,073**	17,246
31 to 60 days	**6,148**	6,967
61 to 90 days	**959**	1,857
91 to 365 days	**24,852**	4,740
Over one year	**2,292**	1,653
	79,324	32,463

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

Included in the Group's trade payable is an amount due to a company controlled by a director of the Company of RMB1,436,000 (2013: Nil), which are repayable on credit terms similar to those offered by the counterparty.

30. OTHER PAYABLES AND ACCRUALS

	GROUP	
	2014	**2013**
	RMB'000	**RMB'000**
Deposits received from customers	**37,457**	27,113
Other payables	**451,949**	270,985
Accruals	**353,144**	65,542
Other taxes payable	**57,568**	73,536
Contingent consideration for acquiring businesses	**31,319**	4,573
Share redemption payable	**—**	57,215
	931,437	498,964
Non-current portion of contingent consideration for acquiring businesses	**22,272**	7,401
	953,709	506,365

	COMPANY	
	2014	**2013**
	RMB'000	**RMB'000**
Other payables	**22,104**	18,297
Accruals	**2,374**	743
	24,478	19,040

Other payables are non-interest-bearing.

31. INTEREST-BEARING BANK LOANS

	EFFECTIVE INTEREST RATE	MATURITY	PRINCIPAL AMOUNT RMB'000
GROUP AND COMPANY			
At 31 December 2014			
Current			
Bank loan — secured	HIBOR plus 0.75% per annum	2015	15,778
GROUP AND COMPANY			
At 31 December 2013			
Current			
Bank loan — secured	HIBOR plus 0.75% per annum	2014	15,724

The interest-bearing bank loan represented a drawdown of HK$20,000,000 (equivalent to RMB15,778,000) (2013: HK$20,000,000, equivalent to RMB15,724,000) from the Group's banking facilities of HK$100,000,000. The bank loan was secured by the Group's time deposit of RMB19,978,000 (2013: RMB19,588,000).

32. DEFERRED REVENUE

	GROUP	
	2014 RMB'000	2013 RMB'000
Entertainment software	**258,072**	180,913
Information security software	**39,598**	19,802
Other application software	**9,696**	9,911
Government grants	**17,152**	23,012
	324,518	233,638
Less: Current portion	**(310,983)**	(202,105)
Non-current portion	**13,535**	31,533

33. CONVERTIBLE BONDS

		GROUP AND COMPANY 2014 RMB'000	2013 RMB'000
Liability component			
2013 Convertible bonds	(a)	**1,047,132**	1,037,587
2014 Convertible bonds	(b)	**1,745,190**	—
		2,792,322	1,037,587
Equity component			
2013 Convertible bonds	(a)	**8,500**	8,500
2014 Convertible bonds	(b)	**66,005**	—
		74,505	8,500

(a) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK$1,356,000,000 which bears interest at a rate of 3% per annum payable semi-annually (the "2013 Convertible Bonds"). The 2013 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK$16.9363 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2013 Convertible Bonds at the principal amount together with the interest accrued by giving the bondholders not less than 30 days' prior notice. On the maturity date, any 2013 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon. There was no conversion or redemption of the 2013 Convertible Bonds during year.

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

The movements of the 2013 Convertible Bonds for the year are set out below:

	RMB'000
Nominal value of the 2013 Convertible Bonds issued	1,078,427
Less: Transaction costs	(22,898)
Net proceeds from the issue of the 2013 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 2013 and 1 January 2014	1,037,587
Interest expenses	5,982
Exchange realignment	3,563
At 31 December 2014	1,047,132

33. CONVERTIBLE BONDS (continued)

(b) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HK$2,327,000,000 which bear interest at a rate of 1.25% per annum payable semi-annually (the "2014 Convertible Bonds"). The 2014 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 22 May 2014 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK$43.89 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2014 Convertible Bonds at the principal amount together with the interest accrued by giving the bondholders not less than 30 days' prior notice. On the maturity date, any 2014 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon. There was no conversion or redemption of the 2014 Convertible Bonds during the year ended 31 December 2014.

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

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

	RMB'000
Nominal value of the 2014 Convertible Bonds issued	**1,845,544**
Less: Transaction costs	**(39,672)**
Net proceeds from the issue of the 2014 Convertible Bonds	**1,805,872**
Equity component at the issuance date	**(66,005)**
Liability component at the issuance date	**1,739,867**
Exchange realignment	**(9,214)**
Interest expenses	**14,537**
Liability component at 31 December 2014	**1,745,190**

34. PREFERRED SHARES AND WARRANTS

On 9 April 2013, Kingsoft Cloud issued 188,636,000 and 80,844,000 series A redeemable convertible preferred shares with par value of US$0.001 each to a third party investor, Apoletto Limited ("Apoletto"), 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 Kingsoft Cloud 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, Kingsoft Cloud shall redeem all of the outstanding preferred shares held by the requesting holder, at the price for each series A redeemable convertible preferred share equal to the greater of (i) and (ii) below, plus accumulated and declared but unpaid dividends on the preferred share:

(i) the fair market value of the series A redeemable convertible preferred share; and

(ii) the series A redeemable convertible preferred shares issue price plus an 8% internal rate of return, compounded annually.

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

The series A redeemable convertible preferred shares can be converted into fully-paid ordinary shares of Kingsoft Cloud 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 articles of association of Kingsoft Cloud, the series A redeemable convertible preferred shares were initially designated as a financial liability at fair value through profit or loss upon initial recognition. The fair value loss from the date of issuance to 19 August 2013 was approximately RMB3,717,000.

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

During the years ended 31 December 2014 and 2013, 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**
At 21 August 2013	76,038	10,015
Exchange realignment	(1,030)	—
Interest charge	2,974	—
At 31 December 2013 and 1 January 2014	77,982	10,015
Exchange realignment	673	—
Interest charge	6,133	—
At 21 August 2014	**84,788**	**10,015**

34. PREFERRED SHARES AND WARRANTS (continued)

On 21 August 2014, a share purchase agreement was signed among Apoletto, Xiaomi Corporation ("Xiaomi", a related party of the Company) and the Company, pursuant to which, Apoletto sold 161,688,000 and 26,948,000 (totally 188,636,000) series A redeemable convertible preferred shares to Xiaomi and the Company for cash considerations of US$12,000,000 (equivalent to RMB74,172,000) and US$2,000,000 (equivalent to RMB12,362,000), respectively, at US$0.0742 per share.

On the same date, all the shareholders of Kingsoft Cloud entered into the amended and restated shareholders' agreement and approved the amended and restated memorandum and articles of association of Kingsoft Cloud, pursuant to which, the redemption right of series A redeemable convertible preferred shares was removed. Therefore, the series A convertible preferred shares without redemption right ("revised series A convertible preferred shares") were classified to equity instruments, with no liability component to be recognised.

Pursuant to the amended and restated shareholders' agreement dated 21 August 2014, Kingsoft Cloud granted warrants to Xiaomi and the Company, with an exercise period of eighteen months commencing from 21 August 2014, upon exercising which Xiaomi and the Company can, at any time and from time to time within the exercise period, purchase up to 161,688,000 and 26,948,000, respectively, additional preferred shares of Kingsoft Cloud at the exercise price of US$0.0742 per share. The additional preferred shares to be issued by Kingsoft Cloud under the warrants shall rank with the existing preferred shares of Kingsoft Cloud. Based on the terms of the warrants, the warrants were classified and measured as equity instruments. The fair value of Xiaomi's preferred shares and warrants was determined by an independent valuer as RMB78,137,000.

The extinguishment of the carrying amount of the series A redeemable convertible preferred shares by the fair value of the revised Series A convertible preferred shares and warrants of Kingsoft Cloud and cash consideration of US$2,000,000 (equivalent to RMB12,362,000) paid by the Company to Apoletto was recognised in other gains of RMB9,892,000 in profit or loss.

35. DEFERRED TAX

	GROUP			
	CONSOLIDATED STATEMENT OF FINANCIAL POSITION		CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	
	2014 RMB'000	**2013 RMB'000**	**2014 RMB'000**	**2013 RMB'000**
Deferred income tax liabilities				
Deferred cost	**(3,468)**	(15)	**3,453**	(2)
Fair value adjustment arising from acquisition of subsidiaries	**(16,978)**	(1,205)	**(2,421)***	(350)
Withholding taxes on the distributable profits of the Group's PRC subsidiaries	**(20,162)**	(23,700)	**(3,538)**	8,001
Others	**(975)**	(5,625)	**(4,650)**	3,523
	(41,583)	(30,545)	**(7,156)**	11,172
Deferred income tax assets				
Property, plant and equipment	**66**	266	**200**	—
Deferred revenue	**35,881**	24,641	**(11,240)**	(2,344)
Accruals	**17,930**	7,022	**(10,908)**	(4,920)
Government grants	**510**	3,418	**2,908**	(3,418)
Provisions	**2,064**	3,195	**1,131**	(3,195)
Intangible assets	**18,563**	13,078	**(5,485)**	(4,781)
Others	**2,974**	786	**(2,188)**	(786)
	77,988	52,406	**(25,582)**	(19,444)
Deferred income tax expense			**(28,404)**	(12,376)
Deferred income tax expense recorded in other comprehensive income			**(4,334)**	4,104

The share of tax attributable to associates and joint ventures amounting to nil (2013: Nil) and a tax credit of RMB84,000 (2013: tax credit of RMB3,599,000), respectively, is included in "Share of profits and losses of associates and joint ventures" in the consolidated statement of profit or loss.

* The share of deferred tax liability arising from acquisition of subsidiaries amounting to RMB18,196,000 (2013: Nil), was not charged to the statement of profit or loss.

The Group has tax losses arising in Mainland China of RMB317,742,000 as at 31 December 2014 (2013: RMB208,803,000) that will expire in one to five years for offsetting against future taxable profits.

35. DEFERRED TAX (continued)

The amounts and expiration dates of the tax losses carried forward at 31 December 2014 and 2013 are listed below:

EXPIRATION DATE	2014 RMB'000	2013 RMB'000
31 December 2015	—	83
31 December 2016	**5,595**	12,617
31 December 2017	**16,316**	36,459
31 December 2018	**116,643**	159,644
31 December 2019	**179,188**	—

The Group also has tax losses arising in Hong Kong of RMB97,142,000 (2013: RMB14,083,000) 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 these 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:

	2014 RMB'000	2013 RMB'000
Tax losses	**417,758**	222,886
Deductible temporary differences	**15,948**	34,235
	433,706	257,121

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 RMB2,566 million at 31 December 2014 (2013: RMB1,802 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.

36. SHARE CAPITAL

Shares

	2014 RMB'000	2013 RMB'000
Authorised:		
2,400,000,000 (2013: 2,400,000,000) ordinary shares of US$0.0005 each	**9,260**	9,260
Issued and fully paid:		
1,184,842,493 (2013: 1,180,633,633) ordinary shares of US$0.0005 each	**4,730**	4,718

A summary of the movements in the Company's issued share capital was as follows:

COMPANY	NOTES	NUMBER OF SHARES IN ISSUE	ISSUED SHARE CAPITAL RMB'000	SHARE PREMIUM ACCOUNT RMB'000	TREASURY SHARES RMB'000	TOTAL RMB'000
At 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	37	8,842,200	28	20,456	—	20,484
Vested awarded shares transferred to employees	37	5,469,735	—	—	28,237	28,237
Proposed final 2013 dividend		—	—	(109,387)	—	(109,387)
At 31 December 2013 and 1 January 2014		**1,159,444,361***	**4,718**	**259,665**	**(53,890)**	**210,493**
Difference between the proposed and paid dividend in respect of the previous year		**—**	**—**	**(1,336)**	**—**	**(1,336)**
Dividend in specie		**—**	**—**	**(50,966)**	**—**	**(50,966)**
Exercise of share options	37	**4,208,860**	**12**	**11,844**	**—**	**11,856**
Vested awarded shares transferred to employees	37	**4,789,967**	**—**	**—**	**15,089**	**15,089**
Shares repurchased for cancellation**		**(3,802,000)**	**—**	**—**	**(45,163)**	**(45,163)**
Proposed final 2014 dividend	13	**—**	**—**	**(119,438)**	**—**	**(119,438)**
At 31 December 2014		**1,164,641,188***	**4,730**	**99,769**	**(83,964)**	**20,535**

The subscription rights attaching to 2,608,860 share options (2013: 8,842,200) were exercised at the subscription price from US$0.0005 to US$0.4616 (2013: US$0.0005 to US$0.4616) per share (note 37), and subscription rights attaching to 1,600,000 share options (2013: Nil) were exercised at the subscription price from HK$2.89 to HK$3.28 per share (2013: Nil) (note 37), resulting in the issue of 4,208,860 shares (2013: 8,842,200) for a total cash consideration, before expenses, of RMB7,155,000 (2013: RMB10,344,000). An amount of RMB4,701,000 (2013: RMB10,140,000) was transferred from the share option reserve to share capital upon the exercise of the share options.

The awarded shares amounting to 4,789,967 shares (2013: 5,469,735) were vested and transferred to employees. An amount of RMB15,089,000 (2013: RMB28,237,000) was transferred from the employee share-based reserve to treasury shares upon the transfer of the shares.

* Excluding 20,201,305 (2013: 21,189,272) shares held by the Share Award Scheme Trust as at 31 December 2014

** The Company purchased 3,802,000 of its shares on the Hong Kong Stock Exchange in December 2014 for a total consideration of HK$57,218,000 (equivalent to RMB45,163,000)

36. SHARE CAPITAL (continued)

Share options

Details of the Company's share option schemes and the share options issued under these schemes are included in note 37 to the financial statements.

37. SHARE-BASED COMPENSATION COSTS

Share option schemes

(a) *The Company's 2004 and 2007 Pre-IPO Share Option Schemes*

The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme (collectively, the "Pre-IPO Share Option Schemes") in September 2004 ("2004 Scheme") and January 2007("2007 Scheme") respectively. The Pre-IPO Share Option Schemes 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 2014 and 2013.

The following share options were outstanding under the 2004 scheme and 2007 scheme during the years ended 31 December 2014 and 2013:

	COMPANY			
	2014 NUMBER OF SHARE OPTIONS	2014 WAEP US$ PER SHARE	2013 NUMBER OF SHARE OPTIONS	2013 WAEP US$ PER SHARE
2004 SCHEME				
Outstanding at 1 January	**645,300**	**0.0314**	2,943,000	0.0331
Exercised during the year	**(592,060)**	**0.0296**	(2,297,700)	0.0336
Outstanding at 31 December	**53,240**	**0.0506**	645,300	0.0314
Exercisable at 31 December	**53,240**	**0.0506**	645,300	0.0314
2007 SCHEME				
Outstanding at 1 January	**7,329,300**	**0.2457**	13,873,800	0.2438
Exercised during the year	**(2,016,800)**	**0.2582**	(6,544,500)	0.2416
Outstanding at 31 December	**5,312,500**	**0.2412**	7,329,300	0.2457
Exercisable at 31 December	**5,312,500**	**0.2412**	7,329,300	0.2457
Total outstanding at 31 December	**5,365,740**	**0.2392**	7,974,600	0.2288
Total exercisable at 31 December	**5,365,740**	**0.2392**	7,974,600	0.2288

The weighted average share price at the date of exercise for the options exercised during the year was HK$21.52 (2013: HK$11.66).

37. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(a) *The Company's 2004 and 2007 Pre-IPO Share Option Schemes (continued)*

The date of grant and exercise price of the share options under the 2004 Scheme and the 2007 Scheme outstanding as at 31 December 2014 and 2013 are as follows:

	NUMBER OF SHARE OPTIONS				
	AT 1 JANUARY 2014	EXERCISED DURING THE YEAR	AT 31 DECEMBER 2014	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
Name or category of participant					
OTHER EMPLOYEES					
In aggregate					
	500,500	(500,500)	—	1 JANUARY 2000*	0.0005
	60,300	(60,300)	—	1 AUGUST 2004	0.0353
	84,500	(31,260)	53,240	1 AUGUST 2005	0.2118
	7,125,300	(1,850,800)	5,274,500	1 FEBRUARY 2007**	0.2400
	10,000	—	10,000	8 MAY 2007**	0.2400
	194,000	(166,000)	28,000	1 AUGUST 2007**	0.4616
	7,974,600	(2,608,860)	5,365,740		

* 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 the others were granted under the 2004 Scheme.

The weighted average remaining contractual life for the Company's share options outstanding under the 2004 Scheme as at 31 December 2014 was 0.58 years (2013: 0.71 years), and the weighted average remaining contractual life for the Company's share options outstanding under the 2007 Scheme as at 31 December 2014 was 2.09 years (2013: 3.10 years).

37. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(a) *The Company's 2004 and 2007 Pre-IPO Share Option Schemes (continued)*

	NUMBER OF SHARE OPTIONS				
	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
Name or category of participant					
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
	13,213,800	(6,088,500)	7,125,300	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
	16,816,800	(8,842,200)	7,974,600		

* 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 the others were granted under the 2004 Scheme.

(b) *The Company's 2011 Share Option Scheme ("2011 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.

37. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(b) The Company's 2011 Share Option Scheme (continued)

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 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.

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 2014 and 2013:

	COMPANY			
	2014 NUMBER OF SHARE OPTIONS	**2014 WAEP HK$ PER SHARE**	**2013 NUMBER OF SHARE OPTIONS**	**2013 WAEP HK$ PER SHARE**
Outstanding at 1 January	**10,500,000**	**3.00**	10,500,000	3.00
Granted during the year	**—**	**—**	—	—
Exercised during the year	**(1,600,000)**	**3.04**		
Forfeited during the year	**—**	**—**	—	—
Outstanding at 31 December	**8,900,000**	**2.95**	10,500,000	3.00
Exercisable at 31 December	**4,100,000**	**2.95**	3,600,000	2.96

The weighted average share price at the date of exercise for the options exercised during the year was HK$24.78.

37. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(b) The Company's 2011 Share Option Scheme (continued)

The date of grant and exercise price of the share options under the 2011 Scheme outstanding as at 31 December 2014 are as follows:

	NUMBER OF SHARE OPTIONS				
	AT 1 JANUARY 2014	EXERCISED DURING THE YEAR	AT 31 DECEMBER 2014	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE
Name or category of participant					
EXECUTIVE DIRECTORS					
HongJiang Zhang	**7,500,000**	**(1,000,000)**	**6,500,000**	**20 DECEMBER 2011**	**2.89**
Yuk Keung Ng	**3,000,000**	**(600,000)**	**2,400,000**	**20 JULY 2012**	**3.28**
	10,500,000	**(1,600,000)**	**8,900,000**		

The weighted average remaining contractual life for the Company's share options outstanding under the 2011 Scheme as at 31 December 2014 was 7.12 years (2013: 8.08 years).

The date of grant and exercise price of the share options under the 2011 Scheme outstanding as at 31 December 2013 are as follows:

	NUMBER OF SHARE OPTIONS			
	AT 1 JANUARY 2013	AT 31 DECEMBER 2013	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE
Name or category of participant				
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		

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

37. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(b) *The Company's 2011 Share Option Scheme (continued)*

No new share option was granted during the years ended 31 December 2014 and 2013.

The total expense in respect of the Company's 2011 Share Option Scheme for the year ended 31 December 2014 was RMB1,770,000 (2013: RMB3,028,000).

At the end of the reporting period, the Company had 14,265,740 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 14,265,740 additional ordinary shares of the Company and additional share capital of RMB44,000 and share premium of RMB28,542,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 14,265,740 share options outstanding under the above three schemes, which represented approximately 1.20% of the Company's shares in issue as at that date.

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

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

The outstanding number of share options granted in Kingsoft Japan at 31 December 2014 is 1,000 (2013: 1,000). There is no movement of outstanding share options during the year ended 31 December 2014 and 2013.

The weighted average remaining contractual life for the share options outstanding under the Kingsoft Japan Option Scheme as at 31 December 2014 was 1.83 years (2013: 2.83 years). The exercise price is JPY10,000 per share.

(d) *2014 Kingsoft Japan Share Options*

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

During the year ended 31 December 2014, no option was granted.

(e) *Kingsoft Cloud Holdings Limited ("Kingsoft Cloud") Share Option Scheme*

On 27 February 2013 (the "KC Share Option Adoption Date"), the shareholders of the Company and Kingsoft Cloud approved and adopted the KC Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud and its subsidiaries are entitled to participate. On 27 June 2013, the shareholders of the Company and Kingsoft Cloud approved to amend certain existing provisions of the KC Share Option Scheme. Pursuant to the amendment, the total number of additional options to be granted under the 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 and exercise period of share options are determinable by the board of Kingsoft Cloud.

37. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(e) *Kingsoft Cloud Holdings Limited ("Kingsoft Cloud") Share Option Scheme (continued)*

The following share options were outstanding under the KC Share Option Scheme during the years ended 31 December 2014 and 2013.

	2014 NUMBER OF SHARE OPTIONS	2014 WAEP US$ PER SHARE	2013 NUMBER OF SHARE OPTIONS	2013 WAEP US$ PER SHARE
Outstanding at 1 January	**46,300,000**	**0.04**	21,900,000	0.02
Granted during the year	**53,400,000**	**0.04**	52,900,000	0.04
Forfeited during the year	**(24,450,000)**	**0.04**	(28,500,000)	0.02
Outstanding at 31 December	**75,250,000**	**0.04**	46,300,000	0.04
Exercisable at 31 December	**—**	**—**	—	—

The fair value of the share options of Kingsoft Cloud granted during the year ended 31 December 2014 was estimated by an external valuer on 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:

	2014	2013
Dividend yield (%)	**—**	—
Expected volatility (%)	**56.00%**	55.30%
Risk-free interest rate (%)	**2.145%**	3.565%
Expected forfeiture rate (%)	**—**	1.57%
Weighted average share price (HK$ per share)	**0.3839**	0.2772

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.

The total expense in respect of the share options granted under the KC Share Option Scheme for the year ended 31 December 2014 was RMB1,986,000 (2013: RMB1,272,000).

75,250,000 share options of Kingsoft Cloud were outstanding as at 31 December 2014 with the weighted average remaining contractual life of 9.14 years (2013: 9.37), among which, nil is exercisable.

37. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(f) *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 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 maximum number of ordinary shares under the 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). 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 and exercise period of share options are determinable by the board of JC Holdings.

The JC Share Option Scheme was cancelled in September 2014. The total expense in respect of the share options granted under the JC Share Option Scheme for the year ended 31 December 2014 was RMB375,000 (2013: RMB450,000).

(g) *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 ordinary shares under the 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 and exercise period of share options are determinable by the board of Westhouse Holdings.

The following share options were outstanding under the WH Share Option Scheme during the years ended 31 December 2014 and 2013.

	2014 NUMBER OF SHARE OPTIONS	2014 WAEP HK$ PER SHARE	2013 NUMBER OF SHARE OPTIONS	2013 WAEP HK$ PER SHARE
Outstanding at 1 January	**6,625,000**	**1.00**	—	—
Granted during the year	**710,000**	**1.00**	6,713,000	1.00
Forfeited during the year	**(80,000)**	**1.00**	(88,000)	1.00
Outstanding at 31 December	**7,255,000**	**1.00**	6,625,000	1.00
Exercisable at 31 December	**—**	**—**	—	—

37. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

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

The fair value of the share options of Westhouse Holdings granted during the year ended 31 December 2014 was estimated by an external valuer on the grant date, 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:

	2014	2013
Dividend yield (%)	**—**	—
Expected volatility (%)	**50.90%**	50,90%
Risk-free interest rate (%)	**0.30%**	0.30%
Expected forfeiture rate (%)	**8.50%**	8.50%
Weighted average share price (US$ per share)	**0.29**	0.29

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.

The total expense in respect of the share options granted under the WH Share Option Scheme for the year ended 31 December 2014 was RMB965,000 (2013: RMB965,000).

7,225,000 share options of Westhouse Holdings were outstanding as at 31 December 2014 with the weighted average remaining contractual life of 8.63 years(2013: 9.55 years), among which, nil is exercisable.

(h) *Cheetah Mobile Share Option Scheme*

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

37. SHARE-BASED COMPENSATION COSTS (continued)

Share option schemes (continued)

(h) Cheetah Mobile Share Option Scheme (continued)

The following share options were outstanding under the Cheetah Mobile Share Option Scheme during the year ended 31 December 2014.

	2014 NUMBER OF SHARES OPTION	2014 WAEP US$ PER SHARE
Outstanding at 1 January	**—**	
Granted during the year	**56,176,131**	0.34
Forfeited during the year	**(883,000)**	0.34
Exercised during the year	**(1,000)**	0.34
Outstanding at 31 December	**55,292,131**	0.34
Exercisable at 31 December	**839,000**	0.34

The fair value of the share options of the Cheetah Mobile Share Option Scheme granted during the year ended 31 December 2014 was estimated by an external valuer on the grant date, 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:

	2014
Dividend yield (%)	**—**
Expected volatility (%)	**64.5%–66.2%**
Risk-free interest rate (%)	**2.65%–3.22%**
Expected forfeiture rate (%)	**0.70%**
Weighted average share price (US$ per share)	**0.9–2.13**

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.

The total expense in respect of the share options granted under the Cheetah Mobile Share Option Scheme for the year ended 31 December 2014 was RMB126,400,000.

55,292,131 share options of Cheetah Mobile were outstanding as at 31 December 2014 with the weighted average remaining contractual life of 9.50 years, among which, 839,000 options are exercisable.

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes

(a) Share Award Scheme adopted by the Company

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 Award Scheme from 30 March 2013 to 30 March 2017. The directors will not grant any awarded shares which would result in the total number of shares (but not counting those 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 following awarded shares were outstanding under the Share Award Scheme during the years ended 31 December 2014 and 2013.

	2014 NUMBER OF AWARDED SHARES	**2013 NUMBER OF AWARDED SHARES**
Outstanding as at 1 January	**13,102,935**	17,644,670
Granted during the year	**4,168,000**	1,230,000
Forfeited during the year	**(883,900)**	(302,000)
Vested and transferred during the year	**(4,789,967)**	(5,469,735)
Outstanding as at 31 December	**11,597,068**	13,102,935
Exercisable as at 31 December	**31,000**	211,000

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 2014 was RMB19.45 each (2013: RMB4.26 each).

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 2014, the Share Award Scheme Trust did not acquire shares (2013: Nil) of the Company through purchases on the open market.

The total expense recognised in respect of the awarded shares for the year ended 31 December 2014 was RMB24,316,000 (2013: RMB17,570,000).

As at 31 December 2014, 6,338,237 (2013: 8,086,337) 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 11,597,068 awarded shares outstanding under the Share Award Scheme, which represented approximately 0.98% of the Company's shares in issue as at that date.

The weighted average remaining contractual life for the Company's awarded shares outstanding under the Company's Share Award Scheme as at 31 December 2014 was 8.06 years (2013: 8.24 years).

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Scheme

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

The awarded shares under the Share Award Scheme outstanding as at 31 December 2014 are as follows:

	NUMBER OF AWARDED SHARES					
	AT 1 JANUARY 2014	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	EXERCISED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2014	GRANT DATE
Name or category of participant						
EXECUTIVE DIRECTORS						
HongJiang Zhang	5,200,000	—	—	(2,600,000)	2,600,000	29 NOVEMBER 2011
Yuk Keung Ng	200,000	—	—	—	200,000	29 NOVEMBER 2013
Tao Zou	400,000	—	—	(100,000)	300,000	1 JUNE 2012
	5,800,000	—	—	(2,700,000)	3,100,000	
OTHER EMPLOYEES						
In aggregate						
	31,000	—	—	—	31,000	26 JUNE 2008
	2	—	—	—	2	26 MAY 2010
	50,000	—	—	(50,000)	—	12 JANUARY 2011
	925,000	—	(15,000)	(462,500)	447,500	8 JUNE 2011
	442,933	—	(218,400)	(89,467)	135,066	4 APRIL 2012
	4,310,000	—	(468,000)	(968,000)	2,874,000	1 JUNE 2012
	64,000	—	—	(24,000)	40,000	19 JUNE 2012
	200,000	—	—	(50,000)	150,000	3 DECEMBER 2012
	480,000	—	—	(120,000)	360,000	17 DECEMBER 2012
	50,000	—	—	(50,000)	—	15 JANUARY 2013
	270,000	—	(10,000)	(60,000)	200,000	20 MARCH 2013
	250,000	—	—	(130,000)	120,000	1 JUNE 2013
	50,000	—	—	(10,000)	40,000	26 AUGUST 2013
	50,000	—	—	(10,000)	40,000	9 SEPTEMBER 2013
	130,000	—	—	(66,000)	64,000	13 NOVEMBER 2013
	—	325,000	(32,500)	—	292,500	19 MARCH 2014
	—	90,000	—	—	90,000	29 MAY 2014
	—	3,593,000	(140,000)	—	3,453,000	6 JULY 2014
	—	160,000	—	—	160,000	2 DECEMBER 2014
	7,302,935	4,168,000	(883,900)	(2,089,967)	8,497,068	
	13,102,935	4,168,000	(883,900)	(4,789,967)	11,597,068	

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Scheme (continued)

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

The awarded shares under the Share Award Scheme outstanding as at 31 December 2013 are as follows:

	NUMBER OF AWARDED SHARES					
	AT 1 JANUARY 2013	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	EXERCISED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2013	GRANT DATE
Name or category of participant						
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	20 March 2013
	—	250,000	—	—	250,000	1 June 2013
	—	50,000	—	—	50,000	26 August 2013
	—	50,000	—	—	50,000	9 September 2013
	—	130,000	—	—	130,000	13 November 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	

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Scheme (continued)

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

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

The following awarded shares were outstanding under the Cheetah Mobile Share Award Scheme during the years ended 31 December 2014 and 2013.

	2014 NUMBER OF AWARDED SHARES	2013 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**87,772,500**	74,927,500
Granted during the year	**13,244,380**	14,945,000
Vested and transferred during the year	**(56,330,627)**	—
Forfeited during the year	**(6,287,500)**	(2,100,000)
Outstanding as at 31 December	**38,398,753**	87,772,500
Exercisable as at 31 December	**—**	—

Before the listing of Cheetah Mobile, the fair value of the Cheetah Mobile awarded shares was determined by reference to the fair value of Cheetah Mobile's ordinary shares at the grant date, which was valued by an external valuer using a discounted cash flow method.

After the listing of Cheetah Mobile, the fair value of the Cheetah Mobile awarded shares was determined based on the market value of the shares of Cheetah Mobile at the grant date. The weighted average fair value of the Cheetah Mobile awarded shares granted during the year ended 31 December 2014 was US$1.27 (2013: US$0.40) each.

The fair value of the Cheetah Mobile awarded shares granted under the Cheetah Mobile 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 expense recognised in respect of the Cheetah Mobile awarded shares for the year ended 31 December 2014 was RMB42,467,000 (2013: RMB33,908,000).

At 31 December 2014, 1,258,747 (2013: 12,227,500) forfeited or unawarded shares were held by the Cheetah Mobile Share Award Scheme Trust, which represented approximately 0% of the Company's shares in issue as at that date.

The weighted average remaining contractual life for the awarded shares outstanding under the Cheetah Mobile Scheme as at 31 December 2014 was 7.86 years (2013: 8.24 years).

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Scheme (continued)

(c) Share Award Scheme adopted by KOS Holdings

On 3 December 2012, the directors of the Company and KOS Holdings approved and adopted the share award scheme, in which selected employees of KOS Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of KOS Holdings, the KOS Share Award Scheme shall be valid and effective for a term of ten years from 3 December 2012. On 27 November 2014, the shareholders of the Company and KOS Holdings approved to amend certain existing provisions of the KOS Share Award Scheme. Pursuant to the amendment, the board of KOS Holdings shall not grant any award share which would result in the total number of shares which are the subject of awards granted by the board under the KOS Share Award Scheme (but not counting any share which have lapsed or have been revoked or forfeited) being greater than 54,000,000 shares, as at the date of such grant.

The following awarded shares were outstanding under the KOS Share Award Scheme during the years ended 31 December 2014 and 2013.

	2014 NUMBER OF AWARDED SHARES	2013 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**29,050,000**	30,000,000
Granted during the year	**14,750,000**	300,000
Forfeited during the year	**(600,000)**	(1,250,000)
Outstanding as at 31 December	**43,200,000**	29,050,000
Exercisable as at 31 December	**—**	—

The fair value of awarded shares was determined by reference to the fair value of KOS Holdings' ordinary shares at their respective grant date, which was valued based on retrospective valuation with the assistance of an independent third party valuer using a discounted cash flow method.

The weighted average fair value of the KOS awarded shares granted during the year ended 31 December 2014 was RMB0.6000 (2013: RMB0.2837).

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.

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Scheme (continued)

(c) *Share Award Scheme adopted by KOS Holdings (continued)*

The total expense recognised in respect of the KOS awarded shares for the year ended 31 December 2014 was RMB1,180,000 (2013: RMB69,000).

At 31 December 2014, 10,800,000 (2013: 20,950,000) forfeited or unawarded shares were held by the KOS Share Award Scheme Trust, which represented approximately 1% of the Company's shares in issue as at that date.

The weighted average remaining contractual life for the awarded shares outstanding under the KOS Scheme as at 31 December 2014 was 8.62 years (2013: 8.99 years).

(d) *Share Award Scheme adopted by Kingsoft Cloud*

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

The following awarded shares were outstanding under the KC Share Award Scheme during the years ended 31 December 2014 and 2013.

	2014 NUMBER OF AWARDED SHARES	2013 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**25,000,000**	25,000,000
Granted during the year	**—**	—
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 Kingsoft Cloud awarded shares for the year ended 31 December 2014 was RMB1,838,000.(2013: RMB1,768,000)

At 31 December 2014, 23,000,000 (2013: 23,000,000) forfeited or unawarded shares were held by the KC Share Award Scheme Trust, which represented approximately 2% of the Company's shares in issue as at that date.

The weighted average remaining contractual life for the awarded shares outstanding under the KC Share Award Scheme as at 31 December 2014 was 7.98 years (2013: 8.98 years).

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Scheme (continued)

(e) *Share Award Scheme adopted by JC Holdings*

On 11 April 2013, the directors of the Company and 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 from 11 April 2013. The directors of JC Holdings will not grant any awarded shares which would result in the total number of shares (but not counting those which have lapsed or have been forfeited) being greater than 500,000 shares, as at the date of such grant.

The JC Share Award Scheme was cancelled in September 2014, the unrealised future share-based compensation is expensed during the period, and recognised costs of RMB625,000 during the year 2014 (2013: RMB607,000).

(f) *2014 Cheetah Mobile Share Award Scheme*

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

During the year ended December 31, 2014, no award share was granted.

38. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	COMPANY	
	2014	**2013**
	RMB'000	**RMB'000**
Unlisted shares, at cost	**159,451**	188,936
Cheetah Mobile, shares listed in US, at cost	**94,086**	—
Capital contribution in respect of employee share-based compensation	**228,810**	205,582
	482,347	394,518
Market value of listed shares	**6,178,872**	—

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB1,174,391,000 (2013: RMB658,691,000) and RMB286,958,000 (2013: RMB151,608,000), respectively, are unsecured, interest-free and are repayable on demand.

38. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

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 2014	PRINCIPAL ACTIVITIES
Kingsoft Entertainment Software Holdings Limited ("KES Holdings")(iv)		Cayman Islands	US$1	**100**	Investment holding
Kingsoft Application Software Holdings Limited ("KAS Holdings")(iv)		Cayman Islands	HK$1	**100**	Investment holding
Cheetah Mobile(v)		Cayman Islands	US$228,721	**49.26**	Investment holding
KOS Holdings(iv)		Cayman Islands	US$2,522,000	**68.99**	Investment holding
KCS Holdings(iv)		Cayman Islands	US$947,500	**63.83**	Investment holding
Westhouse Holdings Limited ("Westhouse Holdings")(iv)		Cayman Islands	US$3,200,000	**76.21**	Investment holding
JC Holdings(iv)		Cayman Islands	US$157,500	**76.21**	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(iii)(v)		Hong Kong	HK$1	**49.26**	Investment holding and operations of online marketing
Kingsoft Office Software Corporation Limited(iii)		Hong Kong	HK$15,000,000	**68.99**	Investment holding
Westhouse Corporation Limited(iii)		Hong Kong	HK$18,600,000	**76.21**	Investment holding and provision of game service
Kingsoft Jingcai Online Game Corporation Limited(iii)		Hong Kong	HK$850,000	**76.21**	Investment holding
Kingsoft Cloud Corporation Limited(iii)		Hong Kong	HK$2,000,000	**63.83**	Investment holding
Kingsoft (M) SDN.BHD ("Kingsoft Malaysia")(iv)		Malaysia	MYR1,000,000	**100**	Development and distribution of games
Kingsoft Japan(iv)(v)		Japan	JPY447,875,000	**44.83**	Development and sale of the security software and office application software
Beijing Kingsoft Software Co., Ltd.(i)(iv)		Mainland China	RMB10,000,000	**100**	Marketing and distribution of application software
Beijing Kingsoft Network Technology Co., Ltd. (i)(iii)(iv)(v)	(g)	Mainland China	RMB10,000,000	**49.26**	Provision of internet value-added service

38. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

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 2014	PRINCIPAL ACTIVITIES
Beijing Kingsoft Cloud Technology Co., Ltd. ("Beijing Cloud Technology") (i)(ii)(iii)(iv)	(h)	Mainland China	RMB5,000,000	**63.83**	Investment holding, research, development and distribution of application software
Beijing Antutu Technology Co.,Ltd (i)(iii)(iv)(v)	(i)	Mainland China	RMB3,000,000	**49.26**	Provision of internet security service
Guangzhou Kingsoft Network Technology Co.,Ltd(i)(iii)(iv)(v)	(j)	Mainland China	RMB10,000,000	**49.26**	Provision of internet security service
Beijing Digital Entertainment(i)(iv)	(a)	Mainland China	RMB10,000,000	**100**	Marketing and operation of SMS and wireless service of online games and application software
Beijing Kingsoft Internet Security Software Co., Ltd. ("Beijing Security Software")(i)(iii)(iv)(v)		Mainland China	RMB8,000,000	**49.26**	Sale and operation of internet security software
Beijing Kingsoft Office Software Co., Ltd. ("Beijing Kingsoft Office")(i)(ii)(iii)(iv)		Mainland China	RMB10,000,000	**68.99**	Sale and operation of office application software
Beike Internet (Beijing) Security Technology Co., Ltd. ("Beike Internet")(i)(iii)(iv)(v)	(e)	Mainland China	RMB10,000,000	**49.26**	Provision of internet security service
Jingcai Online Technology (Dalian) Co., Ltd.(i)(iii)(iv)		Mainland China	RMB1,000,000	**76.21**	Research and development of games
Chengdu Kingsoft Interactive Entertainment Co., Ltd. ("Chengdu Interactive Entertainment")(i)(ii)(iv)		Mainland China	RMB100,000,000	**100**	Research and development of games
Chengdu Kingsoft Digital Entertainment Co., Ltd. ("Chengdu Digital Entertainment")(i)(iv)	(b)	Mainland China	RMB10,000,000	**100**	Marketing and operation of entertainment software products
Beijing Conew Technology Development Co., Ltd. ("Conew Technology") (i)(iii)(iv)(v)	(d)	Mainland China	RMB300,000	**49.26**	Dormant

38. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

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 2014	PRINCIPAL ACTIVITIES
Chengdu Westhouse Interactive Entertainment Co., Ltd. ("Chengdu Westhouse")(i)(iii)(iv)		Mainland China	RMB15,000,000	**76.21**	Research and development of games
Zhuhai Kingsoft Software Co., Ltd. ("Zhuhai Software")(i)(iv)		Mainland China	RMB215,500,000	**100**	Research, development and distribution of consumer application software
Zhuhai Kingsoft Online Game Technology Co., Ltd. ("Zhuhai Online Game")(i)(iii)(iv)	(f)	Mainland China	RMB10,000,000	**76.21**	Research and development of online games
Zhuhai Kingsoft Office Software Co., Ltd. ("Zhuhai Kingsoft Office")(i)(iii)(iv)	(c)	Mainland China	RMB68,000,000	**68.99**	Sale and operation of office application software

(i) 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.

(ii) Company registered as a wholly-foreign-owned enterprise under PRC law

(iii) This company is a subsidiary of a non-wholly-owned subsidiary of the Company.

(iv) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(v) These companies are accounted for as subsidiaries of the Group by virtue of the Company's control over it even though the Group has equity interests in these companies less than 50%.

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.

38. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (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 dividends if Kingsoft Qijian declares dividends. 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 entrusts its shareholder rights in Chengdu Digital Entertainment to Chengdu Interactive 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 Office 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 dividends. 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.

38. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

(c) (continued)

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 dividends. Subsequently, there were other transfers of equity interests in Zhuhai Qiwen among the New Equity Holders, revised loan agreements, equity pledge agreements, exclusive option agreements, shareholders voting entrustment agreement with same terms as above agreements were entered. 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 Office, are accounted for as subsidiaries by virtue of the Group's control over it.

(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 Network. 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 dividends. 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 dividends. 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) 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 dividends. 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.

38. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

(g) 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 a 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 dividends. 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.

(h) 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 dividends. 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 the 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 the above structure contracts entered into in May 2012 were terminated, and a new set of structure contracts with same terms 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. Subsequently, there were other transfers of equity interests in Zhuhai Cloud Technology among the Zhuhai Cloud Technology's equity holders, revised loan agreements, equity pledge agreements, exclusive option agreements, shareholders voting entrustment agreement with same terms as above agreements were entered. 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.

(i) In June 2013, the two individual equity holders (the "Beijing Antutu's equity holders") of Beijing Antutu Technology Co., Ltd. ("Beijing Antutu") entered into loan agreements with Beijing Kingsoft Internet Security Software Co., Ltd. ("Beijing Internet Security"), pursuant to which Beijing Internet Security 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 persons 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.

38. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

(j) 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 Security 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 and Beijing Internet Security is entitled to receive dividends if Guangzhou Kingsoft declares dividends. 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 interests held by non-controlling interests:

	2014 %	**2013 %**
Cheetah Mobile	**50.74**	41.11
KOS Holdings	**27.68**	27.68
Westhouse Holdings	**23.79**	20.00

Profit for the year allocated to non-controlling interests:

	2014 RMB'000	**2013 RMB'000**
Cheetah Mobile	**28,389**	27,502
KOS Holdings	**5,366**	29,008
Westhouse Holdings	**17,143**	36,770

Accumulated balances of non-controlling interests at the reporting dates:

	2014 RMB'000	**2013 RMB'000**
Cheetah Mobile	**1,228,359**	230,578
KOS Holdings	**153,318**	154,984
Westhouse Holdings	**75,375**	48,672

38. 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:

2014

	CHEETAH MOBILE RMB'000	KOS HOLDINGS RMB'000	WESTHOUSE HOLDINGS RMB'000
Revenue	**1,678,206**	**294,804**	**564,314**
Total expenses	**(1,589,709)**	**(275,617)**	**(456,502)**
Profit for the year	**88,497**	**19,187**	**107,812**
Total comprehensive income for the year	**89,373**	**20,396**	**107,034**
Current assets	**2,090,882**	**675,042**	**669,892**
Non-current assets	**908,947**	**59,697**	**114,752**
Current liabilities	**(613,531)**	**165,951**	**458,862**
Non-current liabilities	**(39,485)**	**15,114**	**7,431**
Net cash flows from operating activities	**400,914**	**31,840**	**208,797**
Net cash flows used in investing activities	**(1,212,252)**	**(31,784)**	**(127,919)**
Net cash flows from/(used in) financing activities	**1,374,087**	**—**	**(116,618)**
Net increase in cash and cash equivalents	**562,749**	**56**	**(35,740)**

2013

	CHEETAH MOBILE RMB'000	KOS HOLDINGS RMB'000	WESTHOUSE HOLDINGS RMB'000
Revenue	698,733	258,527	456,410
Total expenses	(613,540)	(137,875)	(243,942)
Profit for the year	85,193	120,652	212,468
Total comprehensive income for the year	102,940	120,851	211,738
Current assets	759,217	538,116	649,130
Non-current assets	146,610	89,702	44,485
Current liabilities	306,281	50,939	380,335
Non-current liabilities	9,817	16,936	9,842
Net cash flows from operating activities	198,101	102,858	230,201
Net cash flows (used in)/from investing activities	(100,787)	58,382	16,968
Net cash flows from/(used in) financing activities	304,272	283,447	(88,752)
Net increase in cash and cash equivalents	401,586	444,687	158,417

39. 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 82.

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 statement of 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 reserves are 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 "other capital reserve" in the consolidated statement of financial position.

During the year ended 31 December 2014, the Group's major equity transactions are as follows:

On 8 May 2014, Cheetah Mobile completed its spin-off and initial public offering ("IPO") of 12,000,000 American depositary shares ("ADSs") on the New York Stock Exchange, with an over-allotment of 1,800,000 additional ADSs to the underwriters. Each ADS represents ten Cheetah Mobile's Class A ordinary shares with par value of US$0.0000025 per share. The total IPO proceeds were RMB1,146,807,000. Cheetah Mobile also issued Class A ordinary shares of 7,142,857 shares, 14,285,714 shares and 14,285,714 shares to the Company, Xiaomi Ventures and Baidu Holdings Limited ("Baidu"), respectively, in accordance with the private placement agreements. The total proceeds from the private placement were RMB307,785,000. Upon the closing of the offerings and placements, the equity interest of Cheetah Mobile held by the Company decreased from 60.19% to 52.55%, and the aggregate voting rights of the Company over Cheetah Mobile decreased from 60.19% to 59.32%. The difference between the amount of the change in non-controlling interests and the fair value of the IPO and placement proceeds of RMB631,302,000 was recorded in the consolidated capital reserve.

39. RESERVES (continued)

(b) Company

	NOTES	SHARE PREMIUM ACCOUNT RMB'000	TREASURY SHARES RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED EARNINGS RMB'000	PROPOSED FINAL DIVIDENDS RMB'000	TOTAL RMB'000
AT 1 JANUARY 2013		347,965	(82,127)	142,524	(125,505)	241,895	102,132	626,884
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)	—	—	—	—
Approved and paid final dividend in respect of the previous year		—	—	—	—	—	(102,132)	(102,132)
Proposed final 2013 dividend	13	(109,387)	—	—	—	—	109,387	—
AT 31 DECEMBER 2013 AND 1 JANUARY 2014		**259,665**	**(53,890)**	**127,668**	**(149,381)**	**328,902**	**109,387**	**622,351**
Total comprehensive income for the year		**—**	**—**	**—**	**4,230**	**120,258**	**—**	**124,488**
Difference between the proposed and paid dividend in respect of the previous year		**(1,336)**	**—**	**—**	**—**	**—**	**—**	**(1,336)**
Exercise of share options		**11,844**	**—**	**(4,701)**	**—**	**—**	**—**	**7,143**
Share-based compensation costs		**—**	**—**	**29,346**	**—**	**—**	**—**	**29,346**
Vested awarded shares transferred to employees		**—**	**15,089**	**(15,089)**	**—**	**—**	**—**	**—**
Repurchase and cancellation of shares		**—**	**(45,163)**	**—**	**—**	**—**	**—**	**(45,163)**
Dividend in specie		**(50,966)**	**—**	**—**	**—**	**—**	**—**	**(50,966)**
Approved and paid final dividend in respect of the previous year		**—**	**—**	**—**	**—**	**—**	**(109,387)**	**(109,387)**
Proposed final 2014 dividend	13	**(119,438)**	**—**	**—**	**—**	**—**	**119,438**	**—**
At 31 December 2014		**99,769**	**(83,964)**	**137,224**	**(145,151)**	**449,160**	**119,438**	**576,476**

The Company operates three share option schemes and a share award scheme as part of the benefits to its employees. The share-based compensation 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 treasury shares when the related awarded shares are vested and transferred.

40. BUSINESS COMBINATIONS

Jiangduoduo Business

On 13 March 2014, the Group, through a subsidiary, Suzhou Jiangduoduo Technology Co. Ltd., signed a purchase agreement with a third party, Suzhou Leying Technology Co. Ltd., to acquire its lottery business ("Jiangduoduo Business") for a contract amount of RMB54,000,000, of which RMB49,700,000 was the initial purchase consideration and RMB4,000,000 was the employee's compensation for future services and RMB300,000 was the employee compensation-non-compete agreement. Among the initial purchase consideration, RMB27,000,000 was contingent based on the performance of the Jiangduoduo Business. The contingent consideration was valued as RMB3,963,000 by American Appraisal, a third party valuer using the discounted cash flow model. The acquisition was accounted for as a business combination and the acquisition date was 1 April 2014. As of 31 December 2014, the fair value of the contingent consideration liability was recognized as RMB12,305,000. A loss of RMB8,342,000 resulted from the change in fair value of the contingent consideration liability was recognized in the consolidated statement of profit or loss for the year ended 31 December 2014.

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

	FAIR VALUE RECOGNIZED ON ACQUISITION RMB'000
Intangible assets:	
Software	1,700
User base	400
Property, plant and equipment	817
Total identified net assets at fair value	2,917
Goodwill arising on acquisition	23,746
	26,663
Satisfied by cash	22,700
Satisfied by contingent consideration payable	3,963
Total consideration	26,663

The Group incurred transaction costs of RMB173,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

As part of the purchase agreement, contingent consideration is payable dependent on the performance of the Jiangduoduo Business. There will be two batches of cash payments to the original owner of the Jiangduoduo Business as below.

a) The first contingent consideration is RMB13.5 million, if the revenue and net profit for the period from 1 April 2014 to 1 April 2015 under US generally accepted accounting principles of the Jiangduoduo Business reaches RMB100 million and RMB30 million, respectively;

b) The second contingent consideration is RMB13.5 million, if the net profit for the period from 1 April 2015 to 1 April 2016 under US generally accepted accounting principles of the Jiangduoduo Business reachs RMB62 million.

40. BUSINESS COMBINATIONS (continued)

Jiangduoduo Business (continued)

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

Cash consideration = 13,500,000 * (actual performance/agreed performance)

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

	ASSUMED COMPLETION OF AGREED PERFORMANCE	ASSUMED PROBABILITY	DISCOUNT RATE
First contingent consideration	26%	85%	11%
Second contingent consideration	7%	85%	11%

The initial amount recognized was RMB3,963,000 which was determined using the discounted cash flow model and is under Level 3 fair value measurement.

A significant increase (decrease) in the profit before tax of the Jiangduoduo Business would result in a significant increase (decrease) in the fair value of the contingent consideration liability. A significant increase (decrease) in the discount rate would result in a significant decrease (increase) in the fair value of the contingent consideration liability.

	RMB'000
An analysis of the cash flows in respect of the acquisition of the Jiangduoduo Business is as follows:	
Cash consideration	(22,700)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(22,700)
Transaction costs of the acquisition included in cash flows from operating activities	(173)
	(22,873)

Since the acquisition, the Jiangduoduo Business contributed RMB64,303,000 to the Group's turnover and RMB15,205,000 loss to the consolidated profit for the year ended 31 December 2014.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB3,350,857,000 and RMB866,199,000, respectively.

40. BUSINESS COMBINATIONS (continued)

HK Zoom

On 11 June 2014, the Group, through two subsidiaries, entered into a share and asset purchase agreement to acquire a 100% equity interest of Hong Kong Zoom Interactive Network Marketing Technology Limited ("HK Zoom"), certain assets and some key employees for a total consideration payable up to US$26 million (equivalent to RMB160 million). The total consideration consists of (i) cash of US$20 million (equivalent to RMB123 million); and (ii) up to US$6 million (equivalent to RMB37 million) to be paid over a two-year period in cash contingent upon the fulfillment of certain performance-based milestones by HK Zoom. HK Zoom is a leading mobile advertising agency, providing unique digital advertising experience for mobile campaign planning, management and performance evaluation for global clients.

In addition, US$4 million (equivalent to RMB24,656,000) representing 2,431,775 shares at US$1.64 per share in Cheetah Mobile's restricted class A ordinary shares will be granted to the selling shareholders; however, the grant notice has not been issued as of 31 December 2014, which is subject to a four-year vesting schedule.

The acquisition of HK Zoom was accounted for as a business combination and the acquisition date was 4 July 2014.

As of 31 December 2014, the fair value of the contingent consideration liability was recognized as US$5,298,000 (equivalent to RMB32,416,000). A loss of RMB3,652,000 resulted from the change in fair value of the contingent consideration liability was recognized in the consolidated statement of profit or loss for the year ended 31 December 2014.

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

	FAIR VALUE RECOGNIZED ON ACQUISITION RMB'000
Cash and cash equivalents	13,768
Account receivables	11,170
Other working capital*	(16,749)
Property, plant and equipment	132
Intangible assets:	
Software	36,000
User base	31,100
Deferred tax liabilities	(11,072)
Total identified net assets at fair value	64,349
Goodwill arising on acquisition	87,925
	152,274
Satisfied by cash	123,284
Satisfied by contingent consideration payable	28,990
Total consideration	152,274

* Other working capital represented other assets and liabilities.

The fair value of the account receivables as at the date of acquisition amounted to RMB11,170,000. The gross contractual amount of account receivables was RMB11,170,000.

40. BUSINESS COMBINATIONS (continued)

HK Zoom (continued)

The Group incurred transaction costs of RMB846,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

As part of the total consideration, contingent consideration of US$6 million is payable depended on the performance of HK Zoom. There will be two batches of cash payments to the original shareholders of HK Zoom as below:

a) The fist contingent consideration is US$3 million, if the revenue for the period from July 2014 to June 2015 of HK Zoom reaches US$10 million;

b) The second contingent consideration is US$3 million, if the revenue from July 2015 to June 2016 of HK Zoom reaches US$20 million.

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

Current consideration = original consideration * (actual performance/performance target)

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

	ASSUMED COMPLETION OF AGREED PERFORMANCE	ASSUMED PROBABILITY	DISCOUNT RATE
First contingent consideration	100%	90%	12.7%
Second contingent consideration	90%	90%	12.7%

The initial amount recognized was RMB28,990,000 which was determined using the discounted cash flow model and is under Level 3 fair value measurement.

A significant increase (decrease) in the profit before tax of the HK Zoom Business would result in a significant increase (decrease) in the fair value of the contingent consideration liability. A significant increase (decrease) in the discount rate would result in a significant decrease (increase) in the fair value of the contingent consideration liability.

	RMB'000
An analysis of the cash flows in respect of the acquisition of HK Zoom is as follows:	
Cash consideration	(123,284)
Cash and bank balances acquired	13,768
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(109,516)
Transaction costs of the acquisition included in cash flows from operating activities	(846)
	(110,362)

Since the acquisition, HK Zoom contributed RMB33,347,000 to the Group's turnover and RMB6,956,000 to the consolidated profit for the year.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB3,359,626,000 and RMB872,647,000, respectively.

40. BUSINESS COMBINATIONS (continued)

Youloft

On 13 June 2014, the Group, through a subsidiary, acquired 51.875% equity interests of Hong Kong Youloft Technology Limited ("Youloft") from Fast Run International Limited ("Fast Run") and Lin Xianwen (the "Founder") at the total consideration of US$16.6 million (equivalent to RMB102.4 million) in cash, among which US$12.6 million (equivalent to RMB77.7 million) was payable to selling shareholder and US$4.0 million (equivalent to RMB24.7 million) was payable to Youloft. Youloft has legally owned and operated the business of asset of "萬年歷".

The key employee and the Founder should provide service for 4 years and 2 years, respectively. In case of violation of the employment agreement, the shares held by the key employee will be repurchased by the Group at a total consideration of US$1.00 and the shares held by the Founder will be repurchased at a total consideration calculated proportionate to US$21 million valuation of Youloft. The post-acquisition employment compensation to the key employees and the Founder of RMB6.67 million and RMB8.07 million, respectively, shall be recognized over the respective contractual periods of 4 years and 2 years.

The acquisition was accounted for as a business combination and the acquisition date was 1 August 2014.

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Other receivables	24,672
Intangible assets:	
Software	15,420
User base	27,756
Deferred tax liabilities	(7,124)
Total identified net assets at fair value	60,724
Goodwill arising on acquisition	98,481
Non-controlling interest	(71,550)
	87,655
Satisfied by cash	62,983
Satisfied by other payables	24,672
Total consideration	87,655

The fair value of the other receivables as at the date of acquisition amounted to RMB24,672,000. The gross contractual amount of account receivables was RMB24,672,000.

The non-controlling interest in the acquisition is measured at fair value using the discounted cash flow method. The significant inputs used to measure that value are long term growth rate for cash flow, long term operating margin and weighted average cost of capital.

40. BUSINESS COMBINATIONS (continued)

Youloft (continued)

The transaction costs is nil for this acquisition.

	RMB'000
An analysis of the cash flows in respect of the acquisition of Youloft is as follows:	
Cash consideration	(62,983)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(62,983)
	(62,983)

Since the acquisition, Youloft contributed RMB4,924,000 to the Group's turnover and RMB964,000 to the consolidated profit for the year.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB3,350,133,000 and RMB866,567,000, respectively.

WowTech

On 18 July 2014, the Group, through a subsidiary, Kingsoft Japan Inc. ("Kingsoft Japan") signed a purchase agreement with the original shareholders of WowTech Inc. ("WowTech"), a company engaged in social networking service on mobile internet and VoIP service, to acquire 95.5% equity interest of WowTech, at a total consideration of JPY96 million (equivalent to RMB5.7 million), among which JPY46 million (equivalent to RMB2.7 million) was in cash and JPY50 million (equivalent to RMB3 million) was in Kingsoft Japan's ordinary shares. The Group completed the purchase of 95.5% equity interest of WowTech on 18 July 2014. The acquisition was accounted for as a business combination and the acquisition date was 18 July 2014. As at 31 December 2014, the purchase of remaining 4.5% at consideration of JPY4.5 million (equivalent to RMB0.23 million) was not completed.

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets	1,559
Cash and cash equivalents	11
Total liabilities	(983)
Total identified net assets at fair value	587
Non-controlling interest	(26)
Goodwill arising on acquisition	5,176
	5,737
Satisfied by cash	1,367
Satisfied by other payables	1,367
Satisfied by Kingsoft Japan's ordinary shares	3,003
Total consideration	5,737

40. BUSINESS COMBINATIONS (continued)

WowTech (continued)

The Group incurred transaction costs of RMB19,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

	RMB'000
An analysis of the cash flows in respect of the acquisition of Wow Tech is as follows:	
Cash consideration	(1,367)
Cash and cash equivalents acquired	11
	(1,356)
Net outflow of cash and cash equivalent included in cash flows used in investing activities	(1,356)
Transaction costs of the acquisition included in cash flows from operating activities	(19)
	(1,375)

Since the acquisition, Wowtech contributed RMB96,000 to the Group's turnover and RMB562,000 loss to the consolidated profit for the year.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB3,350,227,000 and RMB866,411,000 respectively.

Antutu Business

On 17 April 2013, Cheetah Mobile, acquired certain intellectual properties, customer relationship and key employees of the 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.

40. BUSINESS COMBINATIONS (continued)

Antutu Business (continued)

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Trademark	150
Software	1,000
User base	2,383
Total identifiable net assets at fair value	3,533
Goodwill arising on acquisition	8,467
Total consideration, satisfied by cash	12,000

The Group incurred transaction costs of RMB102,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

	RMB'000
An analysis of the cash flows in respect of the acquisition of the Antutu Business is as follows:	
Cash consideration	(12,000)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(12,000)
Transaction costs of the acquisition included in cash flows from operating activities	(102)
	(12,102)

Photo Grid Business

On 20 May 2013, the Group, through its non-wholly owned subsidiary, Cheetah Mobile, acquired certain intellectual properties, customer relationship and key employees of the Photo Grid Business from a third party for a cash consideration of US$6,600,000 (equivalent to RMB40,785,000), 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 recognized 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 2014, the fair value of the contingent consideration liability was recognized as US$1,449,660 (equivalent to RMB8,870,000). The first payment of US$793,000 (equivalent to RMB4,923,000) was settled in 2014. A loss of RMB1,755,000 resulted from the change in fair value of the contingent consideration liability was recognized in the consolidated statement of profit or loss for the year ended 31 December 2014.

40. BUSINESS COMBINATIONS (continued)

Photo Grid Business (continued)

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

	FAIR VALUE RECOGNIZED ON ACQUISITION RMB'000
Intangible assets:	
Software	9,270
User base	11,154
Total identifiable net assets at fair value	20,424
Goodwill arising on acquisition	31,528
	51,952
Satisfied by cash	40,785
Contingent consideration	11,167
Total consideration	51,952

The Group incurred transaction costs of RMB61,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

As part of the total consideration, US$2.4 million is payable dependent on the performance of Photo Grid. There will be three batches of cash payments to the original shareholders of Photo Grid as below:

a) Contingent I: US$800,000, if the increase rate of MAU in the 12th months is 150% compared with the acquisition month;

b) Contingent II: US$800,000, if the increase rate of MAU in the 24th months is 225% compared with the acquisition month, and no less than the MAU in the 12th months.

c) Contingent III: US$800,000, if the increase rate of MAU in the 36th months is 337.5% compared with the acquisition month, and no less than the MAU in the 12th months

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

Current consideration = original consideration * (actual performance/performance target)

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

	ASSUMED PROBABILITY	DISCOUNT RATE
Contingent I	99%	15.35%
Contingent II	99%	15.35%
Contingent III	99%	15.35%

The initial amount recognized was RMB11,167,000 which was determined using the discounted cash flow model and is under Level 3 fair value measurement. The consideration is due for final measurement and payment to the former shareholders from the first to the third anniversary of the acquisition date period. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

40. BUSINESS COMBINATIONS (continued)

Photo Grid Business (continued)

A significant increase (decrease) of MAU from Photo Grid would result in a significant increase (decrease) in the fair value of the contingent consideration liability. A significant increase (decrease) in the discount rate would result in a significant decrease (increase) in the fair value of the contingent consideration liability.

	RMB'000
An analysis of the cash flows in respect of the acquisition of the Photo Grid Business is as follows:	
Cash consideration	(40,785)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(40,785)
Transaction costs of the acquisition included in cash flows from operating activities	(61)
	(40,846)

41. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

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

The results of the 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, deposits 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

42. GAIN ON DISPOSAL OF A BUSINESS

On 2 September 2014, the Company, through its three subsidiaries, entered into a business and assets transfer agreement (the "Business and Assets Transfer Agreement") with Shenzhen Xunlei Network Technology Co., Ltd., a subsidiary of Xunlei (together with its subsidiaries, "Xunlei Group"), which is a third party company.

Pursuant to the Business and Assets Transfer Agreement, the Company agreed to dispose of the business and assets in relation to Kuaipan Personal (快盤個人版) and Kansunzi (看孫子軟件) (collectively, the "Disposal Business"), for an aggregate cash consideration of US$33,000,000 (equivalent to RMB203,498,000).

The results of the disposal of the Disposal Business are presented below:

	2014 RMB'000
Net assets disposed of:	
Property, plant and equipment	1,461
Other intangible assets	5,865
	7,326
Related disposal expenses	2,540
Gain on disposal of the Disposal Business	193,632
	203,498
Satisfied by:	
Cash	203,498

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

	2014 RMB'000
Cash consideration	203,498
Cash outflow of disposal expenses	(2,540)
Net inflow of cash and cash equivalents in respect of the disposal of a business	200,958

43. 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 2014, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP		COMPANY	
	2014 RMB'000	**2013 RMB'000**	**2014 RMB'000**	**2013 RMB'000**
Within one year	**57,462**	46,203	**57**	57
After one year but not more than five years	**176,558**	16,691	**38**	80
	234,020	62,894	**95**	137

As at 31 December 2014, the calculation of lease payment of some electronic equipment was based on the actual number of users of the relevant servers. The operating lease commitment under these operating leases was RMB14,848,000 for the year ended 31 December 2014 (2013: RMB14,428,000). 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	
	NOTES	**2014 RMB'000**	**2013 RMB'000**
Contracted, but not provided for:			
Development of land and buildings	(a)	**901,921**	921,033
Investment in a joint venture		**—**	2,000
Acquisition of a subsidiary		**12,409**	—
Acquisition of an available-for-sale investment		**1,052,543**	—
Acquisition of intangible assets		**19,642**	6,097
		1,986,515	929,130

(a) The capital commitment for the development of land and buildings at 31 December 2014 represented the commitment to invest in an aggregate amount of RMB901,921,000 in the development of a piece of land in Zhuhai.

At the end of the reporting period, the Company had no significant Commitments.

43. COMMITMENTS (continued)

Provision of loan facility

On 18 April 2013, the subsidiary of Cheetah Mobile entered into a two-year loan facility ending on 17 April 2015 with a shareholder of an associate, pursuant to which, the subsidiary granted a loan facility of RMB16,000,000 at an interest rate with reference to the market rate with 10% discount. Such loan facility shall be secured by the equity interest in the associate held by the shareholder to the maximum of 40% equity interests in the associate. As at 31 December 2014, RMB4,000,000 of the loan facility was being utilised and 10% of the equity interests in the associate were pledged to the Group accordingly.

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

44. 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:

		GROUP	
	NOTES	2014 RMB'000	2013 RMB'000
Equity contribution from a company whose parent has a significant influence on the Company	(i)	**—**	290,367
Equity contribution from a company controlled by a director of the Company	(ii)	**246,166**	—
Provision of services to a company whose parent has a significant influence on the Company	(iii)	**73,992**	104,078
Online marketing services from a company whose parent has a significant influence on the Company	(iii)	**427**	—
Sales of product to a company whose parent has a significant influence on the Company	(iii)	**1,709**	—
Provision of services to a company controlled by a director of the Company	(iv)	**65,999**	7,713
Purchases of products from a company controlled by a director of the Company	(iv)	**11,695**	8,395
Purchase of service from a company controlled by a director of the Company	(iv)	**6,018**	—
Interest income from non-controlling shareholders of subsidiaries	(v)	**2,565**	2,867
Purchase of new shares from a company controlled by a director of the Company	(vi)	**—**	30,600

44. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(i) On 24 June 2013, Cheetah Mobile issued 110,240,964 series B preferred shares (representing 9.00% of the enlarged capital of Cheetah Mobile) to a company whose parent has a significant influence on the Company, at a subscription price of US$0.4262 per share for an aggregate consideration of US$46,980,000 (equivalent to RMB290,369,000).

(ii) On 14 February 2014, Westhouse Holdings issued 40,000,000 ordinary shares (representing 4.71% of the enlarged capital of Westhouse Holdings) to a company controlled by a director of the Company, at a subscription price of US$0.5 per share for an aggregate consideration of US$20 million (equivalent to RMB123,052,000).

On 8 May 2014, Cheetah Mobile issued 14,285,714 Class A ordinary shares to a company controlled by a director of the Company with a total purchase price of US$20 million (equivalent to RMB123,114,000).

(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 determined based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting the similar transactions. The Group received a total of approximately RMB73,992,000 for the year ended 31 December 2014 (2013: RMB104,078,000).

For the year ended 31 December 2014, the Group received online marketing services from the related company and its controlled affiliates of RMB472,000 (2013: Nil).

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 of this related company and its controlled affiliates. The Group received approximately RMB1,709,000 under this licensing agreement for the year ended 31 December 2014.

(iv) In 2013 and 2014, the Group entered into various agreements with a company controlled by a director of the Company. Pursuant to the agreements, the Group provided cloud storage services, online advertising services and joint operations of online games to this related company and its affiliates at the prevailing fair market price in the same industry for similar transactions and the Group purchased smart phones and phone accessories from this related company at a market price. For the year ended 31 December 2014, the Group provided services of approximately RMB65,999,000 (2013: RMB7,713,000) to an affiliate of the related company, purchased service of approximately RMB6,018,000 (2013: Nil), and purchased smart phones and phone accessories of approximately RMB11,695,000 (2013: RMB8,395,000) from the affiliate of the related company.

(v) The interest income from non-controlling shareholders of subsidiaries was approximately HK$3,252,000 (equivalent to RMB2,565,000) and HK$3,593,000 (equivalent to RMB2,867,000) in 2014 and 2013, respectively. Details of the loans are disclosed in note 44(b).

(vi) 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). In 2014, no similar transaction took place.

44. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties:

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

	NOTES	GROUP 2014 RMB'000	2013 RMB'000
Due from related parties:			
Loans to non-controlling shareholders of Westhouse Holdings	(i)	**89,062**	108,213
Loans to non-controlling shareholders of KOS Holdings	(ii)	**28,349**	27,659
Loan to Shanghai Quwan		**—**	6,413
		117,411	142,285
Receivables from a company controlled by a director of the Company	26	**10,591**	—
Receivables from a company whose parent has a significant influence on the Company	26	**28,575**	4,484
Payables to a company controlled by a director of the Company	29	**1,436**	—
Due to related parties	(iii)	**1,020**	—

(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 the Hong Kong Interbank Offered Rate plus 1.3% for initial term and the Hong Kong Bank Offered Loan Rate for the succeeding terms, and is secured by 128,000,000 shares of Westhouse Holdings held by the company owned by some founding employees. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied. The outstanding balance of this loan included unpaid principal and interest receivable of RMB87,098,000 and RMB1,964,000, 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 the 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 principal and interest receivable of RMB27,449,000 and RMB900,000 respectively.

(iii) These balances are unsecured, interest-free and have no fixed terms of repayment.

44. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

Other than the directors' remuneration disclosed in note 9 to the financial statements, the compensation of other key management personnel of the Group is as follows:

	GROUP	
	2014	**2013**
	RMB'000	**RMB'000**
Salaries, allowances and benefits in kind	**2,929**	3,357
Pension plan contributions	**163**	158
Share-based compensation costs	**1,176**	661
Total compensation paid to key management personnel	**4,268**	4,176

45. 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:

2014

	GROUP			
FINANCIAL ASSETS	**LOANS AND RECEIVABLES RMB'000**	**AVAILABLE-FOR-SALE INVESTMENTS RMB'000**	**DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000**	**TOTAL RMB'000**
Other financial assets	—	—	88,441	88,441
Available-for-sale investments	—	623,585	—	623,585
Loan receivables	13,555	—	—	13,555
Trade receivables	411,137	—	—	411,137
Due from related parties	117,411	—	—	117,411
Other long term receivables	122,524	—	—	122,524
Financial assets included in prepayments, deposits and other receivables	350,245	—	—	350,245
Pledged deposit	19,978	—	—	19,978
Cash and bank deposits	6,983,699	—	—	6,983,699
Total	8,018,549	623,585	88,441	8,730,575

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	GROUP		
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	**—**	**79,324**	**79,324**
Financial liabilities included in other liabilities	**53,591**	**808,340**	**861,931**
Due to related parties	**—**	**1,020**	**1,020**
Interest-bearing bank loans	**—**	**15,778**	**15,778**
Liability component of convertible bonds	**—**	**2,792,322**	**2,792,322**
Total	**53,591**	**3,696,784**	**3,750,375**

2013

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

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	GROUP		
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 liabilities	11,974	399,452	411,426
Interest-bearing bank loans	—	15,724	15,724
Liability component of redeemable convertible preferred shares	—	77,982	77,982
Liability component of convertible bonds	—	1,037,587	1,037,587
Total	11,974	1,563,208	1,575,182

	COMPANY	
FINANCIAL ASSETS	2014 LOANS AND RECEIVABLES RMB'000	2013 LOANS AND RECEIVABLES RMB'000
Due from related parties	**28,349**	27,659
Due from subsidiaries	**1,174,391**	658,691
Other long term receivables	**112,669**	—
Financial assets included in prepayments, deposits and other receivables	**52,420**	4,689
Pledged deposit	**19,978**	19,588
Cash and bank deposits	**1,892,264**	682,545
Total	**3,280,071**	1,393,172

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	COMPANY	
FINANCIAL LIABILITIES	2014 FINANCIAL LIABILITIES AT AMORTISED COST RMB'000	2013 FINANCIAL LIABILITIES AT AMORTISED COST RMB'000
Financial liabilities included in other payables and accruals	**22,007**	18,298
Due to subsidiaries	**286,958**	151,608
Liability component of convertible bonds	**2,792,322**	1,037,587
Interest-bearing bank loans	**15,778**	15,724
Total	**3,117,065**	1,223,217

46. 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 AMOUTS		FAIR VALUES	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
FINANCIAL ASSETS				
Loan receivables	**13,555**	15,976	**13,500**	15,842
Available-for-sale investments	**399,540**	55,780	**399,540**	55,780
Other long term receivables	**122,524**	—	**122,524**	—
Other financial assets	**88,441**	27,699	**88,441**	27,699
	624,060	99,455	**624,005**	99,321
FINANCIAL LIABILITIES				
Liability component of redeemable convertible preferred shares	**—**	77,982	**—**	77,982
Liability component of convertible bonds	**2,792,322**	1,037,587	**2,792,322**	1,037,587
Other liabilities	**53,591**	11,974	**53,591**	11,974
Interest-bearing bank loans	**15,778**	15,724	**15,778**	15,724
	2,861,691	1,143,267	**2,861,691**	1,143,267

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

Company

	CARRYING AMOUNTS		FAIR VALUES	
	2014 RMB'000	**2013 RMB'000**	**2014 RMB'000**	**2013 RMB'000**
FINANCIAL ASSETS				
Other long term receivables	**112,669**	—	**112,669**	—
FINANCIAL LIABILITIES				
Liability component of convertible bonds	**2,792,322**	1,037,587	**2,792,322**	1,037,587
Interest-bearing bank loans	**15,778**	15,724	**15,778**	15,724
	2,808,100	1,053,311	**2,808,100**	1,053,311

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

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the CFO and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the CFO. 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 receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans as at 31 December 2014 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds and the liability component of the redeemable convertible preferred shares are estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond 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 the consolidated statement of profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

46. 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 2014

	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	**399,540**	**—**	**—**	**399,540**
Other financial assets	**—**	**—**	**88,441**	**88,441**
	399,540	**—**	**88,441**	**487,981**

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	—	—	55,780
Other financial assets	—	—	27,699	27,699
	55,780	—	27,699	83,479

46. 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:

	2014 RMB'000	2013 RMB'000
Available-for-sale investments and other financial assets:		
At 1 January	**27,699**	27,822
Additions	**61,548**	6,172
Disposal	**(7,052)**	—
Total gain/(loss) recognised in the statement of profit or loss	**6,551**	(6,026)
Total gain/(loss) recognised in other comprehensive income	**(305)**	(269)
At 31 December	**88,441**	27,699

The Company did not have any financial assets measured at fair value as at 31 December 2014 and 2013.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2014 and 2013:

	VALUATION TECHNIQUES	SIGNIFICANT UNOBSERVABLE INPUTS	SENSITIVITY OF THE INPUT TO FAIR VALUE
Other financial assets — VNG Option	Black Scholes Model	Fair value per share	5% increase(decrease) in fair value per share would result in increase(decrease) in fair value by RMB833,000.
		Risk-free rate	5% increase(decrease) in risk-free rate would result in increase(decrease) in fair value by RMB64,000
		Volatility	5% increase(decrease) in volatility would result in increase(decrease) in fair value by RMB640,000
Other financial assets — Trustlook Convertible Notes	Guideline Companies Method	Discount for lack of marketability	5% increase(decrease) in discount for lack of marketability would result in decrease(increase) in fair value by RMB18,000
Other financial assets — NDP Convertible Bonds	Probability Expected Return Method	Probability of coversion	5% increase(decrease) in probability of coversion would result in increase(decrease) in fair value by RMB483,000

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

Group

As at 31 December 2014

	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 liabilities	—	—	53,591	53,591

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 liabilities	—	—	11,974	11,974

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

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2014 RMB'000	2013 RMB'000
Other financial liabilities at fair value through profit or loss:		
At 1 January	**11,974**	—
Additions	**59,381**	11,167
Paid	**(4,923)**	
Total loss recognised in the statement of profit or loss	**(12,952)**	807
Total gain recognised in other comprehensive income	**111**	—
At 31 December	**53,591**	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 (2013: Nil).

	VALUATION TECHNIQUES	SIGNIFICANT UNOBSERVABLE INPUTS	SENSITIVITY OF THE INPUT TO FAIR VALUE
Other liabilities	Discounted cash flow method	Discount rate for cash flows	5% increase(decrease) in discount rate would result in decrease(increase) in fair value by RMB254,000(249,000)

Assets for which fair values are disclosed:

Group

As at 31 December 2014

	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	—	13,500	—	13,500

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

Fair value hierarchy (continued)

Assets for which fair values are disclosed: (continued)

Group (continued)

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	—	15,842	—	15,842

Liabilities for which fair values are disclosed:

Group

As at 31 December 2014

	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	**—**	**—**	**2,792,322**	**2,792,322**
Interest-bearing bank loans	**—**	**15,778**	**—**	**15,778**
	—	**15,778**	**2,792,322**	**2,808,100**

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

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

Fair value hierarchy (continued)

Company

As at 31 December 2014

	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	**—**	**—**	**2,792,322**	**2,792,322**
Interest-bearing bank loans	**—**	**15,778**	**—**	**15,778**
	—	**15,778**	**2,792,322**	**2,808,100**

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, convertible bonds, cash and bank deposits 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 floating interest rates.

The Group's policy is to reduce the interest expenses through a combination of bank loans denominated in HK$ and equivalent deposits in RMB. As at 31 December 2014, approximately RMB15,778,000 (2013: RMB15,724,000) of the Group's bank loans denominated in 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.

For the year ended 31 December 2014, if the average interest rate on the loans to related parties and bank loans had been 5% (2013: 5%) higher/lower with all other variables held constant, the profit of the Group for the year would have been approximately RMB151,000 (2013: RMB83,000) lower/higher as a result of higher/lower finance costs.

For the year ended 31 December 2014, if the average interest rate on the loans to related parties and bank loans had been 5% (2013: 5%) higher/lower with all other variables held constant, the profit of the Company for the year would have been approximately RMB106,000 (2013: RMB188,000) lower/higher as a result of higher/lower finance costs.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from revenue derived from overseas markets by operating units in currencies other than the units' functional currencies. Approximately 12% (2013: 11%) of the Group's revenue were denominated in currencies other than the functional currencies of the operating units authorising the licences.

47. 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
2014	
If RMB strengthens 5% against HK$	**(114,599)**
If RMB weakens 5% against HK$	**114,599**
If RMB strengthens 5% against US$	**(54,994)**
If RMB weakens 5% against US$	**54,994**
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

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 bank deposits, 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 26 to the financial statements.

Liquidity risk

The principal approach used by the Group to manage liquidity risk arising from financial liabilities is to maintain an adequate level of cash and bank deposits with different banks.

The contractual maturity of trade payables, interest-bearing bank loans and convertible bonds is disclosed in notes 29, 31 and 33 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 bank deposits. As at 31 December 2014, the Group's cash and bank deposits was approximately RMB6,983,699,000 (2013: RMB4,481,188,000), accounting for 86.5% (2013: 88.3%) of the Group's current assets and 67.3% (2013: 77.2%) of the Group's total assets. The Group believes that the exposure to liquidity risks is minimal.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	GROUP 31 DECEMBER 2014				
	ON DEMAND RMB'000	LESS THAN THREE MONTHS RMB'000	3 TO LESS THAN 12 MONTHS RMB'000	1 TO 5 YEARS RMB'000	TOTAL RMB'000
Convertible bonds	**—**	**16,046**	**38,993**	**3,082,111**	**3,137,150**
Interest-bearing bank and other borrowings	**—**	**—**	**15,918**	**—**	**15,918**
Trade payables	**—**	**52,180**	**24,852**	**2,292**	**79,324**
Other payables	**530,509**	**347,066**	**53,862**	**22,272**	**953,709**
Other liabilities	**—**	**—**	**31,317**	**22,274**	**53,591**
Due to related parties	**1,020**	**—**	**—**	**—**	**1,020**

	31 DECEMBER 2013				
	ON DEMAND RMB'000	LESS THAN THREE MONTHS RMB'000	3 TO LESS THAN 12 MONTHS RMB'000	1 TO 5 YEARS RMB'000	TOTAL RMB'000
Convertible bonds	—	15,991	31,983	1,178,026	1,226,000
Interest-bearing bank and other borrowings	—	—	15,864	—	15,864
Trade payables	—	26,070	4,740	1,653	32,463
Other payables	184,023	252,917	57,215	4,809	498,964
Other liabilities	—	—	4,573	7,401	11,974

	COMPANY 31 DECEMBER 2014				
	ON DEMAND RMB'000	LESS THAN THREE MONTHS RMB'000	3 TO LESS THAN 12 MONTHS RMB'000	1 TO 5 YEARS RMB'000	TOTAL RMB'000
Convertible bonds	**—**	**16,046**	**38,993**	**3,082,111**	**3,137,150**
Interest-bearing bank and other borrowings	**—**	**—**	**15,918**	**—**	**15,918**
Other payables	**22,944**	**1,534**	**—**	**—**	**24,478**

	31 DECEMBER 2013				
	ON DEMAND RMB'000	LESS THAN THREE MONTHS RMB'000	3 TO LESS THAN 12 MONTHS RMB'000	1 TO 5 YEARS RMB'000	TOTAL RMB'000
Convertible bonds	—	15,991	31,983	1,178,026	1,226,000
Interest-bearing bank and other borrowings	—	—	15,864	—	15,864
Other payables	4,576	—	—	—	4,576

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments (note 21) as at 31 December 2014. The Group's listed investments are listed on NASDAQ and are valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every 1% change in the fair values of the Group's principal equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the statement of profit or loss.

	CARRYING AMOUNT OF EQUITY INVESTMENTS RMB'000	INCREASE/ (DECREASE) IN EQUITY RMB'000
2014		
Investments listed in:		
United States — Available-for-sale investments — Xunlei and iDreamsky	**392,627**	**3,926**

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 2014 and 31 December 2013.

The Group monitors capital using the asset-liability ratio, which represents total liabilities divided by total assets.

	GROUP	
	2014 RMB'000	2013 RMB'000
Total liabilities	**(4,265,060)**	(1,973,642)
Total assets	**10,381,604**	5,804,333
Asset-liability ratio	**41%**	34%

48. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

49. EVENTS AFTER THE REPORTING PERIOD

1. On 29 November 2014, King Venture Holdings Limited ("King Venture"), a wholly-owned subsidiary of the Company, entered into the Purchase Agreement with 21Vianet and the Founder Parties. Pursuant to the Purchase Agreement, 21Vianet agrees to issue and allot to King Venture, and King Venture agrees to purchase and subscribe from 21Vianet, 39,087,125 Class A Shares and 18,250,268 Class B Shares for an aggregate purchase price of US$172,012,179 (equivalent to RMB1,052,542,523).

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

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

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

2. On 26 January 2015, Cheetah Mobile entered into a share purchase agreement with Quwan Limited ("Quwan") to purchase 5,570,292 series D preferred shares at a total consideration of US$21,000,000 (equivalent to RMB128,906,400) including cash consideration US$7,070,000 (equivalent to RMB43,398,500) and 799,630 ordinary shares of Cheetah Mobile. Upon completion of the purchased agreement, Cheetah will hold 35% equity interest in Quwan.

3. On 29 January 2015, Cheetah Mobile entered into a share purchase agreement with a third party to purchase an entity's 2.8% equity interest, who operates a famous tools app at a consideration of US$28,000,000 (equivalent to RMB171,738,000).

4. On 9 February 2015, Cheetah Mobile entered into a fund subscription agreement with a fund to become a limited partner of the fund at a cash consideration of RMB45,000,000. Upon completion of subscription, the Group will represent 30% of the fund.

5. On 15 March 2015 (San Francisco Time), Cheetah Mobile has reached a definitive agreement to acquire the entire equity interest in MobPartner for an estimated total consideration of approximately US$58 million, subject to closing and other adjustments, payable in cash and shares to be issued by Cheetah. The acquisition is subject to customary closing conditions. Upon completion of the acquisition, MobPartner will become a wholly owned subsidiary of Cheetah Mobile.

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

50. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and 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.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2015.