KINGSOFT

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

KINGSOFT CORPORATION LIMITED
2017 ANNUAL REPORT

猎豹清理大师

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Kingsoft Corporation Limited

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CORPORATE INFORMATION

Legal Name of the Company

Kingsoft Corporation Limited

Stock Code

03888

Date of Listing

9 October 2007

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

PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Executive Directors

Mr. Tao ZOU
Mr. Yuk Keung NG

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. Tao ZOU
Mr. Yuk Keung NG

Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Limited

PO Box 1350

Clifton House

75 Fort Street

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

Auditor

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

China CITIC Bank Corp., Ltd.

China Merchant Bank Co., Ltd.

Industrial and Commercial Bank of China (Asia) Limited

The Hongkong and Shanghai Banking Corp., Ltd.

Bank of Beijing Co., Ltd.

Standard Chartered Bank (China) Limited

Shanghai Pudong Development Bank Co., Ltd.

Bank of Communications Co., Ltd.

Hang Seng Bank Limited

China Guangfa Bank Co., Ltd.

The Bank of East Asia (China) Limited

Investor and Media Relations

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FINANCIAL HIGHLIGHTS

Consolidated Statement of Profit or Loss (Restated)

	Year ended 31 December				
	2013 RMB'000	**2014 RMB'000**	**2015 RMB'000**	**2016 RMB'000**	**2017 RMB'000**
Continuing Operations					
Revenue:					
Online games	1,095,913	1,252,753	1,368,811	2,545,671	**3,120,186**
Cloud services	11,523	68,799	272,512	737,196	**1,332,522**
Office software and services and others	261,782	259,856	374,735	550,670	**728,582**
	1,369,218	1,581,408	2,016,058	3,833,537	**5,181,290**
Cost of revenue	(179,764)	(259,501)	(494,238)	(1,292,448)	**(2,168,907)**
Gross profit	1,189,454	1,321,907	1,521,820	2,541,089	**3,012,383**
Research and development costs, net	(390,278)	(570,586)	(803,093)	(1,084,510)	**(1,446,044)**
Selling and distribution expenses	(146,489)	(228,959)	(295,427)	(323,263)	**(544,957)**
Administrative expenses	(116,252)	(143,809)	(166,597)	(196,903)	**(256,847)**
Share-based compensation costs	(23,800)	(27,400)	(40,600)	(54,872)	**(235,194)**
Other income	40,330	28,218	43,602	51,310	**294,036**
Other expenses	6,243	(16,561)	(15,011)	(7,718)	**(9,465)**
Operating profit	559,208	362,810	244,694	925,133	**813,912**
Other gains/(losses), net	37,551	314,125	(21,361)	(1,152,235)	**(156,489)**
Finance income	122,382	210,679	179,414	158,043	**194,967**
Finance costs	(24,401)	(75,943)	(77,520)	(107,105)	**(112,391)**
Share of profits and losses of:					
Joint ventures	4,827	(5,435)	(17,560)	101,291	**121,039**
Associates	(1,899)	(3,643)	(7,152)	(6,683)	**51,076**
Profit/(loss) before tax from continuing operations	697,668	802,593	300,515	(81,556)	**912,114**
Income tax expense	(62,984)	(83,917)	(148,092)	(177,156)	**(133,834)**
Profit/(loss) for the year from continuing operations	634,684	718,676	152,423	(258,712)	**778,280**
Discontinued Operation					
Profit/(loss) for the year from discontinued operation	119,190	147,891	189,281	(33,563)	**2,518,349**
Profit/(loss) for the year	753,874	866,567	341,704	(292,275)	**3,296,629**
Attributable to:					
Owners of the parent	670,746	768,783	369,178	(270,732)	**3,201,837**
Non-controlling interests	83,128	97,784	(27,474)	(21,543)	**94,792**
	753,874	866,567	341,704	(292,275)	**3,296,629**
Proposed final dividends	109,387	119,438	107,895	115,676	**122,428**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**
Earnings per share attributable to ordinary equity holders of the parent					
Basic	0.58	0.66	0.29	(0.21)	**2.46**
Diluted	0.55	0.63	0.29	(0.21)	**2.36**

Consolidated Statement of Financial Position (Selected items)

	As at 31 December				
	2013 RMB'000	**2014 RMB'000**	**2015 RMB'000**	**2016 RMB'000**	**2017 RMB'000**
Cash and bank deposits	4,481,188	6,983,699	8,606,434	9,825,494	**8,505,984**
Pledged deposits	19,588	19,978	46,657	69,370	**—**
Restricted cash	—	—	130,187	98,381	**93,400**
Total assets	5,804,333	10,381,604	15,484,877	17,578,952	**17,762,390**
Total equity	3,830,691	6,116,544	9,911,355	10,001,724	**12,552,971**

Consolidated Statement of Cash Flow (Selected Items)

	As at 31 December				
	2013 RMB'000	**2014 RMB'000**	**2015 RMB'000**	**2016 RMB'000**	**2017 RMB'000**
Net cash flows from operating activities	938,124	952,264	1,435,334	1,393,218	**1,890,385**
Net cash flows used in investing activities	(44,019)	(3,367,589)	(471,910)	(3,127,785)	**(4,108,113)**
Net cash flows from/(used in) financing activities	1,121,716	2,950,177	2,233,959	600,815	**(266,388)**
Net increase/(decrease) in cash and cash equivalents	2,015,821	534,852	3,197,383	(1,133,752)	**(2,484,116)**

CHAIRMAN'S STATEMENT

BUSINESS REVIEW AND PROSPECTS

The year 2017 has marked a year of great achievements for Kingsoft. Our flagship PC game, JX Online III continued to outperform the market with revenue up 32% year-over-year. Kingsoft Cloud has further advanced its vertical businesses at a strong pace with total revenue increased 81% year-over-year. The MAU of the WPS Office mobile version continued to grow and exceeded 145 million in December 2017. All these achievements have given us the strength and confidence to keep advancing in the online games, cloud services, and office software and service businesses in the future.

Kingsoft recorded stable and healthy growth in 2017. We made a total revenue of RMB5,181.3 million, up 35% against the previous year. Our operating profit before share-based compensation costs increased 7% year-over-year to RMB1,049.1 million. The fast development of all business segments in 2017 has set the stage for Kingsoft to grow its revenue notably and better capture the market potential in the coming years.

In 2017, both Kingsoft's PC games and mobile games delivered strong performance. The flagship PC game JX Online III has maintained rapid growth for eight consecutive years, with revenue increased 32% year-over-year in 2017. Such outstanding performance ensured the successful launch of the JX Online III revamped version, laying a solid ground for the long-term development of the game. The quality upgrade and the brand new game features of the JX Online III revamped version have attracted great attention. Within 24 hours of its launch on 29 December, the total number of users increased 43%. The steady performance of JX Online I mobile game in 2017 created conditions for the enhancement and development of other upcoming JX mobile game products, helping maximize the IP value of JX Online. Together with Tencent, Kingsoft is going to launch three major JX series mobile games in 2018, including YSYY (雲裳羽衣), JX Online II mobile and JX Online III mobile games. In the fourth quarter of 2017, Kingsoft achieved a breakthrough in licensed mobile games. From the cooperation with NetDragon, the mobile game Eudemons Online was launched on all platforms on 18 October, and the gross billing exceeded RMB100 million within 19 days of launch. This well-known game IP once again gains widespread acclaim among mobile games players.

Kingsoft Cloud maintained robust growth in 2017, with revenue increased 81% year-over-year. Kingsoft Cloud's performance has been highly acknowledged by the capital market. By March 2018, Kingsoft Cloud is expected to complete series D financing, which amounted to a total of US$720 million, with post money valuation reaching US$2.37 billion. According to International Data Corporation's *China Semi-annual Public Cloud Services Tracker Report 1H2017* published in November 2017, Kingsoft Cloud was ranked top 3 in the IaaS public cloud service providers in China. Kingsoft Cloud's video cloud business achieved remarkable expansion by applying its video cloud technology and service advantages. Game cloud business reported solid growth in both customer usage and revenue with quantum leaps in multiple fields including CDN, hybrid cloud and network security. Government cloud and healthcare cloud businesses have progressed smoothly with their national footprints expanded during the year. Kingsoft Cloud also expanded artificial intelligence ("**AI**") technology application in its product services and launched new video technologies, rendering video service quality improvement and cost saving for customers. In addition, Kingsoft Cloud was the first to obtain authentication of CSA-STAR Tech for both IaaS and PaaS in security enhancement, exemplifying Kingsoft Cloud's leading position in cloud security construction.

WPS Office achieved stable and healthy development in 2017, and both online marketing and licensing businesses saw steady increases in revenue. Noteworthy here, Kingsoft launched "Light Office" for individual users, improving the office experience for them in all dimensions. In December 2017, the MAU of WPS Office mobile version exceeded 145 million while the MAU of WPS Office PC version also hit a new record, with the national MAU rose to above 100 million. In addition, through offering exclusive and high-quality contents, the number of premium members at the end of December nearly quadrupled comparing with that at the beginning of 2017. WPS deeply rooted in office software industry and continued to optimize and develop new features aiming to provide users with better customized office experience. Thus, WPS was awarded the 2017 Xiaomi Emmy Award for *the Most Scalable APP* and the 2017 Next World Award for *the Most Popular Office Management APP for the Year* in the fourth quarter. In May 2017, Beijing Kingsoft Office Software, Inc. has officially filed an application to the China Securities Regulatory Commission for an initial public offering (IPO) and listing on the ChiNext Board of the Shenzhen Stock Exchange, and the application process has been well on track.

The strong performance of all business segments in 2017 has boosted our confidence in the prospects for business development and revenue growth in the coming year. Looking ahead, we will continue to maximize the brand value of JX Online and focus on the upcoming launches of our major mobile game titles including YSYY, JX Online II mobile and JX Online III mobile games. Kingsoft Cloud will devote greater efforts into developing the AI field, consolidate our leading position in the Internet area and further penetrate into more vertical industries and actively expand into overseas markets. We will continue to enhance WPS technology and product innovation incorporating AI features and cloud computing functions in order to provide better and more productive solutions for its users. Meanwhile, we will also set our eyes on global presence seeking to broaden our international reach by capitalizing on WPS' competitive edge in the mobile arena. We believe that we will maintain strong growth momentum and achieve more breakthroughs in 2018, and we will mark Kingsoft's 30th anniversary with a triumphant performance.

Jun LEI
Chairman

Hong Kong, 21 March 2018

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	31 December 2017	**30 September 2017**	**30 June 2017**	**31 March 2017**	**31 December 2016**	**30 September 2016**	**30 June 2016**	**31 March 2016**
Online Games								
Daily Average Peak Concurrent Users (“**ADPCU**”)	**874,693**	**871,792**	**934,115**	**937,438**	1,018,826	982,914	909,591	543,836
Monthly Average Paying Accounts (“**APA**”)	**3,978,222**	**4,073,300**	**4,321,447**	**4,200,840**	4,523,832	4,482,024	4,822,356	2,960,358

For the Year Ended 31 December 2017

The following tables sets forth the comparative numbers for the years ended 31 December 2017 and 2016, respectively.

	Year ended 31 December	
	2017	**2016**
	RMB'000	**RMB'000**
		(Restated)
CONTINUING OPERATIONS		
Revenue		
Online games	**3,120,186**	2,545,671
Cloud services	**1,332,522**	737,196
Office software and services and others	**728,582**	550,670
	5,181,290	3,833,537
Cost of revenue	**(2,168,907)**	(1,292,448)
Gross profit	**3,012,383**	2,541,089
Research and development costs, net	**(1,446,044)**	(1,084,510)
Selling and distribution expenses	**(544,957)**	(323,263)
Administrative expenses	**(256,847)**	(196,903)
Share-based compensation costs	**(235,194)**	(54,872)
Other income	**294,036**	51,310
Other expenses	**(9,465)**	(7,718)
Operating profit	**813,912**	925,133
Other losses, net	**(156,489)**	(1,152,235)
Finance income	**194,967**	158,043
Finance costs	**(112,391)**	(107,105)
Share of profits and losses of:		
Joint ventures	**121,039**	101,291
Associates	**51,076**	(6,683)
Profit/(loss) before tax from continuing operations	**912,114**	(81,556)
Income tax expense	**(133,834)**	(177,156)
Profit/(loss) for the year from continuing operations	**778,280**	(258,712)
DISCONTINUED OPERATION		
Profit/(loss) for the year from a discontinued operation	**294,058**	(33,563)
Gain on deemed disposal of a subsidiary	**2,224,291**	—
	2,518,349	(33,563)
PROFIT/(LOSS) FOR THE YEAR	**3,296,629**	(292,275)
Attributable to:		
Owners of the parent	**3,201,837**	(270,732)
Non-controlling interests	**94,792**	(21,543)
	3,296,629	(292,275)

For the Year Ended 31 December 2017 (continued)

	Year ended 31 December	
	2017	**2016**
	RMB	**RMB**
		(Restated)
Earnings per share attributable to ordinary equity holders of the parent		
Basic		
— For profit/(loss) for the year	**2.46**	(0.21)
— For profit/(loss) from continuing operations	**0.62**	(0.21)
Diluted		
— For profit/(loss) for the year	**2.36**	(0.21)
— For profit/(loss) from continuing operations	**0.61**	(0.21)

Revenue

Revenue for the year of 2017 increased 35% year-over-year to RMB5,181.3 million. Revenue from the online games, cloud services and office software and services and others represented 60%, 26% and 14%, respectively, of the Group's total revenue for the year of 2017.

Revenue from the online games business for the year of 2017 increased 23% year-over-year to RMB3,120.2 million. The solid year-over-year increase was mainly due to the strong and sustainable growth of JX Online III, full year contribution of JX Online I mobile game which was launched in May 2016, as well as newly released mobile games in 2017.

Revenue from the cloud services for the year of 2017 increased 81% year-over-year to RMB1,332.5 million. The strong year-over-year increase was primarily due to rapid growth of customer usage reflecting the full commitment of Kingsoft Cloud to strategic investments and fast growing demand for our cloud services.

Revenue from the office software and services and others for the year of 2017 increased 32% year-over-year to RMB728.6 million. The year-over-year increase was primarily due to the combination of: i) robust revenue growth from WPS online marketing services driven by higher demand from advertisers; ii) the rapid growth in value-added services of WPS Office personal edition with richer contents and enhancing user experience; and iii) steady and sustained revenue growth in sales of WPS Office.

Cost of Revenue and Gross Profit

Cost of revenue for the year of 2017 increased 68% year-over-year to RMB2,168.9 million. The year-over-year increase was primarily due to higher bandwidth and internet data center ("**IDC**") cost associated with increased customer usage of cloud services and our continuous investment in cloud business.

Gross profit for the year of 2017 increased 19% year-over-year to RMB3,012.4 million. The Group's gross profit margin decreased by eight percentage points year-over-year to 58%.

Research and Development ("R&D") Costs, net

R&D costs, net for the year of 2017 increased 33% year-over-year to RMB1,446.0 million. The year-over-year increase was mainly due to an increase in personnel expenses with increased headcount and higher salaries and benefits, as well as an increase in R&D investments.

Selling and Distribution Expenses

Selling and distribution expenses for the year of 2017 increased 69% year-over-year to RMB545.0 million. The year-over-year increase was mainly due to increased spending on marketing and advertising for online games, as well as increased staff-related costs.

Administrative Expenses

Administrative expenses for the year of 2017 increased 30% year-over-year to RMB256.8 million. The year-over-year increase was mainly due to an increase in staff-related costs.

Share-based Compensation Costs

Share-based compensation costs for the year of 2017 increased 329% year-over-year to RMB235.2 million. The increase was primarily due to the new grants of awarded shares and options to selected employees and increased fair value of awarded shares and options of certain subsidiaries.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the year of 2017 increased 7% year-over-year to RMB1,049.1 million as a result of the combination of above reasons. The margin of operating profit before share-based compensation costs decreased by six percentage points year-over-year to 20%.

Other Losses, net

Net other losses of RMB156.5 million were recorded for the year of 2017, as compared to losses of RMB1,152.2 million for the year of 2016. The losses of 2017 primarily represented the additional provisions for impairment on the carrying value of investments in XunLei and 21Vianet. The losses of 2016 were mainly due to the provisions for impairment on the carrying value of investments in XunLei and 21Vianet, respectively, as there was a significant or prolonged decline in the market value of the investments in XunLei and 21Vianet below the costs.

Income Tax Expense

Income tax expenses for the year of 2017 decreased 24% year-over-year to RMB133.8 million.

Gain on Deemed Disposal of a Subsidiary

Gain on deemed disposal of a subsidiary of RMB2,224.3 million for the year of 2017 represented the deemed disposal gain as a result of the delegation of voting rights in Cheetah Mobile Inc.

Profit/(loss) for the Period from a Discontinued Operation

Profit/(loss) for the period from a discontinued operation reflected profit/(loss) from Cheetah Mobile, which was profit of RMB294.1 million before the deemed disposal as compared to loss of RMB33.6 million last year. The increase was mainly due to its continuous efforts in the optimization of costs and expenses structure.

Profit/(loss) attributable to Owners of the Parent

For the reasons described above, profit/(loss) attributable to owners of the parent was RMB3,201.8 million and RMB(270.7) million for the year 2017 and 2016, respectively.

Profit/(loss) attributable to Owners of the Parent before Share-based Compensation Costs

Profit attributable to owners of the parent before share-based compensation costs is profit attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent.

We believe that the profit attributable to owners of the parent before share-based compensation costs will enable the investors to better understand the Group's overall 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/(loss) attributable to owners of the parent before share-based compensation costs (including that from continuing operations and a discontinued operation) was RMB3,406.7 million and RMB(78.4) million for the year 2017 and 2016, respectively.

The net profit/(loss) margin excluding the effect of share-based compensation costs (including that from continuing operations and a discontinued operation) was 39% and (1%) for the year 2017 and 2016, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 December 2017, the Group had major financial resources in the forms of cash and cash equivalent, non-pledged deposits with original maturity of over three months amounting to RMB3,036.5 million and RMB5,469.5 million, respectively, which totally represented 48% of the Group's total assets.

As at 31 December 2017, the Group's gearing ratio, which represents total liabilities divided by total assets, was 29%, as compared to 43% as at 31 December 2016. As at 31 December 2017, the Group had debts of convertible bonds of HK$1,041.7 million (equivalent to RMB870.7 million) and bank loans of RMB335.1 million, US$50.0 million (equivalent to RMB326.7 million).

Foreign Currency Risk Management

Certain expenses of the Group were denominated in currencies other than RMB. The Directors considered that the Group has certain exposure to foreign currency risks as some of its revenue which is generated from licensing sales is denominated in foreign currencies, which are US$ and HK$. The Group will monitor any exchange risks closely and hold within appropriate limits.

As at 31 December 2017, RMB3,660.2 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Net Cash Generated from Operating Activities

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

Net cash generated from operating activities (including that from continuing operations and a discontinued operation) was RMB1,890.4 million and RMB1,393.2 million for the years ended 31 December 2017 and 31 December 2016, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fixed assets and intangible assets. Cash used for capital expenditures (including that from continuing operations and a discontinued operation) was RMB722.2 million and RMB1,023.4 million for the years ended 31 December 2017 and 31 December 2016, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Tao ZOU, aged 42, is currently an executive Director and the chief executive officer ("**CEO**") of the Company. Mr. ZOU is a director of Seasun Holdings and Cheetah Mobile (NYSE: CMCM). Mr. ZOU also serves as a director of Xunlei Limited (NASDAQ: XNET) and a director of 21Vianet Group, Inc. (NASDAQ: VNET). Mr. ZOU graduated from 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 and served as the CEO of Seasun Holdings until January 2018.

Mr. ZOU became a senior vice president of the Company in December 2007 and has been an executive Director of the Company since August 2009 and the CEO of the Company since December 2016.

Mr. ZOU is also a director of certain subsidiaries of the Company.

Yuk Keung NG, aged 53, is currently an executive Director and the chief financial officer ("**CFO**") of the Company. Mr. NG graduated from the University of Hong Kong with a bachelor's degree in Social Sciences in 1988 and obtained a Master of Science degree in Global Business Management and E-commerce in 2002. Mr. NG is a professional accountant, and a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, and 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. Mr. NG worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. Before joining the Company, Mr. NG held financial management positions in several listed companies, including deputy CFO, joint company secretary and qualified accountant of IRICO Group Electronics Company Limited (Stock Code: 438); vice president and CFO of China Huiyuan Juice Group Ltd. (Stock Code: 1886); executive director, CFO and company secretary of China NT Pharma Group Company Limited (Stock Code: 1011). Mr. NG is currently an independent non-executive director of Sany Heavy Equipment International Holdings Company Limited (Stock Code: 631), and an independent non-executive director and the chairman of the audit committee of E-Commodities Holdings Limited (Stock Code: 1733). Mr. NG was also an independent non-executive director and the chairman of the audit committee of Zhongsheng Group Holdings Limited (Stock Code: 881) and Beijing Capital Land Limited (Stock Code: 2868). Mr. NG served as the director of Cheetah Mobile (NYSE: CMCM) until 13 March 2018.

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.

Non-executive Directors

Jun LEI, aged 48, is a non-executive Director, the Chairman of the Board, a member of the Remuneration Committee and the co-founder of the 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. From April 2005 to August 2016, Mr. LEI was the chairman of YY Inc. (NSDAQ: YY). Mr. LEI also served as the chairman of Cheetah Mobile (NYSE: CMCM) until 13 March 2018.

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. He has been serving as vice chairman of All-China Federation of Industry and Commerce, vice chairman of Beijing Federation of Industry and Commerce and vice president of China Association For Quality since 2017. Mr. LEI was elected as one of the top 10 economic personages of China in 2017.

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

Pak Kwan KAU, aged 53, 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 45, 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. On 29 December 2017, Mr. LAU was appointed as a director of Vipshop Holdings Limited, an online discount retailer company listed on the NYSE.

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 57, 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 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 and Corporate Controller of Alibaba Group from August 2007 to September 2011, an enterprise which engages in 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 company listed on the Stock Exchange, between September 2001 and July 2003.

In the past, Mr. WONG held key financial 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 63, 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 IT industry experience in the global market and in the China market in the areas of sales, marketing, business development, research and development and manufacturing. Mr. TANG is a well-known business leader in China and has held various positions such as the vice president of the European Union Chamber of Commerce in China, the vice chairman of the China Association of Enterprises with Foreign Investment and the vice president of the Beijing Chamber of International Commerce. Over the years, Mr. TANG has been widely recognized in the industry and was awarded the title of "Best Professional Manager of the Decade ("十年最佳職業經理人")" by China's CEO & CIO magazine. Mr. TANG has been responsible for the management of businesses up to an annual sales turnover of RMB70 billion. Mr. TANG also 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 global vice president, 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 43, 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 managing partner of Baidu Capital since November 2016. Ms. WU is currently also a director of Xunlei Limited (NASDAQ: XNET). Prior to joining Baidu Capital, Ms. WU joined Ctrip.com (NASDAQ: CTRP) in December 2011 successively serving as deputy CFO, CFO and CSO. 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 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 Mr. Tao ZOU and Mr. Yuk Keung NG, please refer the paragraph headed "Executive Directors" above in this section.

Sheng FU, aged 40, is currently a senior vice president of the Company and the CEO of Cheetah Mobile. 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 co-founded Purple Bull Startups with other partners in September of 2015, which has been dedicating to angel investment and incubation for early stage startups. 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.

Yulin WANG, aged 42, is currently a senior vice president of the Company, and the CEO of Kingsoft Cloud. He has been in charge of the overall management of Kingsoft Cloud. Mr. WANG has over 17 years of experience in internet industry. He has been the vice president of A8 Digital Music Holdings Limited (Stock Code: 00800), chief operating officer of CNEC Inc. and the vice executive officer of Phoenix New Media Limited (NYSE: FENG). Mr. WANG joined the Company in 2012, and became the senior vice president in 2016.

Mr. WANG graduated from Nankai University and obtained a B.S. degree. He had also received a MBA degree form Tsinghua University in 2008.

Wei LIU, aged 41, is currently a senior vice president of the Company. Mr. LIU joined the Group in 2000 and has been project manager, HR director and the vice president of human resources of Westhouse Holdings Limited. Mr. LIU has started as an assistant president of our Group since April 2012, and has been the vice president of the Group and assistant to the Chairman since 2013. Mr. LIU became senior vice president of the Company and special assistant to the Chairman in 2016.

Mr. LIU graduated from China University of Mining And Technology with a bachelor degree in Economics in 1999.

KWOK Wai Wai Kris, aged 37, is currently a senior vice president of our Group and the CEO in Seasun Holdings. He joined the JX3 Online ("**JX3**") development team in Seasun Holdings in the year 2004, and currently serves as JX3 producer. Mr. KWOK is familiar with the business and development strategy of Seasun Holdings with rich experience in business operation and management. Mr. KWOK graduated from Saint John University.

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 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 the non-executive directors' attendance to general meetings. Non-executive Director, Mr. Chi Ping LAU, did not attend the annual general meeting of the Company held on 24 May 2017 due to pre-arranged engagements. Executive Director, Mr. Tao ZOU, non-executive Directors, Mr. Jun LEI, Mr. Chi Ping LAU and Mr. Wenjie WU, did not attend the extraordinary general meeting of the Company held on 29 September 2017 due to pre-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 among 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 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 2017:

(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 2017 are set out under the section of 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 2017 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 (the "**Guidelines**").

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 2017.

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 auditor 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 2017, 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 auditor's responsibilities to shareholders are set out in the Independent Auditor's Report of this annual report.

Composition of the Board

As at the date of this annual report, the Board of Directors comprises eight Directors with two 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 2017, the Board comprises the following Directors:

Executive Directors:

Mr. Tao ZOU

Mr. Yuk Keung NG

Non-executive Directors:

Mr. Jun LEI

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

Independent Non-executive Directors:

Mr. Shun Tak WONG

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.

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 2017, all Directors namely, the executive Directors Mr. Mr. Tao ZOU and Yuk Keung NG; the non-executive Directors Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Chi Ping LAU; and the independent non- executive Directors Mr. Shun Tak WONG, 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 2017, 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 four 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 2017 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 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 four Board meetings and two general meetings held during the year ended 31 December 2017. The attendance records of each Director at the Board meetings and general meetings during the year of 2017 are set out below:

Name of Director	Attendance/ Number of Board meetings	Attendance/ Number of general meetings
Executive Directors		
Mr. Tao ZOU	4/4	1/2
Mr. Yuk Keung NG	4/4	2/2
Non-Executive Directors		
Mr. Jun LEI	4/4	1/2
Mr. Pak Kwan KAU	4/4	2/2
Mr. Chi Ping LAU	4/4	0/2
Independent Non-executive Directors:		
Mr. Shun Tak WONG	4/4	2/2
Mr. David Yuen Kwan TANG	4/4	2/2
Ms. Wenjie WU	4/4	1/2

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. Tao ZOU, 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 Audit Committee (established on 3 September 2007), Remuneration Committee (established on 3 September 2007) and Nomination Committee (established on 3 September 2007) to oversee key aspects of its affairs.

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 2017:

Audit Committee

Membership and Responsibilities

During the year ended 31 December 2017, our Audit Committee comprised of three independent non-executive Directors, namely Ms. Wenjie WU (chairman of the Audit Committee), Mr. David Yuen Kwan TANG and Mr. Shun Tak WONG. 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 auditor of the Company.

The terms of reference of our Audit Committee set 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 auditor, and resignation or dismissal of the auditor;
- 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, risk management and internal control systems;
- 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 2017 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 auditor; and
- the terms of engagement and fees of the Company's external auditor.

Meetings attendance

The Audit Committee held four meetings during the year ended 31 December 2017. The attendance records of each member of the Audit Committee are set out below:

Members	Attendance/ Number of meetings held
Ms. Wenjie WU (chairman)	4/4
Mr. Shun Tak WONG	4/4
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, 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 with the Group. The information regarding the remuneration of the Directors during the year ended 31 December 2017 is set out in note 10 to the financial statements. When a meeting is convened to discuss certain Directors' remuneration, the Directors in discussion cannot determine his own remuneration.

Summary of principal work performed

The following is a summary of work performed by the Remuneration Committee during the year ended 31 December 2017:

- 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 one meeting during the year ended 31 December 2017. The attendance records of each member of the Remuneration Committee are set out below:

Members	Attendance/ Number of meetings held
Mr. Shun Tak WONG (chairman)	1/1
Ms. Wenjie WU	1/1
Mr. David Yuen Kwan TANG	1/1
Mr. Jun LEI	1/1

Nomination Committee

Membership and Responsibilities

The Nomination Committee comprises two independent non-executive Directors, namely Mr. Shun Tak WONG 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 2017:

- 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 did not hold meeting during the year ended 31 December 2017.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

Ernst & Young, Certified Public Accountants, Hong Kong, were engaged as the Company's external auditor for the year ended 31 December 2017. External auditor 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 perform any self-assessments; or act in an advocacy role for the Group. Before any engagement with external auditor for non-audit services, external auditor 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 Auditor's Report of this annual report.

During the year ended 31 December 2017, the remunerations paid or payable to Ernst & Young regarding the audit and non-audit services (together with the comparative figures for 2016) are set out as follows:

	2017 **RMB' Mil**	2016 RMB' Mil
Audit services	**6.20**	18.47
Non-audit services*	**3.43**	3.97
Total	**9.63**	22.44

* Non-audit services included review services of the Group's interim financial statements, tax services and other compliance services.

INTERNAL CONTROL AND RISK MANAGEMENT

Our internal control system and risk management are 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 Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") 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 auditor and the board of directors. The Audit Committee reviews audit plan and receives at least quarterly updates on the progress. The IA also conducts subjective auditing projects in the operational areas which are material to the business or identified by the Audit Committee and/or senior management, results of which will be reported to the Audit Committee and senior management's concerned. The IA will follow up with the implementation of audit recommendations. Any major internal control weaknesses and findings will be firstly reported to the Audit Committee whenever necessary. In addition, the IA maintains regular communications with our external auditor so that both parties are aware of the significant factors that may affect their respective scopes of work.

The board secretary office reviews the continuing connected transactions periodically to ensure they are in accordance with the pricing policies or mechanisms under the framework agreement, including the pricing range, the process for estimating the selling prices for the goods or services, and the procedures for obtaining quotations or tenders, as appropriate. The Board considers the internal control procedures are adequate and effective to ensure the transactions are so conducted.

The Board has the responsibility to oversee the risks undertaken by the Group, and to actively consider, analyze and formulate strategies to control the risks the Group is exposed to, and determine the level of risk the Company wishes to and is able to take. The Board realizes that risk management is incorporated as part of the Group's annual strategic planning process across all major functions of the Company rather than being a separate and standalone process. Therefore, all business functions are required to identify, assess and evaluate material risks that may impact their strategy objectives, including the following aspects of the risk: business continuity, financial impact, reputational risk, safety and health, external regulations and social responsibility. Each business function monitors and reviews the risks and reports to the senior management team periodically. The senior management team monitors these risks and develops effective systems and mechanisms to mitigate the risks to an acceptable level as determined by the Board. At least annually, the senior management team coordinates the risk identification and assessment process and report to the Board and whenever necessary on the identified risks and the actions taken to mitigate them.

The Board reviews the risk management and internal control systems annually. The Board believes that all the internal control and risk management 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.

During the year ended 31 December 2017, the Board has reviewed the effectiveness of the system of internal control and risk management of the Group and considers the internal control and risk management 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.

INSIDE INFORMATION

In accordance with the SFO, the Company has established a framework for handling and the disclosure of inside information. The framework sets out the procedures and internal controls for publishing the inside information announcements. The Company has communicated with all relevant staff regarding the implementation of the framework and relevant trainings are also provided.

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 2017, the Company's senior management presented its results in Hong Kong, Shenzhen, 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 publicly 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 2017.

On behalf of the Board
Jun LEI
Chairman

Hong Kong, 21 March 2018

As a leading software and internet service company in the PRC, the Group has been providing customers with innovative technologies, products and services. Meanwhile, the Group always commits itself to driving the sustainable development of the enterprise, the industry and the society. In 2017, the Group built a strategic layout focusing on internet security, interactive entertainment, cloud computing and cloud storage, and office software. In response to the requirements of the new strategy and the new age, the Group will pay more attention to its influence on the society and environment in the course of operation, proactively discharge its social responsibility as an enterprise, and help create a more friendly and more sustainable society.

COMMUNICATION WITH STAKEHOLDERS

Taking our business model and the conditions of internal and external communication into account, the Group identified important stakeholders who have an interactive impact on its operation, and determined the key points on environmental, social and governance (ESG) of the Group through analyzing the demands of the stakeholders. The types of the major stakeholders of the Group comprise of:

STAKEHOLDERS	DEMANDS AND EXPECTATIONS
Governmental and regulatory authorities	— To comply with laws and regulations — To pursue integrity in industry — To ensure the safety and reliability of products — To promote the technological progress — To serve national interests and people's livelihood
Investors	— To maintain good operating performance — To achieve compliant operation — To disclose information
Customers	— To provide high-quality products and services — To guarantee the information security of customers — To satisfy diversified demands of customers
The public	— To provide safe and reliable products — To discharge enterprise social responsibility
Employees	— To protect the interests of the employees — To guarantee occupational health — To focus on training and development — To improve personal development channels — To balance work and life
Suppliers and partners	— To purchase in an open, fair and impartial manner — To abide by contracts — To achieve mutual benefits and win-win
Communities	— To participate in the development of communities — To support public welfare undertakings — To protect environment

Judgments on Significant Issues

In order to further define the key fields in the corporate environmental, social and governance practices and information disclosure and enhance the pertinence and responsiveness of the report, the Group identified the ESG issues and made judgments on significance in accordance with the requirements of the Environmental, Social and Governance Reporting Guide issued by the Hong Kong Stock Exchange to ensure that the information disclosed in this report covers all the respects of corporate development and significant issues concerned by the stakeholders.

PROCESS OF SCREENING SOCIAL RESPONSIBILITY ISSUES

SOURCES OF ISSUES

— Analysis of multimedia information
— Benchmarking research of international and domestic peers
— Internationally-recognized sustainable development guidelines
— To solicit opinions from the internal employees
— Special communication meetings by the management
— Analysis and suggestions from internal and external experts

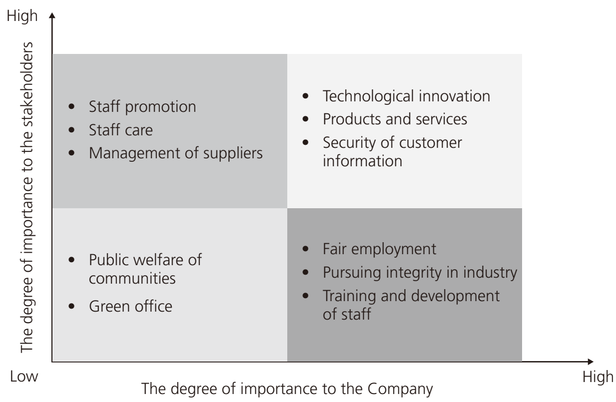
SCREENING CRITERIA

— Values, policies, strategies and long-term and short-term goals
— Relevant laws, regulations, international treaties or voluntary agreements
— Benchmarking results of peers
— Demands and expectations explicitly expressed by stakeholders
— Suggestions from the management and the social responsibility management team

RESULTS OF SUBSTANTIVE JUDGMENTS

The Group identified the environmental, social and governance issues that are most relevant to its sustainable development and made judgments on the degree of significance of each issue. The results are as follows:

2017 Materiality Issue Matrix of Kingsoft



The Group has proactively streamlined the process of collecting and disclosing relevant information, and will gradually improve the relevant management mechanism in the future to enrich the contents of the environmental, social and governance information disclosure. Some policies and management methods of our subsidiaries are slightly different, and relevant information will be disclosed separately in the report.

Responsibility-based Operation

The Group always adheres to the business philosophy of customer-oriented and responsibility first. It is committed to delivering best quality products and services to its customers by various means, such as technological innovations, optimization and upgrading of products, and information security assurance. Meanwhile, the Group has been constantly expanding channels for business cooperation, consolidating advantages of business resources, so as to promote the synergy in the industry and fully realize the sustainable development of the enterprise.

Promoting Innovative Technology

Technological innovation is the motive force for the business development of the Group. The Group promotes technological innovations by setting up a standard incentive system of product innovation, and improving the management system of intellectual property.

The Group strictly complied with the laws and regulations such as the *Patent Law of the People's Republic of China*, and formulated the *Incentive System of Kingsoft for Technology Reform*, *Promotion and Introduction and Patent Filing*, the *Regulations on Software Intellectual Property Management*, and the *Patent Management System*. The Company provided prizes for technical innovation and achievements, granted awards and remuneration to employees actively engaged in technological innovations, and proactively promoted the cross-department application of new technologies. The number of the patents authorized by the Group amounted to over 200 in 2017, and the accumulated number of authorized patents amounted to over 1,000.

With the protection from relevant systems, the Group maintained a leading position in the industry in terms of application of innovative technologies and quality of products and services. With its outstanding product design, excellent technical innovation and effective technological realization, the GPU Could Server of Kingsoft was awarded the "Best Technological Innovation in the Internet Industry in 2017" (2017互聯網最佳技術創新獎) by the Global Internet Technology Conference (GITC), which was the first award of this kind in the industry granted to the GPU Could Server. In addition, the Group was honoured as the "Top 100 Enterprises with Comprehensive Competitiveness in Software and Information Technology Service of China in 2017（2017 中國軟件和信息技術服務綜合競爭力百強企業）" at the 21st China International Software Expo (中國國際軟件博覽會).

Improving Customer Service Quality

The Group takes providing its customers with best quality products as its primary task. It improved its service quality by various measures such as enhancing customer complaint handling mechanism, visiting its customers regularly, and full upgrading the information security of customers.

The Group strictly implemented the user complaint management mechanism, which clearly defined the complaint handling process. It has set up multiple channels for complaints and feedbacks of users, such as telephone, email, forum and microblog. Staff is committed to seriously handling customer complaints within 24 hours through timely and prompt response and active communication. The Group also pays regular return visits to its customers to understand the demands of customers in a timely manner and address their potential demands. In 2017, Kingsoft Office received 273 complaints from customers, and the call centre had a customer satisfaction rate of 98.4%; Seasun Holdings received 1,864 complaints, accounting for one thousandth of total service volume, and the customer satisfaction rate was 95.3%.

In respect of customer information confidentiality, Kingsoft Office the management regulations of Kingsoft Office clearly stipulates that the personal contacts, such as customers' telephone numbers, shall be stored in the customer service system, inaccessible without the authorization from the administrator, which is not available to ordinary employees. In addition, Kingsoft Cloud has set up a security management organization, which was jointly formed by the information security system management team and the functional department of information security, in order to ensure the effective operation of information security management. In addition, the Company requires employees holding key positions to sign the Security Agreement on Key Positions of Information System, before their appointments, so as to define the employees' responsibility for information security.

Pursuing Integrity in the Industry

The building of an environment of incorruptible administration is the foundation of ensuring the compliant operation of the Company, and formulating a clear regulatory framework is an effective management method. Therefore, the Group firmly prevents corruption in any form and strictly controls risks on incorruptible administration, through releasing policies and related management measures, including the *Regulations on the Management of Whistleblowing and Complaints for Kingsoft*, the *Punishments Regulations on Negligence and Pretermission for Leaders in Kingsoft*, and the *Code of Conduct for Kingsoft's Employees*.

In 2017, the Group had multiple channels for whistleblowing, and encouraged entities or individuals to report any behavior violating the rules and regulations of the Group to its internal audit department. Whistle-blowers can report any illegal behavior by email, the reporting system, telephone, face to face whistleblowing and etc.

Meanwhile, in entering into a contract of with a supplier, the Group shall explicitly required that the contract shall contain terms on incorruptible administration, and shall provide that both of the parties of the contract are required to establish sound incorruptible administration systems, release whistleblowing hotline, and supervise and carefully investigate behaviors violating the laws and disciplines. If any behavior violating requirements on the building of an incorruptible administration environment is found in the course of business activities, it shall be warned and corrected in a timely manner. If any behavior violating the contract by the counterparty is found, related party shall disclose it to the counterparty.

In 2017, the Group has not undergone any lawsuit related to corruption or embezzlement.

Optimization of Supply Management

In accordance with the *Bidding Law of the People's Republic of China*, the *Regulations on the Implementation of the Bidding Law of the People's Republic of China* and other relevant laws and regulations, the Group has formulated rules to ensure the reasonableness and accuracy of the procurement. The procurement of Group is based on the principles of fairness, justness and openness. The suppliers' qualification is assessed to set up their information archives, thus controlling the procurement risks.

When selecting suppliers, the Group fully considers their performance of social responsibility, and those with better performance in environmental protection will be given greater priority. The Group makes regular communications with suppliers by means, such as Wechat, telephone, email and weekly meeting, to provide them with professional trainings, thus improving service effect. In 2017, the Group has about 150 domestic suppliers.

Green Office

As a leading internet company in the industry, the Group actively promotes green energy-saving and environmental friendly concepts, and strictly complies with the relevant laws and regulations, and industrial policies of the PRC. Although the Group has immaterial impact on the environment, it still actively promotes measures of green office, and endeavors to minimize the consumption of energy resources and production of emissions in its daily operations.

Promotion of Energy Conservation and Emission Reduction

The Group encourages its employees to have conservation awareness in daily work. It has formulated a set of rules, including the Management Rules for Lighting, Computer, Air-Conditioning and Direct-fired Machines, etc., which effectively regulate work relation to the work in saving energy and reducing emissions. The Group requires its employees to turn off computers, non-emergency lighting and air-conditionings after work, and prohibits the use of over-power electrical appliances. The on-off timing for high-power equipment is controlled depending on the indoor and outdoor temperatures, and energy-intensive equipment is upgraded in a timely manner to conserve energy. In 2017, we totally saved 66,000 kilowatt-hours through various measures of energy conservation and emission reduction in the buildings of Kingsoft and Seasun Holdings in Beijing.

In October 2017, the electrical heating was upgraded to the air heating for the solar energy assisted heating system of the building of Kingsoft in Beijing, which saved 300 kilowatt-hours per day in winter as compared to the same period of last year. The online QA system was adopted in the building of Seasun Holdings in Beijing to complete the work process and internal services, realizing paperless office.

		CONSUMPTION IN 2017
The usage of energy	The consumption of gasoline (ton)	21.27
	The consumption of electricity (ten thousand kilowatt-hours)	1,032.2
	The consumption of natural gas (cubic metre)	221,587
The usage of water resources	The consumption of water (ton)	114,430

Summary Table for the Consumption of Energy and Resources in 2017

Implementation of Emission Management

The Group complies with the Law of the *People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste.* It regulates the management, classified storage, and regular disposal of solid waste. Domestic waste and office garbage generated during the daily operation are collected by a property management agency every day, and disposed of by city sanitation workers. Minimal discarded fluorescent tubes, bulbs, and batteries among office garbage are placed at a fixed location in accordance with the joint disposal procedure, and then sent to the Beijing Hazardous Waste Management Centre for disposal.

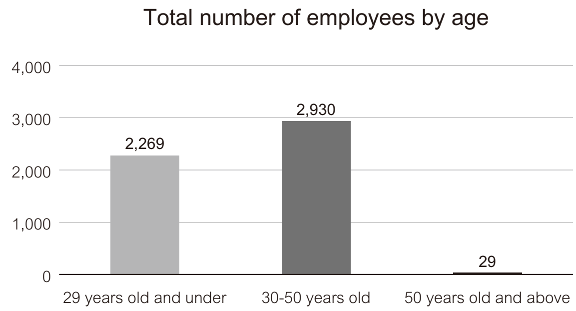
In 2017, the office garbage from the buildings of Kingsoft and Seasun Holdings in Beijing totaled 46.5 tons.

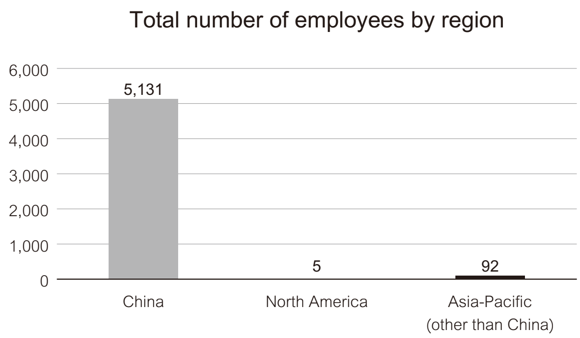
Harmonious and Win-win Scenario

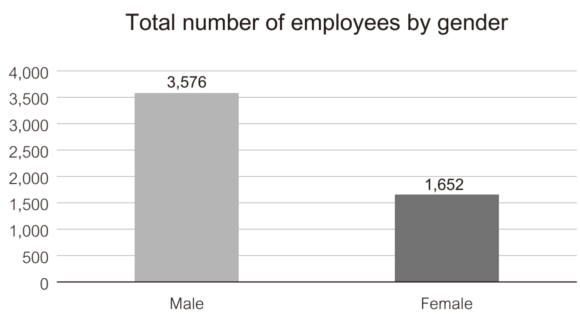
As the development of the Group depends on the support of its employees and the surrounding communities, it always adheres to the principle of coordinated development and contributes to the development of its employees and the construction of the surrounding communities. On one hand, the Group set up and improved the relevant talent mechanisms, and provided trainings to them, in order to safeguard their interests and promote their career development. On the other hand, the Company encouraged and led its employees to actively participate in volunteer activities, to devote caring to and repay to society.

Promoting the Growth of Employees

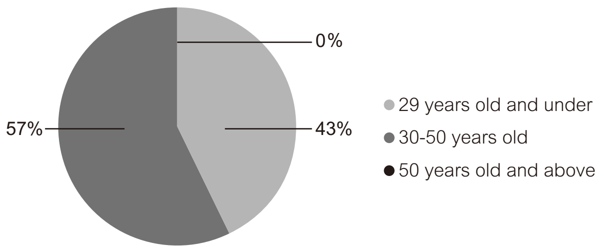
The Group strictly complies with the Labor Law, the Contract Law and other state laws and regulations to enter into labor contracts with the staff, and eradicates all forms of discrimination based on gender, nationality, religion, age, political stance and other aspects regarding recruitment, remuneration, training, promotion. Hiring of child labor and forced labor is prohibited, so as to ensure that employees have access to fair, just and open job opportunities. In 2017, Kingsoft had 5,228 employees in total.



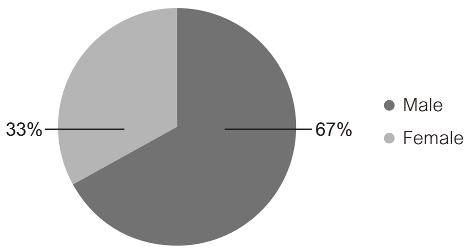




Percentage of employee turnover by age



Percentage of employee turnover by gender



In order to create a better working environment, build a healthy, progressive, harmonious and effective culture, improve employee satisfaction, the Group has formulated a series of management approaches related to employee compensation. The Group also pays endowment, unemployment and basic medical insurance, as well as other social insurance, for all contracted employees. In addition, the Group formulated the *Provisions on Employee Benefits* (《員工福利規定》), which provides for benefits for employees, such as the holiday allowance, birthday gifts, marriage allowance, meal allowance and transport subsidies. The Group also offers annual medical check-up to all employees and buys supplementary medical insurance for them.

The Group has been proactively providing employees with a better environment and room for career development, and has formulated corresponding management approaches to make employees fully aware of our promotion paths and help them with career development. The Group strived to achieve the multi-channel development of management talents, technical talents, and talents with special skills. In 2017, the Group provided employees with various internal and external vocational training courses to improve their operational capacities, job qualifications and comprehensive qualities, for the purpose of promoting their career development. The Group formulated the Management Measures on External Trainings of Kingsoft (《金山軟件公司外出培訓管理辦法》), for the purpose of ensuring training effectiveness. In 2017, all of the employees of Kingsoft received trainings.

The Group actively organizes recreational and sports activities to enrich our employees' daily life. It cares about their physical and mental health, and takes measures to promote the sound development of employees in line with the Company's growth. In 2017, the Group held the third football tournament season and the fourth five-player soccer match both named "Kingsoft Cup", for the purpose of advocating a health and positive lifestyle. In addition, the Group set up the Enterprise Culture Division, and held a number of corporate cultural activities with "Kingsoft Spirit" in 2017, including drawing for comics, which revealed the enterprise culture and image, and promoted the "Kingsoft Spirit" among employees and the public.

A SERIES OF ACTIVITIES THEMED "TRAVEL WITH KINGSOFT SPIRIT（金山精神萬里行）"

In April 2017, the Group held a series of activities themed "Travel with Kingsoft Spirit（金山精神萬里行）", for the purpose of strengthening the staff cohesive force and communicating the spirit of enterprise culture of Kingsoft. The first hiking-camping kicked off at Fenghuangling Natural Scenic Spot in Niegezhuang Township in Haidian District, and every member reached the mountain summit. On the way down the mountain, our employees played the corporate culture themed quiz games interesting and joyful, which helped to build harmonious employee relationship. In addition, the Group held a number of activities in November, including the Haituoshan expedition, foot orienteering, and dream speeches, advocating a positive and healthy lifestyle and increasing employees' sense of identity and belonging.

Serving the Development of Communities

As a leading company in the industry, the Group has always adhered to its faith of repaying the society since inception. Since 2008, the Group has leveraged upon its own advantages to become a practitioner and pioneer of public activities through continuing and targeted investments in education and disaster relief. Meanwhile, the Group has also encouraged its employees to participate in public charities and serve communities. The Group will unhesitatingly work with its staff on the road of public well-being.

On behalf of the Board
Jun LEI
Chairman

Hong Kong, 21 March 2018

The Board of the Company submits its report together with the audited financial statements of the Group for the year ended 31 December 2017.

Principal Business

The Group is principally involved in the following principal activities:

- research and development of games, and provision of online games, mobile games and casual game services;
- provision of cloud storage and cloud computation services; and
- design, research and development and sales and marketing of the office software products and services of WPS Office.

The discontinued operation of the Group was involved in the research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices through Cheetah Group.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated income statement of comprehensive income of this annual report.

The state of affairs of the Group as at 31 December 2017 is set out in the consolidated statement of financial position of this annual report.

The consolidated statement of cash flows of the Group for the year ended 31 December 2017 is set out in this annual report.

During the year ended 31 December 2017, a final dividend for year 2016 of HK$0.10 per ordinary share, which excluded the dividend related to the shares held under the Share Award Scheme, was paid to shareholders of the Company on 16 June 2017.

The Directors recommend the payment of a final dividend of HK$0.11 per ordinary share (2016: HK$0.10 per ordinary share) totalling approximately HK$146.5 million (2016: HK$129 million), which excluded the dividend related to the shares held under the Share Award Scheme, based on issued share capital as at year end to shareholders whose names appear on the register of members of the Company on Monday, 4 June 2018. Such proposed dividends will be subject to approval of the shareholders at the forthcoming annual general meeting ("**AGM**") to be held on Wednesday, 23 May 2018. Such proposed dividends will be payable on Friday, 15 June 2018. This recommendation has been incorporated in note 14 to the financial statements.

For the year ended 31 December 2017, 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, 17 May 2018 to Wednesday, 23 May 2018, and Wednesday, 30 May 2018 to Monday, 4 June 2018, both dates inclusive, during which period no transfer of shares will be registered. 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, 16 May 2018 and Tuesday, 29 May 2018, respectively.

Reserves

For the year ended 31 December 2017, the profit attributable to owners of the parent company amounted to RMB3,201.8 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 2017, the Company had distributable reserves amounting to RMB2,656.2 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 2017 are set out in the consolidated statement of changes in equity of this annual report, and in note 53 to the financial statements, respectively.

Donations

During the year, the Group made charitable and other donations totalling RMB1.8 million (2016: RMB0.2 million).

Pension Schemes

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

Employee and Remuneration Policy

As at 31 December 2017, the Group employed approximately 5,228 full-time employees (2016: 6,925) 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. Since Cheetah Mobile ceased to be a subsidiary of the Company with effect on 1 October 2017, the number of full-time employees of the Group as at 31 December 2017 did not include the number of Cheetah Group.

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

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 contributions.

The staff costs of the Group including Directors' and senior management's emoluments in 2017 and 2016 were approximately RMB1,745.0 million and RMB1,228.0 million, respectively.

Please refer to note 38 to the financial statements for the share options and awarded shares granted to certain Directors and employees of the Group, note 10 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 2017 are set out in note 1 to the financial statements.

Material Investment and Acquisition

Details of the material investments and acquisitions incurred during 2017 are set out in notes 20, 21, 22 and 41 to the financial statement.

Future Plans for Material Investments or Capital Assets

As an investment holding company, the Company from time to time will identify and evaluate business opportunities coming along. The Company intends to explore more strategic investment opportunities in the similar line of business of the Company to create synergy effects. The potential strategic investments will enable to Company to expand its user base and geographic coverage and add complementary offerings and technologies to further strengthen its ecosystem.

Save as those disclosed in note 45 to the financial statements, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2017.

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 2013, 2014, 2015, 2016 and 2017, is set out as below. The summary does not form part of the audited financial statements.

	YEAR ENDED 31 DECEMBER				RMB'000
	2013	2014	2015	2016	2017
Profit/(loss) for the year	753,874	866,567	341,704	(292,275)	**3,296,629**

	AS AT 31 DECEMBER				
	2013	2014	2015	2016	2017
Total assets	5,804,333	10,381,604	15,484,877	17,578,952	**17,762,390**
Total liabilities	1,973,642	4,265,060	5,573,522	7,577,228	**5,209,419**

Contract of Significance

Save as disclosed in this 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 2017.

Bank Borrowings

Particulars of bank loans as at 31 December 2017 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 2017 are set out in note 16 to the financial statements. No assets of the Group are charged during the year ended 31 December 2017.

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%.

Management Contract

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2017.

Key Relationships with Employees, Customers and Suppliers

Details of the key relationships between the Company and its employees, customers and suppliers are set out in the paragraphs headed "Employee and Remuneration Policy" and "Major Customers and Suppliers" in this annual report.

Share Capital

Details of the movements in share capital of the Company for the year ended 31 December 2017 are set out in note 37 to the financial statements.

Share Option Schemes

***2007 Pre-IPO Share Option Scheme**:* On 22 January 2007, the shareholders of the Company approved the 2007 Pre-IPO Share Option Scheme. The 2007 Pre-IPO Share Option Scheme was terminated on 3 September 2007. No share options have been granted since then.

2011 Share Option Scheme: On 9 December 2011, the Company adopted the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants.

Kingsoft Cloud Share Option Scheme: On 27 February 2013, the shareholders of the Company and Kingsoft Cloud, approved and adopted the Kingsoft Cloud Share Option Scheme. On 27 June 2013, 20 May 2015 and 26 December 2016, the Kingsoft Cloud Share Option Scheme was amended and refreshed.

Seasun Holdings Share Option Scheme: On 27 June 2013, the shareholders of the Company and Seasun Holdings, approved and adopted the Seasun Holdings Share Option Scheme. On 26 December 2016 and 24 May 2017, the Seasun Holdings Share Option Scheme was amended and refreshed.

Details of the movements in share options of the Group for the year ended 31 December 2017 are set out in note 38 to the financial statements.

Summary of the Share Option Schemes

	Detail	2007 Pre-IPO Share Option Scheme	2011 Share Option Scheme	Kingsoft Cloud Share Option Scheme	Seasun Holdings 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.	To provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest.	To provide incentives or rewards to participants thereunder for their contribution to the Kingsoft Cloud Group and/or to enable the Kingsoft Cloud Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Kingsoft Cloud Group and any invested entity.	To provide incentives or rewards to participants thereunder for their contribution to 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.
2	Qualified participants	Any employee (whether full time or part time), chief executive or director (including executive or non-executive or independent nonexecutive) 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.	Any executive director (exclusive of any independent non-executive director) and other employees of the Group.	Any employee(s) (whether full time or part time employee(s)) of Kingsoft Cloud, its subsidiaries or any invested entities.	Employee(s) (whether full time or part time employee(s)) of Seasun Holdings, its subsidiaries or any invested entities.
3	Maximum number of shares	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 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 209,750,000 of which 123,250,000 options were granted prior to 20 May, 2015 and 86,500,000 options may be granted after 20 May 2015.	The total number of shares which may be issued upon exercise of all options to be granted shall not in aggregate exceed 40,000,000 ordinary shares of Seasun Holdings unless otherwise approved by the shareholders of the Company and Seasun Holdings in general meeting.
4	Maximum entitlement of each participant	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% 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 meetings. 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 (including both exercised and outstanding options) 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 Seasun Holdings 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 Seasun Holdings.

	Detail	2007 Pre-IPO Share Option Scheme	2011 Share Option Scheme	Kingsoft Cloud Share Option Scheme	Seasun Holdings 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.	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 Seasun Holdings 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.	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.	As the board of Kingsoft Cloud 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 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.	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 Seasun Holdings but in any case the subscription price of options granted after Seasun Holdings or the Company has resolved to seek a separate initial public offering and up to date of Seasun Holdings' initial public offering must not be lower than the new issue price (if any) in the Seasun Holdings' 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 Seasun Holdings' 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 Seasun Holdings' initial public offering.
8	Remaining life of the Scheme	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.

2007 Pre-IPO Share Option Scheme

As of 31 December 2017, there were no outstanding share options under 2007 Pre-IPO Share Option Scheme. The following share options under 2007 Pre-IPO Share Option Scheme were exercised during the year ended 31 December 2017:

	NUMBER OF SHARE OPTIONS					
NAME OR CATEGORY OF PARTICIPANT	AT 1 JAN 2017	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT 31 DEC 2017	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
Other employees						
In aggregate	3,089,700	3,089,700	—	—	1 February 2007	0.2400

2011 Share Option Scheme

The following share options were outstanding under the 2011 Share Option Scheme as of 31 December 2017:

	NUMBER OF SHARE OPTIONS						
NAME OR CATEGORY OF PARTICIPANT	AT 1 JAN 2017	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	CANCELLED DURING THE PERIOD	AT 31 DEC 2017	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE
Executive Directors							
Tao ZOU	—	4,000,000	—	—	4,000,000	21 April 2017	20.25
Yuk Keung NG	2,400,000	—	2,400,000	—	—	20 July 2012	3.28
	—	600,000	—	—	600,000	23 November 2017	22.75
Other grantee(s)							
In aggregate	3,500,000	—	3,500,000	—	—	20 December 2011	2.89
	5,900,000	4,600,000	5,900,000	—	4,600,000		

Share Award Scheme

Share Award Scheme

The Share Award Scheme was adopted by the Board on 31 March 2008. As approved by the Board from time to time, the term of the Share Award Scheme has been extended to 30 March 2022.

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 incentives 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 shares of the Company as at the date of such grant.

More details regarding the Share Award Scheme are set out in note 38 to the financial statements.

Kingsoft Cloud Share Award Scheme

On 22 February 2013, the directors of Kingsoft Cloud approved and adopted the Kingsoft Cloud Share Award Scheme, for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud Group are entitled to participate. Unless early terminated by the directors of Kingsoft Cloud, the Kingsoft Cloud Share Award Scheme shall be valid and effective for a term of ten years commencing on 22 February 2013. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 9 January 2015 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 50,000,000 shares, as at the date of such grant. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 3 March 2016 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 68,364,500 shares, as at the date of such grant. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 8 June 2016 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 69,925,476 shares, as at the date of such grant.

More details regarding the Kingsoft Cloud Share Award Scheme are set out in note 38 to the financial statements.

Seasun Holdings Share Award Schemes

On 21 March 2017, the shareholders and directors of Seasun Holdings approved and adopted the general share award scheme, the special share award scheme (A) and the special share award scheme (B) in which selected employees of Seasun Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of Seasun Holdings, the Seasun Holdings Share Award Schemes are valid and effective for a term of ten years commencing from 21 March 2017. The directors of Seasun Holdings be and are authorised to issue up to 50,832,211 shares, among which the total number of shares pursuant to the special share award scheme (A) shall be no greater than 3,138,889 and the total number of shares pursuant to the general share award scheme and the special share award scheme (B) shall be no greater than 47,693,322, as at the date of such grant.

More details regarding the Seasun Holdings Share Award Schemes are set out in note 38 to the financial statements.

Directors

The Directors of the Company up to the date of this report comprised eight Directors, of which two were executive Directors, three were non-executive Directors and three were independent non-executive Directors, whose names are as follows:

	APPOINTMENT DATE	RESIGNATION DATE	RE-DESIGNATION DATE
EXECUTIVE DIRECTORS			
Mr. Tao ZOU (鄒濤)	25 August 2009	N/A	N/A
Mr. Yuk Keung NG (吳育强)	1 March 2013	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. 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. Chi Ping LAU, Mr. David Yuen Kwan TANG and Ms. Wenjie WU 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 this 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 is allowed to 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 2017.

Directors' and Chief Executive's Interests in Securities

As at 31 December 2017, 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 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 the total number of issued shares (Note 1)	Nature of Shares held
Jun LEI	Interest of controlled corporation	210,116,248	16.00	Long position
	Other	142,714,003 (total: 352,830,251 (Note 2))	10.87 (total: 26.87)	Long position
Pak Kwan KAU	Interest of controlled corporation	108,032,566 (Note 3)	8.23	Long position
Tao ZOU	Beneficial owner	7,409,307	0.56	Long position
Yuk Keung NG	Beneficial owner	3,800,000	0.29	Long position

Notes:

1. % of the total number of issued shares was calculated on basis of the total number of issued shares of the Company as at 31 December 2017, which was 1,312,975,387.

2. Among these 352,830,251 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a British Virgin Islands company owned as to 100% by Mr. Jun LEI; (ii) 35,298,057 shares was held by a wholly-owned subsidiary of Xiaomi, a company controlled by Mr. Jun LEI under the SFO; and (iii) 142,714,003 shares are deemed to be interested by Mr. Jun LEI under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG would vote in the same way as Mr. Jun LEI with these shares.

3. These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Kau Management Limited. Kau Management Limited is a company 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

Seasun Holdings (Note 1)

Name of Director	Capacity	No. of shares interested	% of the total number of issued shares (Note 2)	Nature of Shares held
Tao ZOU	Beneficial owner	18,123,462	1.97	Long position

Notes:

1. Seasun Holdings is a non-wholly owned subsidiary of the Company as of 31 December 2017.

2. % of issued share capital in class was calculated on basis of the issued ordinary shares of Seasun Holdings as at 31 December 2017, which was 918,149,438.

Cheetah Mobile (Note 1)

Name of Director	Capacity	No. of shares interested	% of the total number of issued shares (Note 2)	Nature of Shares held
Jun LEI (Note 3)	Interest of controlled corporation	17,660,294	4.25	Long position
David Yuen Kwan TANG	Beneficial owner	140,000	0.03	Long position
Yuk Keung NG	Beneficial owner	1,200	0.00	Long position

Notes:

1. The Company holds over 20% of the issued shares of Cheetah Mobile as of 31 December 2017, which is listed on the NYSE.

2. % of the total number of issued shares in class was calculated on basis of the issued Class A Cheetah Shares as at 31 December 2017, which was 415,250,897.

3. Among the 17,660,294 shares, (i) 3,374,580 shares are held by Go Corporate Limited, a British Virgin Islands company owned as to 100% voting power by Mr. Jun LEI; and (ii) 14,285,714 shares are held by Xiaomi, a company owned as to 30% voting power by Mr. Jun LEI 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 2017.

Substantial Shareholders

As at 31 December 2017, 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:

Interest in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares interested	% of the total number of issued shares (Note 1)	Nature of Shares held
Color Link Management Limited (Note 2)	Beneficial owner	174,818,191	13.31	Long position
Topclick Holdings Limited (Note 3)	Beneficial owner	108,032,566	8.23	Long position
Tencent Holdings Limited (Note 4)	Interest of controlled corporation	106,784,515	8.13	Long position

Notes:

1. % of the total number of issued shares was calculated on basis of the total number of issued shares of the Company as at 31 December 2017, which was 1,312,975,387.

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

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

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

Save as disclosed above, the Directors 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

On 11 April 2017, being the put option date of the 2014 Convertible Bonds, the Company redeemed an aggregate principal amount of HK$2,281.0 million at the principal amount of the 2014 Convertible Bonds together with interest accrued to that date at the option of certain bondholders. As of 31 December 2017, the outstanding 2014 Convertible Bonds at an aggregate principal amount of HK$46.0 million are convertible into 1,078,040 shares of the Company upon full conversion. More details regarding the 2014 Convertible Bonds are set out in note 33 to the financial statements.

For the year ended 31 December 2017, save as disclosed in this section, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

Placing of Existing Shares and Subscription for New Shares

On 4 June 2015, Color Link Management Limited (a company wholly owned by Mr. Jun LEI, the Chairman and substantial shareholder of the Company, the "**Vendor**"), the Company, Morgan Stanley & Co. International plc and J.P. Morgan Securities (Asia Pacific) Limited entered into a placing and subscription agreement pursuant to which (i) Morgan Stanley & Co. International plc and J.P. Morgan Securities (Asia Pacific) Limited have severally agreed to procure purchasers for, or failing which, to purchase, an aggregate of 100,000,000 existing shares beneficially owned by the Vendor, on a fully underwritten basis, at a price of HK$27.40 per share on the terms of the placing and subscription agreement; and (ii) the Vendor has agreed to subscribe for, and the Company has agreed to issue, 100,000,000 new ordinary shares with nominal value of US$50,000, at subscription price, which is equal to the placing price less the commissions, fees and the expenses properly incurred by the Vendor in relation to the placing and/or the subscription. The gross proceeds from the subscription (before deducting the commissions, fees and the expenses properly incurred by the Vendor in relation to the placing and/or the subscription) was HK$2,740 million. The net price to the Company for each subscribed share was approximately HK$27.21 and the closing price of the Company was HK$28.30 per share on 4 June 2015. The completion of the placing and the subscription took place on 8 June 2015 and 11 June 2015, respectively, in accordance with the terms and conditions of the placing and subscription agreement.

The Company intended to apply the net proceeds as follows: (i) approximately 80% of the net proceeds (being approximately HK$2,176.5 million) will be used for financing Kingsoft Cloud Group to build cloud infrastructure and boost the development and research capability of its cloud technology and services; and (ii) approximately 20% of the net proceeds (being approximately HK$544.1 million) will be used for general working capital of the Group. As of 31 December 2017, the net proceeds raised from placing of existing shares and subscription from new shares (being approximately HK$2,720.6 million) had been used as follows: (i) approximately HK$338.5 million had been used for general corporate purposes; and (ii) approximately HK$1,638.0 million had been used for strategic investments in Kingsoft Cloud. The net proceeds raised were applied in accordance with the specified uses previously disclosed. The Company will use the remaining proceeds in accordance with the above intended application of the net proceeds.

For details of the above placing and subscription, please refer to the announcements of the Company dated 4 June 2015 and 11 June 2015.

Conversion of Convertible Bonds and Adjustment to the Conversion Price

The Company completed the issue of the 2013 Convertible Bonds in the principal amount of HK$1,356,000,000 on 23 July 2013. As at 15 January 2018, all outstanding 2013 Convertible Bonds had been fully converted and no 2013 Convertible Bonds remained outstanding. As a result of the conversion, the total number of the Shares issued under the 2013 Convertible Bonds amounted to 60,753,330. Accordingly, the 2013 Convertible Bonds were delisted from the official list of the Singapore Exchange Securities Trading Limited with effect from 18 January 2018. The net proceeds from the subscription of the 2013 Convertible Bonds, after deduction of commissions and other related expenses, were approximately HK$1,327 million. The Company intended to use the net proceeds primarily to repay existing short-term bank loans, for general corporate purposes and to supplement working capital. The net proceeds raised from the issue of 2013 Convertible Bonds have been used up as of 31 December 2014. For details, please refer to the 2014 annual report of the Company. References are made to the announcements of the Company dated 3 July 2013 and 23 July 2013 for principal terms of the 2013 Convertible Bonds and the announcements of the Company 18 December 2017 and 15 January 2018 for early redemption and full conversion of the 2013 Convertible Bonds.

The Company also completed the issue of the 2014 Convertible Bonds in the principal amount of HK$2,327,000,000 on 11 April 2014. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each 2014 Convertible Bonds at its principal amount together with accrued and unpaid interest thereon on 11 April 2019. The proceeds from the subscription of the 2014 Convertible Bonds, after deduction of commissions and other related expenses, were approximately HK$2,277 million. Assuming full conversion of the 2014 Convertible Bonds at the initial conversion price of HK$43.89 per share and no further issue of shares, the 2014 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 2014 Convertible Bonds. The 2014 Convertible Bonds were offered and sold to no less than six independent places (who were independent individual, corporate and/ or institutional investors). The 2014 Convertible Bonds have been listed on the Singapore Exchange Securities Trading Limited since 14 April 2014. The interest is 1.25% per annum of the principal amount of the 2014 Convertible Bonds, payable semi-annually in arrear in equal instalments of HK$6,250 per calculation amount (i.e. interest in respect of any 2014 Convertible Bond shall be calculated per HK$1,000,000 in principal amount of the 2014 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. On 11 April 2017, being the put option date of the 2014 Convertible Bonds, the Company redeemed an aggregate principal amount of HK$2,281,000,000 at the principal amount of the 2014 Convertible Bonds together with interest accrued to that date at the option of certain bondholders. As at 31 December 2017, the outstanding 2014 Convertible Bonds at an aggregate principal amount of HK$46,000,000 are convertible into 1,078,040 Shares upon full conversion. The net proceeds raised from the issue of 2014 Convertible Bonds have been used up as of 31 December 2015. For details, please refer to the 2015 annual report of the Company. References are made to the announcements of the Company dated 4 April 2014 and 11 April 2014 for principal terms of the 2014 Convertible Bonds.

Details of dilutive effect on the basic earnings per share as at 31 December 2017 are set out in note 15 to the financial statements.

Issue of Convertible Preferred Shares by Subsidiaries of the Company

Share Purchase Agreements

On 12 September 2017, the Company, LIYUE JINSHI INVESTMENT L.P. ("**Liyue Investor**"), Kingsoft Cloud Group, Autogold Limited and Mr. Yulin WANG entered into a share purchase agreement (the "**Share Purchase Agreement I**"), pursuant to which, each of the Company and Liyue Investor as the subscribers agreed to subscribe for 58,922,728 Kingsoft Cloud Series D Preferred Shares for a respective consideration of US$50 million, respectively.

On 11 October 2017, the Company, New Cloud Ltd. ("**Minsheng Investor**"), Kingsoft Cloud Group, Autogold Limited and Mr. Yulin WANG entered into a share purchase agreement (the "**Share Purchase Agreement II**"), pursuant to which, each of the Company and Minsheng Investor as the subscribers agreed to subscribe for 117,845,456 Kingsoft Cloud Series D Preferred Shares for a respective consideration of US$100 million, respectively. The subscription for 117,845,456 Kingsoft Cloud Series D Preferred Shares by Minsheng Investor under the Share Purchase Agreement II is subject to an investment framework agreement.

Pursuant to the Listing Rules, the transactions contemplated under the Share Purchase Agreement I and the Share Purchase Agreement II are exempted from the independent Shareholders' approval. As at 31 December 2017, the Share Purchase Agreement I and the Share Purchase Agreement II had been completed.

On 28 December 2017, the Company, Precious Steed Limited ("**Forebright Investor**"), Kingsoft Cloud Group, Autogold Limited and Mr. Yulin WANG entered into a share purchase agreement (the "**Share Purchase Agreement III**"), pursuant to which, each of the Company and Forebright Investor as the subscribers agreed to subscribe for 58,922,728 Kingsoft Cloud Series D Preferred Shares for a respective consideration of US$50 million, respectively. On the same day, the Company, Shunwei Growth III Limited ("**Shunwei Investor**"), Kingsoft Cloud Group, Autogold Limited and Mr. Yulin WANG entered into a share purchase agreement (the "**Share Purchase Agreement IV**"), pursuant to which, each of the Company and Shunwei Investor as the subscribers agreed to subscribe for 11,784,546 Kingsoft Cloud Series D Preferred Shares for a respective consideration of US$10 million, respectively. On the same day, the Company, Liyue Investor, Kingsoft Cloud Group, Autogold Limited and Mr. Yulin WANG entered into a share purchase agreement (the "**Share Purchase Agreement V**"), pursuant to which, each of the Company and Liyue Investor as the subscribers agreed to subscribe for 58,922,728 Kingsoft Cloud Series D Preferred Shares for a respective consideration of US$50 million, respectively.

On 29 January 2018, the Company, FutureX Capital Limited ("**FutureX Capital**"), Kingsoft Cloud Group, Autogold Limited and Mr. Yulin WANG entered into a share purchase agreement (the "**Share Purchase Agreement VI**", the share purchase agreements are collectively regarded as "**Share Purchase Agreements**"), pursuant to which, each of the Company and FutureX Capital as the subscribers agreed to subscribe for 114,971,205 Series D Preferred Shares for a respective consideration of US$100 million, respectively.

The Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder are subject to the independent Shareholders' approval.

On the assumption that (i) all preferred shares of Kingsoft Cloud are fully converted into the ordinary shares of Kingsoft Cloud based on the conversion ratio of 1:1; (ii) all shares under the share option scheme and all shares already reserved for issuance under the ESOP are issued; and (iii) the warrant granted by Kingsoft Cloud to Minsheng Investor is fully exercised, upon completion of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI, Kingsoft Cloud will be owned as to approximately 51.58% by the Company, 4.32% by Liyue Investor, 4.32% by Minsheng Investor, 2.16% by Forebright Investor, 0.43% by Shunwei Investor and 4.21% by FutureX Capital (or the affiliate(s) of FutureX Capital), and the shareholding of the Company in Kingsoft Cloud will decrease from 51.93% to 51.58%.

Restated Shareholders Agreement

Pursuant to the Restated Shareholders Agreement, the holders of Kingsoft Cloud Series D Preferred Shares have the right to request Kingsoft Cloud to purchase the Kingsoft Cloud Series D Preferred Shares held by them in the event that (i) series D qualified public offering has yet to complete within a certain period of time; (ii) any of the holders of series B preferred shares of Kingsoft Cloud has requested Kingsoft Cloud to purchase the series B preferred shares held by it pursuant to the Restated Shareholders Agreement; or (iii) any of the holders of series C preferred shares of Kingsoft Cloud has requested Kingsoft Cloud to purchase the series C preferred shares held by it pursuant to the Restated Shareholders Agreement.

The Principal Terms of Series D Preferred Shares

The holder of each Kingsoft Cloud Series D Preferred Share shall be entitled to such number of votes as equals the whole number of ordinary shares of Kingsoft Cloud into which such holder's total Kingsoft Cloud Series D Preferred Shares are convertible immediately after the close of business on the record date of the determination of the shareholders of Kingsoft Cloud entitled to vote or, the date on which such vote is taken or any written consent of the shareholders of Kingsoft Cloud is first solicited (if no such record date). The holders of Kingsoft Cloud Series D Preferred Shares shall vote together with the holders of ordinary shares of Kingsoft Cloud as a single class, on an as-converted basis, on all matters submitted to the shareholders. Each Kingsoft Cloud Series D Preferred Share may be converted at any time at the option of the holder thereof into such number of the ordinary share of Kingsoft Cloud as may be obtained by dividing the issue price by the then applicable conversion price. The new ordinary share of Kingsoft Cloud to be issued upon conversion of the Kingsoft Cloud Series D Preferred Shares shall *rank pari passu* in all respects with the existing ordinary share of Kingsoft Cloud. The initial conversion price shall be equal to the issue price, resulting in an initial conversion ratio of 1:1 (i.e., one Kingsoft Cloud Series D Preferred Share convertible into one ordinary share of Kingsoft Cloud).

Implications under the Listing Rules

Kingsoft Cloud is a subsidiary of the Company. As at the date of signing the Share Purchase Agreements, Xiaomi, the associate of Mr. Jun LEI, holds more than 10% voting power in Kingsoft Cloud and Mr. Jun LEI is a substantial shareholder of the Company. As such, Kingsoft Cloud is a connected subsidiary of the Company by virtue of Rule 14A.16 of the Listing Rules. Therefore, the subscriptions of Kingsoft Cloud Series D Preferred Shares by the Company from Kingsoft Cloud under the Share Purchase Agreements constitute connected transactions of the Company under the Listing Rules. Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under Share Purchase Agreements shall be aggregated. As the highest applicable percentage ratio in respect of the subscriptions of Kingsoft Cloud Series D Preferred Shares by the Company under the Share Purchase Agreement I and the Share Purchase Agreement II exceeds 0.1% but is less than 5%, such transaction constitutes connected transactions of the Company and are subject to the announcement requirement, but exempted from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the issue of 421,369,391 Kingsoft Cloud Series D Preferred Shares by Kingsoft Cloud to the Company under the Share Purchase Agreements exceeds 5%, the subscriptions by the Company under the Share Purchase Agreement III, the Share Purchase Agreement VI, the Share Purchase Agreement V and the Share Purchase Agreement VI constitute connected transactions of the Company and are subject to the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, Shunwei Investor is a connected person of the Company by virtue of being an associate of Mr. Jun LEI, the chairman and substantial shareholder of the Company. Therefore, the issue of 11,784,546 Kingsoft Cloud Series D Preferred Shares by Kingsoft Cloud to Shunwei Investor constitutes a connected transaction of the Company under the Listing Rules. As the highest applicable percentage ratio in respect of the issue of 11,784,546 Kingsoft Cloud Series D Preferred Shares by Kingsoft Cloud to Shunwei Investor exceeds 0.1% but is less than 5%, such transaction constitutes a connected transaction of the Company and is subject to the announcement requirement under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, FutureX Capital is a connected person of the Company by virtue of being an associate of Ms. Qian Zhang, a director of Kingsoft Cloud. Therefore, the issue of 114,971,205 Kingsoft Cloud Series D Preferred Shares by Kingsoft Cloud to FutureX Capital constitutes a connected transaction of the Company under the Listing Rules. As the highest applicable percentage ratio in respect of the issue of 114,971,205 Kingsoft Cloud Series D Preferred Shares by Kingsoft Cloud to FutureX Capital exceeds 0.1% but is less than 5%, such transaction constitutes a connected transaction of the Company and is subject to the announcement requirement under Chapter 14A of the Listing Rules.

Pursuant to the Restated Shareholders Agreement, each of Minsheng Investor, Forebright Investor, Shunwei Investor, Liyue Investor, FutureX Capital (or the affiliate(s) of FutureX Capital) and the Company is entitled to an exit right in certain circumstances. As each of the highest applicable percentage ratios in respect of the grant of the exit right to Shunwei Investor and FutureX Capital (or the affiliate(s) of FutureX Capital) exceeds 0.1% but is below 5%, such transaction is subject to the announcement requirement, but exempted from the independent Shareholders' approval under Chapter 14A of the Listing Rules. The exercise of the exit right of the Company is at the discretion of the Company.

Approval of the Share Purchase Agreements by the independent Shareholders

On 27 February 2018, the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder were approved by the independent Shareholders at an extraordinary general meeting of the Company.

For details of the above issue, please refer to the announcements of the Company dated 12 September 2017, 11 October 2017, 28 December 2017, 29 January 2018, 27 February 2018 and the circular of the Company dated 6 February 2018.

Major Customers and Suppliers

For the year ended 31 December 2017, the five largest customers of the Group accounted for 24% of the total revenue, while the largest customer accounted for 7% of the total revenue. For the year ended 31 December 2017, the five largest suppliers of the Group accounted for 13% of the total purchases, while the largest supplier accounted for 5% of the total purchases.

The major customers of the Group are mainly distributors and operators of internet services. The Group paid attention to strengthening and sustaining the relationship with its major customers as they are important to the business of the Group. However, the Group does not materially rely on such major customers to generate revenue. The Group's final customers vary for different categories of business of the Group, which include game users, purchasers of our application softwares or other internet services, advertisers who advertising through our products and etc. The Group will continue to strengthen its customer service to provide superior quality service to the users, and strive to achieve the fastest response times and highest customer satisfaction levels in the industry. The major suppliers of the Group mainly provide package materials for the Group's applications software products and bandwidth services to the Group. The Group has established long-term relationships with the major suppliers of the Group to ensure the stable and sustainable supplies for the businesses of the Group.

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 number of issued shares of the Company) had any beneficial interest in the Group's five largest customers and suppliers.

Environmental Policies and Performance

As a group providing internet services, the day-to-day business of the Group generally does not involve many environment issues. However the Group acknowledges the great importance of environment protection. To minimise the impact on the environment and natural resources generated from the operation of the Group, the Group has broadly implemented resource-recycling and energy-saving practices in its offices and branch premises, including its offices and premises in Zhuhai, Beijing, Chengdu and etc. Specifically, the Group (i) encouraged double-sided printing and multi-pages-per-sheet printing for office documents; (ii) encouraged its employees to collect waste paper and used batteries for recycling purpose; and (iii) encouraged its employees to turn off lights and computers before leaving the office.

For details of the Company' environmental policies and performances, please refer to Environmental, Social and Governance Report in this report.

Compliance with Relevant Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements. During the year ended 31 December 2017, the Group has complied, to the best of our knowledge, with Telecommunications Regulations, The Administrative Measures for Telecommunications Business Operating Licenses and other laws and regulations in relation to foreign investment, copy rights and etc., as well as Listing Rules and other applicable laws and regulations. The Group has been allocating system and staff resources to ensure ongoing compliance with laws, regulations and rules. The Legal Department and Compliance Department of the Group are mainly responsible for monitoring the operation of the Group to be in compliance with relevant laws and regulations.

Permitted Indemnity Provision

As of 31 December 2017, all Directors of the Company were covered under the liability insurance purchased by the Company for its Directors.

Related Party Transactions and Connected Transactions

1. Connected Transaction

Issue of Series D Preferred Shares by Kingsoft Cloud to the Company

For details of this connected transaction, please refer to the paragraph headed "Issue of Convertible Preferred Shares by Subsidiaries of the Company" on pages 46 to 48 of this annual report.

Delegation of Voting Rights in Cheetah Mobile and Investment in Robotics Business

On 12 February 2017, the Company entered into a voting proxy agreement (the "**Voting Proxy Agreement**") with Mr. Sheng FU, the chief executive officer and director of Cheetah Mobile, to delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah Mobile to Mr. Sheng FU (as the representative of the management of Cheetah), subject to certain conditions (the "**Delegation**").

The Delegation constituted a deemed disposal of the Company. As one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Delegation exceeded 25% and is less than 75%, the Delegation constituted a major transaction of the Company and was subject to notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. At the time of signing the Voting Proxy Agreement, the Delegation also constituted a connected transaction of the Company under Chapter 14A of the Listing Rules as Mr. Sheng FU was a connected person of the Company by virtue of being the director and chief executive officer of Cheetah Mobile.

On 26 May 2017, Beijing Kingsoft Internet Security Software Co., Ltd. ("**Beijing Security Software**") (a wholly-owned subsidiary of Cheetah Mobile) entered into a capital injection agreement (the "**Capital Injection Agreement**") with Mr. Sheng FU, Beijing OrionStar Technology Co., Ltd. (the "**Target Company**"), Beijing Shougang Fund Co., Ltd., Pingtan Dingfu Investment Management Co., Ltd. ("**Pingtan Dingfu**"), Tianjin Purple Cow Asset Management Limited Partnership ("**Purple Cow**"), Beijing Kangyuan Heart Management Consulting Centre, Limited Partnership ("**Kangyuan Heart**") and ZHANG Wenlong. Pursuant to the Capital Injection Agreement, Beijing Security Software, Pingtan Dingfu and Kangyuan Heart agreed to subscribe for RMB4,545,455, RMB45,455 and RMB39,773 in the registered capital of the Target Company in consideration of respective RMB amounts equivalent to US$40 million, US$0.4 million and US$0.35 million (the capital injection by Beijing Security Software referred to "**Investment in Robotics Business**").

The Investment in Robotics Business constituted a connected transaction of the Company with a connected person at a subsidiary level. As one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the

Listing Rules) in relation to the Investment in Robotics Business exceeded 1%, the Investment in Robotics Business was subject to notification and announcement requirements under Chapter 14A of the Listing Rules. Further, the Investment in Robotics Business was a transaction under Chapter 14 of the Listing Rules. As all of the applicable percentage ratios did not exceed 5%, the Investment in Robotics Business was exempt from the disclosure requirements under Chapter 14 of the Listing Rules.

On 29 September 2017, the Voting Proxy Agreement and the Capital Injection Agreement were approved by the shareholders of the Company. Accordingly, Cheetah Mobile ceased to be a subsidiary of the Company and its operating results are no longer consolidated in the consolidated financial statements of the Group with effect on 1 October 2017. Cheetah Mobile was accounted for as an associate of the Company.

For details of the delegation of voting rights in Cheetah Mobile and the Investment in Robotics Business, please refer to the announcement of the Company dated 12 February 2017, 13 February 2017, 26 May 2017 and 29 September 2017, and the circular of the Company dated 14 September 2017.

Disposal of Shares in Seasun Holdings to Tencent

On 21 April 2017, Kingsoft Entertainment Software Holdings Limited ("**Kingsoft Entertainment**",a wholly-owned subsidiary of the Company), Image Frame Investment (HK) Limited ("**Image Frame**", a wholly-owned subsidiary of Tencent Holdings Limited ("**Tencent**")), WestGame Holdings Limited, United Websoft Inc and Seasun Holdings entered into a share purchase agreement, pursuant to which, amongst others, Kingsoft Entertainment agreed to sell and Image Frame agreed to purchase 39,819,466 ordinary shares of Seasun Holdings, representing approximately 4.34% of the total issued shares of Seasun Holdings as at the date of signing the share purchase agreement, at a consideration of US$62,617,989.29, subject to certain conditions (the "**Disposal**").

Apart from the Disposal, Image Frame also proposed to acquire the ordinary shares of Seasun Holdings from other shareholders of Seasun Holdings, namely WestGame Holdings Limited, United Websoft Inc and Xiaomi Ventures Limited. WestGame Holdings Limited, United Websoft Inc and Xiaomi Ventures Limited proposed to sell approximately 4.14%, 0.03% and 1.39% of the total issued shares of Seasun Holdings as at the date of signing the share purchase agreement, respectively, in an aggregate consideration of approximately US$80 million. The major commercial terms of such transactions are substantially the same as those in the Disposal.

Upon completion of such transactions, Image Frame will hold a total of 90,896,795 ordinary shares of Seasun Holdings, representing approximately 9.90% of the total issued shares of Seasun Holdings assuming that there is no change in the share capital of Seasun Holdings from 21 April 2017 to the completion date of such transactions. Upon completion of the Disposal, the Company's equity interest in Seasun Holdings decreased from 71.99% to 67.65%, and Seasun Holdings continued to be a subsidiary of the Company.

Image Frame is an indirect wholly-owned subsidiary of Tencent. Tencent is a substantial shareholder of Cheetah Mobile, a significant subsidiary of the Company as at the date of signing the share purchase agreement. Therefore, Image Frame is a connected person of the Company at the subsidiary level. As such, the share purchase agreement entered into between Image Frame and Kingsoft Entertainment and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

For details of the disposal of share in Seasun Holdings, please refer to the announcement of the Company dated 21 April 2017.

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 Kingsoft Qijian, its shareholders Weiqin Qiu and Peili Lei, and Chendu Digital Entertainment, which enable the Group to exercise control over Kingsoft Qijian, Beijing Digital Entertainment and Chengdu Digital Entertainment and to consolidate these companies' financial results in our results. Beijing Digital Entertainment (which is wholly owned by Kingsoft Qijian) and Chengdu Digital Entertainment (which is owned as to 99% by Beijing Digital Entertainment and 1% by Weiqin Qiu) hold the requisite ICP licenses.

Pre-existing Structure Contracts during the 2017 financial year

To streamline the corporate structure of the Group, the Group has commenced an internal reorganization exercise. In 2010, the Group has (i) entered into structure contracts relating to Zhuhai Qiwen; and (ii) entered into structure contracts relating to Conew Technology. In 2011, the Group has (i) entered into structure contracts relating to Beijing Cheetah; (ii) entered into structure contracts relating to the Zhuhai Online Game; and (iii) as part of the Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Qiwen. In 2012, the Group has (i) entered into structure contracts relating to Beijing Network Technology; (ii) entered into structure contracts relating to Zhuhai Cloud Technology; (iii) entered into structure contracts relating to Chengdu Seasun Shiyou and Zhuhai Seasun Shiyou; (iv) as part of the Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Online Game and Beijing Cheetah. In 2013, the Group (i) entered into structure contracts relating to Antutu Technology; (ii) entered into structure contracts relating to Guangzhou Network; (iii) entered into structure contracts relating to Zhuhai Seasun Shiyou and Guangzhou Seasun Shiyou; (iv) as part of the Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Qiwen and Zhuhai Cloud Technology; (v) as part of the Group's internal restructuring, the structure contracts in relation to Zhuhai Online Game has cancelled in 2013. In 2014, as part of the Group's internal restructuring, the Group recloned the structure contracts in relation to Zhuhai Qiwen and Zhuhai Cloud Technology. In 2015, as part of the Group's internal restructuring, the Group terminated the structure contracts and un-winded the contractual arrangement relating to Zhuhai Qiwen, Guangzhou Network and Antutu Technology. Since 1 October 2017, Cheetah Mobile ceased to be a subsidiary of the Company and its operating results are no longer consolidated in the consolidated financial statements of the Group. Therefore, at the end of the 2017 financial year, the structure contracts relating to Conew Technology, Beijing Cheetah and Beijing Network Technology no longer consisted of the business operations of the Group, and the transactions contemplated thereunder were no longer connected transactions of the Company under the Listing Rules.

The risks for operating business with contractual arrangements exist in the following aspects: (i) the PRC government may determine that the agreements which established the structure for operating the Group's business in the PRC do not comply with PRC government restrictions on foreign investment; (ii) the Group's structure contracts with relevant contractually-controlled entities and their shareholders may be less effective in providing operational control as compared to having direct ownership of those entities; and (iii) in the event of the imposition of statutory liens, bankruptcy or criminal proceedings against the shareholders of the relevant contractually-controlled entities, the Company may lose the ability to use a major portion of its assets. For details of such risks, please refer to the Company's prospectus. The Company has made and will continue to make efforts to keep abreast of the recent development of PRC laws and regulations on the contractual arrangement. In order to migrate the risks, the Company will consult the PRC legal advisors of the Company from time to time and un-wind the contractual arrangements in due course where applicable.

The structure contracts which were pre-existing during the 2017 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 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") and the performance by Beijing Digital Entertainment of its obligations under the intellectual property license agreements (as described below).

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

Structure Contracts relating to Chengdu Digital Entertainment

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

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

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

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

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

As Weiqin Qiu is the sister of Pak Kwan Kau, and Peili Lei is the 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 2017; 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, 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 this 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 2017; 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 Cheetah

(i) Sheng Fu, Weiqin Qiu and 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 Beijing Cheetah. 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 Beijing Cheetah 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 Beijing Cheetah. 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 Beijing Cheetah to Beijing Security Software or its designated third party.

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

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

(iv) Beijing Security Software and Beijing Cheetah entered into an exclusive technology development, support and consultation agreement on 1 January 2011, pursuant to which Beijing Security Software agreed to provide to Beijing Cheetah exclusively and Beijing Cheetah 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 Beijing Cheetah entered into a business operation agreement on 1 January 2011, pursuant to which, Sheng Fu, Weiqin Qiu and Beijing Cheetah will make relevant undertakings and guarantee to Beijing Security Software for the daily operation of Beijing Cheetah for a term of 10 years, unless otherwise terminated by Beijing Security Software, to ensure that Beijing Cheetah 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 Beijing Cheetah 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 Beijing Cheetah 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 Beijing Cheetah, Sheng Fu, Weiqin Qiu, Beijing Security Software and Beijing Cheetah 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 Beijing Cheetah 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 Beijing Cheetah 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 Beijing Cheetah, pursuant to which Beijing Security irrevocably undertakes to provide unlimited financial support to Beijing Cheetah to the extent permissible under the applicable PRC laws and regulations, regardless of whether Beijing Cheetah 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 Beijing Cheetah if Beijing Cheetah 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 Cheetah 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 Beijing Cheetah 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 this 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 Cheetah 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 Cheetah to the holders of their equity interest for the year ended 31 December 2017; 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 this 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 2017; 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 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 Cloud Technology entered into a debt assignment agreement on 9 November 2012, pursuant to which Beijing Digital Entertainment assigned the debts with an aggregate amount of RMB100,000 borne by Weiqin Qiu and Jin Wang to Beijing Cloud Technology, therefore, Beijing Cloud Technology owned the debts of an aggregate amount of RMB100,000 borne by Weiqin Qiu and Jin Wang.

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

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

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

RMB1(one). However, if there are any mandatory requirements imposed by the PRC Laws in respect of the conversion price, the conversion price shall be the lowest price permitted by the PRC Laws. Despite the above, the existing shareholders shall jointly waive the obligations of Beijing Cloud Technology for paying the shortfall in the case that the lowest conversion price permitted by the PRC Laws is higher than RMB1(one), subject to the laws and regulations of the PRC.

(xii) All Shareholders of Zhuhai Cloud Technology, Zhuhai Cloud Technology and Beijing Cloud Technology entered into an equity pledge agreement on 9 November 2012, pursuant to which, All Shareholders of Zhuhai Cloud Technology, agreed to pledge all equity interests they respectively held in Zhuhai Cloud Technology and any increase in capital contributions in favor of Beijing Cloud Technology, as security for the performance of their respective obligations under the above loan agreement, shareholder voting entrustment agreement and exclusive option agreement, for the performance of obligations by Zhuhai Cloud Technology under the above shareholder voting entrustment agreement and exclusive option agreement, and for the performance of obligations by Beijing Cloud Network which is wholly owned by Zhuhai Cloud Technology under the exclusive consultation and technological services agreement.

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

The arrangement relating to Zhuhai Cloud Technology was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in this 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 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 this 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 2014, the details of which are disclosed herein below.

Original Structure Contracts III 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 agreement 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 their 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 with dated 9 November 2012.

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 this annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

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

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or other distributions were made by Zhuhai Cloud Technology to the holders of their equity interest for the year ended 31 December 2017; 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 Seasun Shiyou and Chengdu Seasun Shiyou

(i) Tao Zou, Weiqin Qiu and Chengdu Westhouse ("Chengdu Westhouse Interactive Entertainment Co., Ltd.") 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 Seasun 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 Seasun Shiyou to Chengdu Westhouse or its designated third party.

(ii) Tao Zou, Weiqin Qiu, Chengdu Westhouse and Zhuhai Seasun 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

Seasun Shiyou) in Zhuhai Seasun Shiyou to such persons designated by Chengdu Westhouse.

(iii) Tao Zou, Weiqin Qiu, Chengdu Westhouse and Zhuhai Seasun 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 Seasun 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 Seasun Shiyou.

(iv) Chengdu Westhouse and Chengdu Seasun 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 Seasun Shiyou exclusively and Chengdu Seasun 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 Seasun Shiyou, Chengdu Seasun Shiyou and Chengdu Westhouse entered into a business operation agreement on 3 September 2012, pursuant to which, Tao Zou, Weiqin Qiu, Zhuhai Seasun Shiyou and Chengdu Seasun Shiyou will make relevant undertakings and guarantee to Chengdu Westhouse for the daily operation of Chengdu Seasun Shiyou for a term of 10 years, unless otherwise terminated by Chengdu Westhouse, to ensure that Chengdu Seasun 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 Seasun 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 Seasun Shiyou and any increase in capital contributions in favor of Chengdu Westhouse, and granted the priority of pledge compensation while Zhuhai Seasun Shiyou agreed to utilize 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 Seasun Shiyou and Chengdu Seasun Shiyou, and all expenses generated by Chengdu Westhouse for enforcing mandatory performance of all agreed obligations by Tao Zou, Weiqin Qiu, Zhuhai Seasun 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 Seasun Shiyou and Chengdu Seasun 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 this 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 Seasun Shiyou and Chengdu Seasun 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 Seasun Shiyou and Chengdu Seasun Shiyou for the year ended 31 December 2017; 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.

3. Continuing Transactions and Continuing Connected Transactions

Continuing Connected Transactions with Xiaomi Group

On 1 December 2014 the Company and Xiaomi entered into a framework agreement. Pursuant to the framework agreement, (i) the Group will provide 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 from 1 January 2015 to 31 December 2016.

In order to renew the transactions under the previous framework agreement for the next three years ending 31 December 2019, the Company and Xiaomi entered into a framework agreement on 6 December 2016. Pursuant to the framework agreement, (i) the Group will provide various services to Xiaomi Group, mainly including the cloud services and the promotion services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) Xiaomi Group will provide various services to the Group, mainly including the promotion services; and (iv) Xiaomi Group will provide its products to the Group, for a term of three years ending 31 December 2019.

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 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 1 December 2014 and 6 December 2016.

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 2017 are set out as follows:

	Annual Cap for 2017 RMB million	Actual Amount for 2017 RMB million
fees payable by Xiaomi Group		
Provision of cloud and promotion services by the Group	650.20	341.13
Joint operation of games provided by Group	362.90	53.30
fees payable by the Group		
Provision of promotion services by Xiaomi Group	160.00	53.13
Provision of products by Xiaomi Group	14.20	9.12

Continuing Connected Transactions involving Kingsoft Cloud Group

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. Xiaomi held over 10% equity interest in Kingsoft Cloud. 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 had 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 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 profits for a term from 30 November 2012 to 29 November 2017. For the year ended 31 December 2017, the actual amount of the transactions conducted under the said agreement was nil.

(ii) 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 an annual interest rate of 4.2% for a term of three years commencing from the first withdrawal date. For the year ended 31 December 2017, the actual amount of the loan and interest under the said agreement was nil.

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 a 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; and (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.

In order to renew the transactions under the previous framework agreement for the three years ending 31 December 2020, the Company and Kingsoft Cloud entered into a framework agreement on 1 December 2017. Pursuant to the framework agreement, (i) the Group (excluding Kingsoft Cloud Group) will provide the comprehensive leasing services to Kingsoft Cloud Group, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative support; and (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 2020.

For details of the continuing connected transactions, please refer to the announcements of the Company dated 31 December 2014 and 1 December 2017.

The annual caps for the continuing connected transactions under the framework agreement as compared with the actual transactions amounts incurred or received by the Group for the year ended 31 December 2017 are set out as follows:

	Annual Cap for 2017 RMB million	**Actual Amount for 2017 RMB million**
fees payable by Kingsoft Cloud Group		
provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group):	25.00	18.18
fees payable by the Group (excluding Kingsoft Cloud Group)		
provision of cloud services by Kingsoft Cloud Group	70.00	69.99

Previous Continuing Connected Transactions between Cheetah Group and Tencent Shenzhen

On 27 December 2013, Cheetah Mobile entered into a strategic cooperation agreement with Shenzhen Tencent Computer Systems Company Limited ("Tencent Shenzhen") , pursuant to which, Cheetah Group will provide promotion services to Tencent and its subsidiaries and their respective associates ("Tencent Group") for the a term of two years from 1 January 2014 to 31 December 2015.

On 30 December 2015, Cheetah Mobile and Tencent Shenzhen entered into the new strategic cooperation agreement, pursuant to which, Cheetah Group will continue to provide promotion services to Tencent Group and Tencent Group will also continue to provide promotion services to Cheetah Group for a term of two years from 1 January 2016 to 31 December 2017. On 21 November 2016, Cheetah Mobile 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 Cheetah Group to Tencent Group from RMB30 million to RMB47.50 million for the year ending 31 December 2016 and from RMB45 million to RMB62.50 million for the year ending 31 December 2017.

Tencent is a substantial shareholder of Cheetah Mobile, which was a subsidiary of the Company until 1 October 2017. Tencent Shenzhen is a subsidiary of Tencent. Therefore, Tencent Shenzhen was a connected person of the Company at the subsidiary level until 1 October 2017. As such, the strategic cooperation agreement entered into between Tencent Shenzhen and Cheetah Mobile and the transactions contemplated thereunder constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. On 1 October 2017, Cheetah Mobile ceased to be the subsidiary of the Company. Since then, Tencent Shenzhen was no longer a connected person of the Company under the Listing Rules and the game operation agreement and the transactions contemplated thereunder were no longer continuing connected transactions of the Company.

For details of the previous continuing connected transactions between Cheetah Group and Tencent Shenzhen, please refer to the announcements of the Company dated 27 December 2013, 31 July 2014, 30 January 2015, 9 February 2015, 30 June 2015, 5 November 2015, 30 December 2015 and 21 November 2016. For details of the delegation of voting rights in Cheetah Mobile, please refer to paragraph headed "Connected Transaction - Delegation of Voting Rights in Cheetah Mobile and Investment in Robotics Business" in this section.

The annual caps for the previous continuing connected transactions hereunder as compared with the actual transactions amounts incurred or received by the Group for 1 January to 30 September 2017 are set out as follows:

	Annual Cap for 2017 RMB million	Actual Amount for the period from 1 January to 30 September 2017 RMB million
fees payable by Tencent Group		
provision of promotion services:	587.00	40.17
fees payable by Cheetah Group		
provision of promotion services:	62.50	25.40

Previous Continuing Connected Transactions in Relation to Operation of Games with Tencent Shenzhen

On 19 February 2016, Seasun Holdings and Tencent Shenzhen entered into the game operation agreement, pursuant to which, the Group will license Tencent Group to operate and Tencent Group will operate the on-line games developed and owned by the Group or the on-line games licensed to be operated by the Group. On 25 October 2016, Seasun Holdings and Tencent Shenzhen revised the annual caps on from RMB393.48 million to RMB750.00 million for the period from 19 February 2016 to 31 December 2016, from RMB960.37 million to RMB955.74 million for the year ending 31 December 2017, from RMB583.59 million to RMB757.16 million for the year ending 31 December 2018, and from RMB36.74 million to RMB51.38 million for the period from 1 January 2019 to 31 January 2019.

Seasun Holdings is a subsidiary of the Company. Tencent is a substantial shareholder of Cheetah Mobile, which was a subsidiary of the Company until 1 October 2017. Tencent Shenzhen is a subsidiary of Tencent. Therefore, Tencent Shenzhen was a connected person of the Company at the subsidiary level until 1 October 2017. As such, the game operation agreement entered into between Seasun Holdings and Tencent Shenzhen and the transactions contemplated thereunder constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. On 1 October 2017, Cheetah Mobile ceased to be the subsidiary of the Company. Since then, Tencent Shenzhen was no longer a connected person of the Company under the Listing Rules and the game operation agreement and the transactions contemplated thereunder were no longer continuing connected transactions of the Company.

For details of the previous continuing connected transactions, please refer to the announcements of the Company dated 19 February 2016 and 25 October 2016. For details of the delegation of voting rights in Cheetah Mobile, please refer to paragraph headed "Connected Transaction - Delegation of Voting Rights in Cheetah Mobile and Investment in Robotics Business" in this section.

The annual cap for the previous continuing connected transactions hereunder as compared with the actual transactions amounts incurred or received by the Group for the period from 1 January to 30 September 2017 is set out as follows:

	Annual Cap for 2017 RMB million	**Actual Amount for the period from 1 January to 30 September 2017 RMB million**
Fees payable by Tencent Group to the Group	955.74	576.56

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;

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

(v) the transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreement, including the pricing range, the process for determining the prices; and

(vi) the Group's internal control procedures are adequate and effective to ensure that transactions are so conducted.

Ernst & Young, the Company's auditor, 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.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

4. Related Party Transactions

Details of the related party transactions for the year are included in note 46 to the financial statements. Certain related party transactions disclosed in note 46 to the financial statements also constitute connected transactions or continuing connected transactions as disclosed above. Such 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 2017, 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 C.1.2 Please also refer to the Corporate Governance Report in this annual report for full details.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2017 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.

Principal Risks and Uncertainties

For details of the financial risks of the Group, please refer to note 49 to the financial statements of this report. For details of the foreign currency risk, please refer to the Management Discussion and Analysis in this report. Save as disclosed above, a number of other factors, including downturn of the global or PRC economy, overall competitive environment and international policies may affect the result and business of the Group.

Significant Subsequent Events

(a) *Further Series D Financing of Kingsoft Cloud*

On 28 December 2017 and 29 January 2018, Kingsoft Cloud agreed to issue and the Company, Precious Steed Limited, Shunwei Growth III Limited, LIYUE JINSHI INVESTMENT L.P. and FutureX Capital Limited agreed to subscribe for certain series D preferred shares of Kingsoft Cloud with an aggregate consideration of US$420.0 million (the "**Subscriptions**"), subject to the shareholders' approval of the Company.

On 27 February 2018, the Subscriptions were approved by the shareholders of the Company. Upon completion of the series D financing of Kingsoft Cloud, the Company continued to remain as the largest shareholder of Kingsoft Cloud and continued to consolidate its financial results into the financial statements of the Group.

(b) *Conversion of the 2013 Convertible Bonds*

On 15 January 2018, all outstanding 2013 Convertible Bonds as at 31 December 2017 had been fully converted into the Company's ordinary shares. As a result of the conversion, 60,753,330 shares were issued in accordance with the terms and conditions of the 2013 Convertible Bonds. Accordingly, the 2013 Convertible Bonds were delisted from the official list of the Singapore Exchange Securities Trading Limited with effect from 18 January 2018.

Please refer to the paragraph headed "Conversion of Convertible Bonds and Adjustment to the Conversion Price" in this section for details of the full conversion of 2013 Convertible Bonds. Please refer to the paragraph headed "Issue of Convertible Preferred Shares by Subsidiaries of the Company" for details of update on the issue of Kingsoft Cloud Series D Preferred Shares after the reporting period.

By order of the Board
Jun LEI
Chairman
Hong Kong, 21 March 2018

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

OPINION

We have audited the consolidated financial statements of Kingsoft Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 73 to 204, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of investments in associates	
As at 31 December 2017, the Group held significant amounts of investments in associates amounting to RMB3,878,421,000. The Group did not recognise any impairment loss for the year ended 31 December 2017. The assessment on impairment loss involved significant management judgment on whether impairment evidence existed and estimation of the recoverable amount of the investments in associates. Disclosures about accounting policies, significant accounting judgements and estimates and investments in associates are included in Note 2.4, Note 3 and Note 21 to the consolidated financial statements.	Our audit procedures included an analysis of the rationale and objective evidence used by management in evaluating whether the investments in associates were impaired and the assessment of the amount of the impairment loss, i.e., assessing the reasonableness of the methodologies and main assumptions used by management to estimate the recoverable amount of the investments in associates. We also assessed the adequacy of the Group's disclosure about the impairment of investments in associates.
Impairment of available-for-sale investments	
The Group recognised an impairment loss of RMB168,712,000 for available-for-sale investments for the year ended 31 December 2017. The assessment on impairment loss involved significant management judgment on whether impairment evidence existed and estimation of the fair value for available-for-sale investments. Disclosures about accounting policies, significant accounting judgements and estimates and available-for-sale investments are included in Note 2.4, Note 3 and Note 22 to the consolidated financial statements.	Our audit procedures included an analysis of the rationale and objective evidence used by management in evaluating whether the available-for-sale investments were impaired, and the assessment of the amount of the impairment loss, i.e., (i) for investment in a listed company, assessed whether the impairment loss was determined with reference to the market value of the investee; and (ii) for investment in an unlisted company, assessed the reasonableness of the methodologies and main assumptions used by management to estimate the fair value of the available-for-sale investments. We also assessed the adequacy of the Group's disclosure about the impairment of available-for-sale investments.

KEY AUDIT MATTERS (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
Share-based payment	
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. The share-based compensation costs were measured with reference to the fair values of the share options and awarded shares at the grant date. The fair values were determined by the management with the assistance of external valuer engaged by the Group, and the costs were recognised in share-based compensation costs in profit or loss, together with a corresponding increase in equity, over the period in which the performance and/or service conditions were fulfilled. The share-based compensation costs recognised during the year ended 31 December 2017 was RMB235,194,000. The determination of fair values and the forfeiture rate of share options and awarded shares required significant management judgements and estimates and was based on assumptions. Disclosures about accounting policies, significant accounting judgements and estimates and share-based payment are included in Note 2.4, Note 3 and Note 38 to the consolidated financial statements.	Our audit procedures included evaluating the competence, capabilities, objectivity and independence of external valuer and assessing the assumptions, methodologies and parameters adopted in the valuation with the assistance of our internal valuation specialists. We also assessed the Group's disclosures about the details of those share option schemes and share award schemes and the relevant assumptions.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Kwok Yin.

Ernst & Young
Certified Public Accountants
Hong Kong

21 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000 (RESTATED)
CONTINUING OPERATIONS			
REVENUE	5	**5,181,290**	3,833,537
Cost of revenue		**(2,168,907)**	(1,292,448)
Gross profit		**3,012,383**	2,541,089
Research and development costs, net		**(1,446,044)**	(1,084,510)
Selling and distribution expenses		**(544,957)**	(323,263)
Administrative expenses		**(256,847)**	(196,903)
Share-based compensation costs	38	**(235,194)**	(54,872)
Other income	5	**294,036**	51,310
Other expenses		**(9,465)**	(7,718)
Other losses, net	6	**(156,489)**	(1,152,235)
Finance income	8	**194,967**	158,043
Finance costs	9	**(112,391)**	(107,105)
Share of profits and losses of:			
Joint ventures	20	**121,039**	101,291
Associates	21	**51,076**	(6,683)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	7	**912,114**	(81,556)
Income tax expense	12	**(133,834)**	(177,156)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**778,280**	(258,712)
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	13	**2,518,349**	(33,563)
PROFIT/(LOSS) FOR THE YEAR		**3,296,629**	(292,275)
Attributable to:			
Owners of the parent		**3,201,837**	(270,732)
Non-controlling interests		**94,792**	(21,543)
		3,296,629	(292,275)
		RMB	**RMB**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	15		
Basic			
— For profit/(loss) for the year		**2.46**	(0.21)
— For profit/(loss) from continuing operations		**0.62**	(0.21)
Diluted			
— For profit/(loss) for the year		**2.36**	(0.21)
— For profit/(loss) from continuing operations		**0.61**	(0.21)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**3,296,629**	(292,275)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**782,464**	(853,550)
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss		
— gain on disposal	**—**	(24,338)
— impairment losses	**—**	914,541
Income tax effects	**—**	(9,500)
Exchange differences:		
Exchange differences on translation of foreign operations	**(249,071)**	265,284
Reclassification adjustments for deemed disposal of a subsidiary	**(57,355)**	—
Reclassification adjustments for disposal of an associate	**—**	129
Share of other comprehensive loss of associates	**(19,724)**	—
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**456,314**	292,566
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**456,314**	292,566
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,752,943**	291
Attributable to:		
Owners of the parent	**3,718,433**	(42,750)
Non-controlling interests	**34,510**	43,041
	3,752,943	291

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,329,203**	1,097,766
Prepaid land lease payments	17	**289,561**	268,046
Goodwill	18	**9,559**	954,656
Other intangible assets	19	**56,375**	295,751
Investments in joint ventures	20	**177,110**	165,512
Investments in associates	21	**3,878,421**	406,773
Available-for-sale investments	22	**1,269,216**	1,050,654
Other financial assets	23	**63,430**	71,091
Deferred tax assets	36	**101,807**	119,868
Other non-current assets	24	**42,640**	43,459
Total non-current assets		**7,217,322**	4,473,576
CURRENT ASSETS			
Inventories	25	**10,327**	11,098
Trade receivables	26	**1,167,745**	1,774,156
Prepayments, deposits and other receivables	27	**679,612**	1,122,028
Available-for-sale investments	22	**88,000**	204,849
Restricted cash	28	**93,400**	98,381
Pledged deposits	28	**—**	69,370
Cash and bank deposits	28	**8,505,984**	9,825,494
Total current assets		**10,545,068**	13,105,376
CURRENT LIABILITIES			
Trade payables	29	**179,301**	560,488
Other payables and accruals	30	**1,612,667**	2,082,407
Interest-bearing bank loans	31	**374,165**	379,544
Deferred revenue	32	**608,557**	547,462
Income tax payable		**125,465**	119,931
Liability component of convertible bonds	33	**832,876**	—
Derivative financial instruments	34	**121,076**	41,387
Total current liabilities		**3,854,107**	3,731,219
NET CURRENT ASSETS		**6,690,961**	9,374,157
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,908,283**	13,847,733

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,908,283**	13,847,733
NON-CURRENT LIABILITIES			
Other liabilities	30	**—**	19,681
Deferred revenue	32	**20,788**	37,609
Deferred tax liabilities	36	**58,707**	122,201
Interest-bearing bank loans	31	**287,682**	438,330
Liability component of convertible bonds	33	**37,864**	2,911,354
Liability component of redeemable convertible preferred shares	34	**950,271**	316,834
Total non-current liabilities		**1,355,312**	3,846,009
Net assets		**12,552,971**	10,001,724
EQUITY			
Equity attributable to owners of the parent			
Issued capital	37	**5,127**	5,097
Share premium account	37	**2,287,958**	2,369,129
Treasury shares	37	**(22,517)**	(25,477)
Equity component of convertible bonds	33	**7,564**	72,295
Other reserves	39	**9,810,458**	5,466,163
		12,088,590	7,887,207
Non-controlling interests		**464,381**	2,114,517
Total equity		**12,552,971**	10,001,724

Tao ZOU
Director

Yuk Keung NG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	ISSUED CAPITAL (NOTE 37) RMB'000	SHARE PREMIUM ACCOUNT (NOTE 37) RMB'000	TREASURY SHARES (NOTE 37) RMB'000	EQUITY COMPONENT OF CONVERTIBLE BONDS (NOTE 33) RMB'000	STATUTORY RESERVES (NOTE 39) RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	OTHER CAPITAL RESERVE (NOTE 39) RMB'000	AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED PROFITS RMB'000	TOTAL RMB'000	NON-CONTROLLING INTERESTS RMB'000	TOTAL EQUITY RMB'000
At 1 January 2017	**5,097**	**2,369,129**	**(25,477)**	**72,295**	**225,276**	**468,930**	**1,339,013**	**30,075**	**297,789**	**3,105,080**	**7,887,207**	**2,114,517**	**10,001,724**
Profit for the year	–	–	–	–	–	–	–	–	–	3,201,837	3,201,837	94,792	3,296,629
Other comprehensive income for the year:													
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	–	782,464	–	–	782,464	–	782,464
Exchange differences related to foreign operations	–	–	–	–	–	–	–	–	(188,789)	–	(188,789)	(60,282)	(249,071)
Reclassification adjustments for deemed disposal of a subsidiary (note 13)	–	–	–	–	–	–	–	–	(57,355)	–	(57,355)	–	(57,355)
Share of other comprehensive loss of associates	–	–	–	–	–	–	–	–	(19,724)	–	(19,724)	–	(19,724)
Total comprehensive income for the year	–	–	–	–	–	–	–	782,464	(265,868)	3,201,837	3,718,433	34,510	3,752,943
Approved and paid final dividend in respect of the previous year	–	(112,678)	–	–	–	–	–	–	–	–	(112,678)	–	(112,678)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(161,218)	(161,218)
Share-based compensation costs	–	–	–	–	–	204,716	–	–	–	–	204,716	100,309	305,025
Exercise of share options	30	31,507	–	–	–	(10,935)	–	–	–	–	20,602	–	20,602
Vested awarded shares transferred to employees	–	–	2,960	–	–	(75,365)	92,906	–	–	–	20,501	–	20,501
Share of reserves of associates	–	–	–	–	–	–	4,276	–	–	–	4,276	195	4,471
Redemption of convertible bonds (note 33)	–	–	–	(64,731)	–	–	27,085	–	–	–	(37,646)	–	(37,646)
Profit appropriation	–	–	–	–	33,102	–	–	–	–	(33,102)	–	–	–
Acquisition of a subsidiary (note 41)	–	–	–	–	–	–	–	–	–	–	–	13,167	13,167
Changes in the ownership interests in subsidiaries	–	–	–	–	–	–	383,179	–	–	–	383,179	213,756	596,935
Deemed disposal of a subsidiary (note 13)	–	–	–	–	(30,291)	(257,758)	–	–	–	288,049	–	(1,850,855)	(1,850,855)
At 31 December 2017	**5,127**	**2,287,958**	**(22,517)**	**7,564**	**228,087#**	**329,588#**	**1,846,459#**	**812,539#**	**31,921#**	**6,561,864#**	**12,088,590**	**464,381**	**12,552,971**

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	ISSUED CAPITAL (NOTE 37) RMB'000	SHARE PREMIUM ACCOUNT (NOTE 37) RMB'000	TREASURY SHARES (NOTE 37) RMB'000	EQUITY COMPONENT OF CONVERTIBLE BONDS (NOTE 33) RMB'000	STATUTORY RESERVES (NOTE 39) RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	OTHER CAPITAL RESERVE (NOTE 39) RMB'000	AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED PROFITS RMB'000	TOTAL RMB'000	NON-CONTROLLING INTERESTS RMB'000	TOTAL EQUITY RMB'000
At 1 January 2016	5,092	2,474,663	(34,766)	72,295	197,881	375,240	1,276,487	(7,511)	106,151	3,405,108	7,870,640	2,040,715	9,911,355
Loss for the year	–	–	–	–	–	–	–	–	–	(270,732)	(270,732)	(21,543)	(292,275)
Other comprehensive loss for the year:													
Change in fair value of available-for-sale investments, net of tax	–	–	–	–	–	–	–	37,586	–	–	37,586	(10,433)	27,153
Exchange differences related to foreign operations	–	–	–	–	–	–	–	–	190,267	–	190,267	75,017	265,284
Disposal of an associate	–	–	–	–	–	–	–	–	129	–	129	–	129
Total comprehensive loss for the year	–	–	–	–	–	–	–	37,586	190,396	(270,732)	(42,750)	43,041	291
Approved and paid final dividend in respect of the previous year	–	(110,111)	–	–	–	–	–	–	–	–	(110,111)	–	(110,111)
Disposal of a subsidiary (note 42)	–	–	–	–	–	–	–	–	–	–	–	3,393	3,393
Share-based compensation costs	–	–	–	–	–	192,358	–	–	–	–	192,358	168,714	361,072
Exercise of share options	5	4,577	–	–	–	(2,098)	–	–	–	–	2,484	–	2,484
Vested awarded shares transferred to employees	–	–	9,289	–	–	(96,570)	109,322	–	–	–	22,041	–	22,041
Share of reserves of an associate	–	–	–	–	–	–	254	–	–	–	254	258	512
Profit appropriation	–	–	–	–	27,395	–	–	–	–	(27,395)	–	–	–
Subsidiaries' business combination under common control	–	–	–	–	–	–	–	–	1,242	(1,901)	(659)	659	–
Changes in the ownership interests in subsidiaries	–	–	–	–	–	–	(47,050)	–	–	–	(47,050)	(142,263)	(189,313)
At 31 December 2016	5,097	2,369,129	(25,477)	72,295	225,276#	468,930#	1,339,013#	30,075#	297,789#	3,105,080#	7,887,207	2,114,517	10,001,724

\# These reserve accounts comprise the consolidated other reserves of RMB9,810,458,000 (2016: RMB5,466,163,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		**912,114**	(81,556)
From a discontinued operation	13	**2,520,509**	(42,872)
Adjustments for:			
(Gain)/loss on disposal of items of property, plant and equipment		**(170)**	28,179
Loss on disposal of items of other intangible assets		**155**	829
Depreciation	16	**358,517**	313,296
Impairment of other intangible assets	19	**172**	2,889
Impairment of property, plant and equipment		**—**	20,750
Amortisation of prepaid land lease payments	17	**4,448**	4,340
Amortisation of other intangible assets	19	**104,624**	133,117
Finance costs		**133,915**	114,997
Finance income		**(217,572)**	(173,718)
Fair value gain on financial instruments at fair value through profit or loss		**(3,148)**	(22,377)
Loss/(gain) on disposal of associates		**1,050**	(46,148)
Gain on deemed disposal of associates		**(32,774)**	(31,669)
Gain on partial disposal of an associate		**—**	(9,646)
Gain on deemed disposal of a subsidiary	13	**(2,224,291)**	—
Gain on disposal of a subsidiary and a business	42	**—**	(13,571)
Share-based compensation costs		**305,135**	361,019
Impairment of trade and other receivables		**6,161**	54,975
Share of profits of joint ventures		**(119,938)**	(100,481)
Share of losses of associates		**18,092**	66,747
Foreign exchange (gain)/loss		**(36,811)**	30,405
Impairment losses of available-for-sale investments		**168,712**	1,239,160
Impairment losses of investments in an associate		**52,883**	1,739
Impairment losses of investments in joint ventures		**21,222**	18,010
Gain on disposal of available-for-sale investments		**(149,462)**	(25,058)
Redemption of convertible bonds		**3,383**	—
Compensation to a shareholder of a joint venture		**36,884**	—
		1,863,810	1,843,356
Decrease/(increase) in trade receivables		**52,657**	(857,009)
Increase in prepayments, deposits and other receivables		**(116,169)**	(222,996)
Increase in inventories		**(2,643)**	(5,254)
Increase in other non-current assets		**(30,642)**	(4,600)
Increase in restricted cash		**—**	(3,644)
(Decrease)/increase in trade payables		**(150,735)**	348,107
Increase in deferred revenue		**52,582**	141,154
Increase in other payables and accruals		**354,864**	292,290
Decrease in contingent considerations		**(5,682)**	(8,573)
Cash generated from operations		**2,018,042**	1,522,831
Interest received		**66,526**	67,402
Income tax paid		**(194,183)**	(197,015)
Net cash flows from operating activities		**1,890,385**	1,393,218

	NOTES	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**130,898**	83,535
Purchases of items of property, plant and equipment		**(667,590)**	(613,230)
Purchases of other intangible assets		**(24,363)**	(69,519)
Purchases of land use right		**(26,610)**	—
Increase in time deposits with original maturity of over three months when acquired		**(2,050,523)**	(2,071,999)
Purchase of other financial assets		**(171,242)**	(28,829)
Proceeds from government grants		**39,560**	—
Disposal of property, plant and equipment		**1,151**	1,649
Acquisition of businesses, net of cash acquired		**(3,629)**	(381,507)
Dividends received from a joint venture and an associate		**89,152**	—
Investments in joint ventures		**(133,195)**	(8,500)
Investments in associates		**(29,706)**	(200,033)
Settlement of contingent considerations		**(25,066)**	(21,667)
Purchase of available-for-sale investments		**(34,101)**	(116,009)
Decrease/(increase) in other loans		**130,463**	(7,184)
Proceeds from disposal and deemed disposal of subsidiaries, net of cash disposed of	13,42	**(1,652,868)**	(6,316)
Proceeds from disposal of available-for-sale investments		**289,299**	82,307
Proceeds from disposal of an investment in a joint venture classified as held for sale		**—**	123,543
Proceeds from disposal of other intangible assets		**77**	—
Restricted cash for acquisitions of business		**—**	40,830
Proceeds from disposal of associates		**30,180**	65,144
Net cash flows used in investing activities		**(4,108,113)**	(3,127,785)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Changes in the ownership of interest in subsidiaries		**400,440**	6,367
Proceeds from issuance of redeemable convertible preferred shares		**1,302,400**	318,920
Purchase of shares of subsidiaries from non-controlling interests		**—**	(194,751)
Cash settlement of share option issued by a subsidiary		**(9,953)**	—
Redemption of convertible bonds		**(1,979,726)**	—
Proceeds from exercise of share options		**20,602**	2,484
Vested awarded shares transferred to employees		**20,501**	22,041
Proceeds from issuance of restricted shares of subsidiaries		**572**	1,470
Dividends paid to owners of the parent	14	**(112,678)**	(110,111)
Dividends paid to non-controlling interests		**(158,509)**	—
Drawdown of bank loans, net of pledged deposits		**325,142**	604,527
Interest paid		**(63,630)**	(59,063)
Payment of financial lease		**(11,549)**	(11,881)
Release of a pledged deposit		**—**	20,812
Net cash flows (used in)/from financing activities		**(266,388)**	600,815
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,484,116)**	(1,133,752)
Cash and cash equivalents at beginning of year		**5,776,336**	6,629,275
Effect of foreign exchange rate changes, net		**(255,732)**	280,813
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,036,488**	5,776,336
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**970,465**	1,718,341
Deposits with original maturity of less than three months when acquired	28	**2,066,023**	4,057,995
Cash and cash equivalents as stated in the statement of cash flows	28	**3,036,488**	5,776,336

1. CORPORATE AND GROUP 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, there were no material changes in the principal activities of the Company and its subsidiaries (together, the "Group"), except that the operation of Cheetah Mobile Inc. and its subsidiaries (collectively, "Cheetah Mobile") was reclassified as a discontinued operation. The continuing operations of 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;
- provision of cloud storage and cloud computation services; and
- design, research and development and sales and marketing of office software products and services of WPS Office.

The discontinued operation of the Group was involved in the research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices through Cheetah Mobile.

Information about subsidiaries and structured entities

Particulars of the Company's principal subsidiaries and structured entities are as follows:

NAME	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY DIRECT	INDIRECT	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
Kingsoft WPS Holdings Limited ("WPS Holdings")(iv)	Cayman Islands	HK$117,000,000	100	—	Investment holding
Zhuhai Qiwen Office Software Co., Ltd.(i)(iii)(iv)	Mainland China	RMB68,000,000	—	72.32	Research and development of software
Kingsoft Cloud Holdings Limited ("Kingsoft Cloud")(iv)	Cayman Islands	US$872,955	60.94	—	Investment holding
Seasun Holdings Limited ("Seasun Holdings")(iv)	Cayman Islands	HK$27,060,297	—	71.62	Investment holding
Kingsoft Jingcai Online Game Holdings Limited (iv)	Cayman Islands	US$157,500	—	71.62	Investment holding
Kingsoft Entertainment Software Corporation Limited	Hong Kong	HK$10,000,000	—	100	Investment holding, and operation and distribution of games
Kingsoft Application Software Corporation Limited	Hong Kong	HK$1	—	100	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries and structured entities (continued)

Particulars of the Company's principal subsidiaries and structured entities are as follows: (continued)

NAME	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY DIRECT	INDIRECT	PRINCIPAL ACTIVITIES
Kingsoft Office Software Corporation Limited	Hong Kong	HK$20,976,360	—	72.32	Investment holding
Seasun Games Corporation Limited	Hong Kong	HK$18,600,000	—	71.62	Investment holding and provision of game services
Kingsoft Jingcai Online Game Corporation Limited	Hong Kong	HK$850,000	—	71.62	Investment holding
Kingsoft Cloud Corporation Limited	Hong Kong	HK$2,000,000	—	60.94	Investment holding
Kingsoft (M) SDN.BHD ("Kingsoft Malaysia")(iv)	Malaysia	MYR1,000,000	—	71.62	Development and distribution of games
Beijing Kingsoft Software Co., Ltd.(i)(iv)	Mainland China	RMB10,000,000	—	100	Marketing and distribution of application software
Beijing Kingsoft Cloud Technology Co., Ltd. ("Beijing Cloud Technology")(i)(ii)(iii)(iv)	Mainland China	RMB60,000,000	—	60.94	Investment holding, research and development of application technology
Zhuhai Kingsoft Cloud Technology Co., Ltd. ("Zhuhai Cloud Technology")(i)(iv)(v)	Mainland China	RMB11,080,000	—	60.94	Investment holding
Beijing Kingsoft Qijian Digital Technology Co., Ltd. ("Beijing Qijian Technology")(i)(iv)(v)	Mainland China	RMB1,500,000	—	100	Marketing and operation of SMS and wireless service of online games and application software
Beijing Kingsoft Office Software Co., Ltd. ("Beijing Kingsoft Office")(i)(iv)	Mainland China	RMB360,000,000	—	72.32	Sale and operation of office application software
Jingcai Online Technology (Dalian) Co., Ltd.(i)(ii)(iv)	Mainland China	RMB1,000,000	—	71.62	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 Technology Co., Ltd. ("Chengdu Digital Entertainment")(i)(iv)(v)	Mainland China	RMB35,000,000	—	100	Marketing and operation of entertainment software products
Chengdu Westhouse Interactive Entertainment Co., Ltd. ("Chengdu Westhouse")(i)(ii)(iv)	Mainland China	RMB15,000,000	—	71.62	Research and development of games

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries and structured entities (continued)

Particulars of the Company's principal subsidiaries and structured entities are as follows: (continued)

NAME	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY DIRECT	INDIRECT	PRINCIPAL ACTIVITIES
Zhuhai Kingsoft Software Co., Ltd. ("Zhuhai Software")(i)(iv)	Mainland China	RMB215,500,000	—	100	Research, development and distribution of consumer application software
Zhuhai Seasun Shiyou Technology Co., Ltd. ("Zhuhai Seasun Shiyou") (i)(iv)(v)	Mainland China	RMB10,000,000	—	71.62	Marketing and operation of entertainment software products
Zhuhai Kingsoft Online Game Technology Co., Ltd. ("Zhuhai Online Game")(i)(iv)	Mainland China	RMB10,000,000	—	71.62	Research and development of online games

(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) These companies are registered as wholly-foreign-owned enterprises under PRC law.

(iii) These companies are subsidiaries of non-wholly-owned subsidiaries of the Company and accordingly, are accounted for as subsidiaries by virtue of the Company's control over them.

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

(v) The Company does not have legal ownership in the equity of these entities. However, under certain contractual agreements (including power of attorney agreement, loan agreement, equity option agreement, equity interest pledge agreement and exclusive technical consulting and services agreement) entered into with the registered owners of these entities, the Company and its other legally owned subsidiaries control these entities by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these entities to the Company and/or its other legally owned subsidiaries. As a result, these entities are treated as subsidiaries of the Company and their financial statements have been consolidated by the Company.

The above table lists the subsidiaries and structured entities 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.

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") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments, other financial assets, contingent consideration and derivative financial instruments, which have been measured at fair value. 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 2017. 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 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 above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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 and certain subsidiaries have set up trusts or entities for the purpose of purchasing, administering and holding their shares for the share award scheme adopted. The Group has the power to govern the financial and operating policies of these trust or entities and derive benefits from the services of the employees who have been awarded the shares through their continued employment with the Group. The assets and liabilities of these trust entities are included in consolidated statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements Cycle 2014–2016*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 43 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

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

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after 1 January 2021

4 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Further information about those IFRSs that are expected to be applicable to the Group is described below. Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

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 will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Material equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group does not expect that the adoption of IFRS 9 will have a significant impact on the impairment of trade and other receivables.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 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 previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 15, issued in May 2014, establishes a new five-step model to account for 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of IFRS 15 will not be material and changes in accounting policies, as further explained below, will have no material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15.

The Group's principal activities mainly consist of provision of services rendered in online games and mobile games, provision of cloud services and sale of application software. The expected impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

(a) Provision of services rendered in online games and mobile games

The Group recognises revenue from subscription services rendered, sales of in-game virtual items to the players and licensing games and providing technical support to third party publishing partners. Upon the adoption of IFRS 15, revenue will be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods, or over time the customers simultaneously receive and consume the benefits provided by the Group, generally over the period that the services are provided. The Group expects that there will be no material impact of the adoption of IFRS 15 based on the current contracts terms.

(b) Provision of cloud services

The Group provides cloud storage and cloud computation services. Currently, revenue from provision of cloud services is recognised when the services are provided, which will remain substantially unchanged upon the adoption of IFRS 15, as the Group's contract with customers generally has one performance obligation, which will be fulfilled when the services are provided.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(c) Sale of application software

The Group sells application software and provides services associated with the software, which will be identified as two distinct performance obligations under IFRS 15. Currently, revenue from sale of application software is recognised when the significant risks and rewards of ownership are transferred to the buyer and revenue from provision of services associated with the software is recognised over the period that the services are provided. For certain multi-year commercial software subscriptions that include both distinct software licenses and software assurance, the Group will recognise license revenue at the time of contract execution rather than over the subscription period. Due to the complexity of the contracts, the actual revenue recognition treatment required under IFRS 15 will depend on contract-specific terms. The Group has determined that when IFRS 15 is adopted, there would be no impact on the revenue recognition from the sale of the application software based on the current contracts terms.

(d) Presentation and disclosure

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 44 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB358,795,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IAS 28 issued in October 2017 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation are not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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

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 is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

Fair value measurement

The Group measures its available-for-sale investments, other financial assets, contingent consideration and derivative financial instruments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

(v) the entity is 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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Leasehold land and buildings	Over the shorter of the lease terms and 50 years
Electronic equipment	33%
Office equipment and fixtures	19%
Motor vehicles	24%
Leasehold improvements	Over the shorter of the expected life of the leasehold improvements and the lease terms

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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Purchased software, user base and licence rights for games

Purchased software, user base and licence 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 lives and the licence period. The estimation useful lives are as follows:

Purchased software	1–10 years
User base	1–6 years
Licence 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.

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 repairs or maintenance of the existing websites and software. Costs incurred in the development phase that 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 that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets 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" of other gains 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 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.

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 gains 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 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)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans 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, financial liabilities included in other liabilities, derivative financial instruments, interest-bearing bank loans, the liability component of convertible bonds and the liability components of redeemable convertible preferred shares.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

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 and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. 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.

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and bank deposits 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(a) *Sale of application software*

Revenue from the sale of application software is recognised when the significant risks and rewards of ownership 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 software 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 five years for a fixed cash consideration. During the licence 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 licence period.

(b) *Services rendered in online games and mobile games*

The Group engages in development and operation of online games and mobile games.

The Group primarily receives proceeds from sales of either its prepaid game cards to the distributors which in turn sell the cards to the players, or prepaid online points to the players at the Group's website. The distributors collect the payment from the players and remit the cash net of service charges or discounts which are predetermined according to the relevant terms of the agreements entered into between the Group and the distributors. Deferred revenue is recognised on the sales of prepaid game cards or prepaid online points net of the discounts from the face value of the cards.

The Group operates its mobile games through its own platform or cooperation with third-party game distribution platforms under certain co-operation agreements. For the cooperation with third-party game distribution platforms, the Group is responsible for providing ongoing updates of new contents and technical support for the operation of the games. The third-party game distribution platforms are responsible for distribution, marketing, platform maintenance and payment collections. The third-party game distribution platforms collect the payment from players and remit the net proceeds, after deducting the commission charged, 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 the agreed sharing ratio in the contracts signed with third-party game distribution platforms. As some third-party game distribution platforms offer various marketing discounts from time to time to players to encourage spending, the actual prices paid by players may be lower than the standard prices of in-game virtual currency. Such marketing discount information is 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 amount received. In this case, the net amount received from these third-party game distribution platforms is recognised as deferred revenue.

The Group recognises revenue from subscription services rendered, sales of in-game virtual items to the players, and licensing games and providing technical support to third party publishing partners. Upon expiry of prepaid game cards or online points, any remaining amount is recognised as revenue.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(b) *Services rendered in online games and mobile games (continued)*

The Group recognises revenue under different revenue streams described below.

Subscription services in online games

Several online games of the Group are not free to play. The Group applies a pay-to-play subscription-based model, in which the 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 by the players and amortised over the period.

Sales of in-game virtual items

Some online games and all mobile games of the Group are free to play. Players can purchase game cards or online points and convert them into various in-game virtual items for better in-game experience. Revenue is recognised only when the services relating to the in-game virtual items purchased are rendered to the players. For the purposes of determining when services have been provided, the Group has applied the following:

- Consumable items represent in-game virtual items that can be consumed by player actions or expire over a predetermined expiration time. The Group keeps track of the consumption or expiration of all the consumable items in the game. Revenue in relation to consumable items are recognised (as a release from deferred revenue) after they are consumed or over the period that they are expiring, as the Group's obligations in connection with such items have been fully rendered to the players after their consumption or expiration.
- Permanent items represent in-game virtual items that are accessible by the players as long as they play the game. The Group will provide continuous services in connection with these permanent items until these items are no longer used by the players. Revenues in relation to the permanent items are recognised over their estimated useful lives. The Group considers practical usage period, player life or the whole game life as the Group's best estimate for the appropriate estimated useful lives of the in-game permanent items purchased by the players.

The Group estimates the useful lives of the in-game virtual items on a game-by-game basis and re-assesses such periods semi-annually. If there is insufficient data to determine the useful lives, such as in the case of a newly launched game, it estimates the useful lives based on other games with similar characteristics developed by the Group or by third-party developers until the new game establishes its own patterns and history. If the Group does not have the ability to differentiate revenue attributable to permanent items from consumable items for a specific game, the Group recognises revenue from both permanent and consumable virtual items for that game ratably over the estimated player lives.

Licensing fees

The Group also derives revenue from licensing games to third-party publishing partners, who operate the Group's online games in defined regions and/or countries or within a specific period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(b) Services rendered in online games and mobile games (continued)

Licensing fees (continued)

The Group has evaluated the respective roles and responsibilities of the Group and the game publishers in the delivery of game experience to players and concluded that the game publishers have the primary responsibility in these licensing arrangements as they are responsible for marketing and promotion of the games in the market, hosting the game servers, determining the price of the in-game virtual items, selection of distribution and payment channels and providing customer services, and therefore has exposure to the significant risks and rewards associated with the operation of these games under the licensing arrangements. Accordingly, the Group records licensing fees, which are calculated based on a pre-determined percentage of the proceeds received by game publishers from players, on a net basis.

(c) Online marketing service

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, apps 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 also acts as an advertising agent to earn performance-based sales commission from the online media platforms, which is charged at a certain percentage of the price of qualifying advertising resource purchased and utilised by the advertisers. As the Group acts as an agent in such transactions, the revenue is recognised on a net basis after deducting the purchase rebates to the client, when the amounts of the commissions and purchase rebates are probable and reasonably estimated.

(d) Cloud service

The Group provides cloud storage and cloud computation services to customers through the provision of bandwidth and memory space. The revenue is recognised when the services are provided.

(e) Rental income

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

(f) 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.

(g) Dividend income

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

Deferred revenue

Deferred revenue represents cash received or receivables from the sale of application software, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 awarded shares. Further details of the fair values of share options and awarded shares are given in note 38 to the financial statements.

The cost of equity-settled transactions is recognised in share-based compensation costs, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. 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.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether 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 covers 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 are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 14 to the financial statements.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in RMB. The functional currency of the Company is HK$. 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 certain overseas subsidiaries, joint ventures and associates are currencies other than 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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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.

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 entities which are controlled by the Group through the contractual agreements described above amounted to approximately RMB3,544,022,000 for the year ended 31 December 2017. At 31 December 2017, total assets and total liabilities of these entities amounted to approximately RMB7,100,915,000 and RMB4,307,547,000, 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 the risk-free rate, dividend yield, expected volatility and expected life of option, is required to be made by the directors as the parameters 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 RMB59,123,000 as at 31 December 2017 (2016: RMB38,621,000). Further details are included in note 23 to the financial statements.

(b) 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 2017 was nil (2016: RMB61,385,000). The amount of unrecognised tax losses at 31 December 2017 was RMB1,727,052,000 (2016: RMB1,393,680,000). Further details are included in note 36 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(c) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. Impairment exists when the carrying value of 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 the market price less incremental costs for disposing of the cash generating units. When value in use calculations are undertaken, management must estimate the expected future cash flows from the cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was approximately RMB9,559,000 (2016: RMB954,656,000). Further details are included in note 18 to the financial statements.

(d) Impairment of available-for-sale financial assets

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 about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. During the year ended 31 December 2017, impairment losses of RMB168,712,000 have been recognised for available-for-sale investments (2016: RMB1,109,544,000(restated)). The carrying amount of available-for-sale investments was RMB1,357,216,000 (2016: RMB1,255,503,000) as at 31 December 2017. Further details are included in note 22 to the financial statements.

(e) 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.

(f) Impairment of trade receivables, other debtors and amounts due from related parties

The Group maintains an allowance for the estimated loss arising from the inability of its customers, other debtors and related parties to make the required payments. The Group makes its estimates based on the ageing of these balances, creditworthiness, business operation and historical write-off experience. If the financial condition of its customers, other debtors and related parties 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.

(g) Useful lives of virtual items provided in the Group's online games and mobile games

The players purchase in-game virtual items provided in the Group's online games and mobile games, which include items consumed at a single point in time, over a pre-specified period or throughout the whole game life. Revenue is recognised over their estimated useful lives, which are determined on the basis of the Group's best estimate that takes into account all known, available and relevant information at the time of assessment. The Group estimates the useful lives of the in-game virtual items on a game-by-game basis and re-assesses such periods semi-annually. Future usage patterns may differ from the historical usage patterns on which the revenue recognition of the virtual item is based. The Group monitors the operating strategy and business patterns of the virtual item. Any adjustments arising from changes in the useful lives as a result of updated information will be accounted for prospectively as a change in accounting estimate.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(h) Recognition of share-based compensation costs

The Company and some of its subsidiaries adopted their own share award schemes and/or share option schemes. The fair values of the awarded shares and options granted during the year ended 31 December 2017 were valued by external valuers based on valuation model. 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 2017 was approximately RMB852,841,000. The share-based compensation costs recognised during the year ended 31 December 2017 was RMB235,194,000 (2016: RMB54,872,000 (restated)).

The grant of awarded shares and share options is conditional upon the satisfaction of specified vesting conditions, including the service period and performance condition. 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 provision of online games, mobile games and casual game services;

(b) the cloud services segment engages in the provision of cloud storage and cloud computation services; and

(c) the office software and services and others segment engages in the design, research and development, and sales and marketing of the office software products and services of WPS Office.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

As disclosed in note 13, the operating results of Cheetah Mobile before the deemed disposal were classified as a discontinued operation of the Group and were excluded from the segment information in 2017, the comparative figures of segment information for the year ended 31 December 2016 were restated accordingly.

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2017	ENTERTAINMENT SOFTWARE RMB'000	CLOUD SERVICES RMB'000	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000	TOTAL RMB'000
SEGMENT REVENUE:				
Sales to external customers	3,120,186	1,332,522	728,582	5,181,290
Sales to the discontinued operation	420	20,376	16,908	37,704
Intersegment sales	4,809	49,620	51,993	106,422
	3,125,415	1,402,518	797,483	5,325,416
Reconciliation:				
Elimination of sales to a discontinued operation				(37,704)
Elimination of intersegment sales				(106,422)
Revenue from continuing operations				5,181,290
SEGMENT RESULTS	1,360,850	(576,396)	279,244	1,063,698
Reconciliation:				
Elimination of results from a discontinued operation				(37,704)
Elimination of intersegment results				(4,612)
Administrative expenses				(256,847)
Share-based compensation costs				(235,194)
Other income				294,036
Other expenses				(9,465)
Other losses, net				(156,489)
Finance income				194,967
Finance costs				(112,391)
Share of profits of:				
Joint ventures				121,039
Associates				51,076
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS				912,114
OTHER SEGMENT INFORMATION:				
Impairment loss	(34,566)	(1,892)	(158,356)	(194,814)
Depreciation and amortisation	(45,180)	(292,100)	(24,403)	(361,683)
Capital expenditure*	(39,053)	(326,704)	(357,033)	(722,790)
Share of profits and losses of joint ventures and associates	108,645	—	63,470	172,115

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2016 (RESTATED)	ENTERTAINMENT SOFTWARE RMB'000	CLOUD SERVICES RMB'000	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000	TOTAL RMB'000
SEGMENT REVENUE:				
Sales to external customers	2,545,671	737,196	550,670	3,833,537
Sales to a discontinued operation	717	21,439	38,601	60,757
Intersegment sales	3,899	17,770	37,263	58,932
	2,550,287	776,405	626,534	3,953,226
Reconciliation:				
Elimination of sales to a discontinued operation				(60,757)
Elimination of intersegment sales				(58,932)
Revenue from continuing operations				3,833,537
SEGMENT RESULTS	1,279,532	(312,400)	234,493	1,201,625
Reconciliation:				
Elimination of results from a discontinued operation				(60,757)
Elimination of intersegment results				(7,552)
Administrative expenses				(196,903)
Share-based compensation costs				(54,872)
Other income				51,310
Other expenses				(7,718)
Other losses, net				(1,152,235)
Finance income				158,043
Finance costs				(107,105)
Share of profits and losses of:				
Joint ventures				101,291
Associates				(6,683)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS				(81,556)
OTHER SEGMENT INFORMATION:				
Impairment loss	(8,296)	(580)	(1,129,537)	(1,138,413)
Depreciation and amortisation	(35,001)	(237,307)	(15,088)	(287,396)
Capital expenditure*	(74,120)	(306,919)	(134,507)	(515,546)
Share of profits and losses of joint ventures and associates	94,608	—	—	94,608

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) *Revenue of continuing operations from external customers:*

	2017 RMB'000	2016 RMB'000 (RESTATED)
Mainland China	**4,900,473**	2,299,528
Hong Kong	**270,088**	1,533,757
Other countries	**10,729**	252
Total	**5,181,290**	3,833,537

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

(b) *Non-current assets:*

	2017 RMB'000	2016 RMB'000
China	**1,721,309**	1,846,919
France	**—**	664,317
Other countries	**1,723**	117,823
Total	**1,723,032**	2,629,059

The non-current assets information above is based on the locations of the assets and excludes financial instruments, deferred tax assets and investments in associates and joint ventures.

Information about major customers

For the year ended 31 December 2017, revenue from continuing operations amounting to RMB584,484,000 (2016: RMB560,885,000) was derived from royalties and game services by the entertainment software segment to a single customer.

5. REVENUE AND OTHER INCOME

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

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

	2017 RMB'000	2016 RMB'000 (RESTATED)
Revenue		
Game services	**2,297,155**	1,879,655
Cloud services	**1,332,522**	737,196
Royalties	**823,031**	666,016
Online marketing services	**431,314**	268,653
Software	**290,077**	276,629
Others	**7,191**	5,388
	5,181,290	3,833,537

	2017 RMB'000	2016 RMB'000 (RESTATED)
Other income		
Government grants	**291,271**	47,144
Others	**2,765**	4,166
	294,036	51,310

6. OTHER LOSSES, NET

	NOTES	2017 RMB'000	2016 RMB'000 (RESTATED)
(Loss)/Gain on disposal of associates		**(1,050)**	25,169
Loss on redemption of convertible bond		**(3,383)**	—
Impairment loss of investments in joint ventures	20	**(21,222)**	(8,102)
Impairment loss of investments in an associate	21	**—**	(194)
Impairment loss of available-for-sale investments	22	**(168,712)**	(1,109,544)
Impairment loss of property, plant and equipment		**—**	(20,750)
Loss on disposal of items of property, plant and equipment		**—**	(28,179)
Foreign exchange gain/(loss), net		**46,092**	(34,276)
Fair value gains on financial instruments at fair value through profit or loss, net		**28,670**	23,641
Others		**(36,884)**	—
		(156,489)	(1,152,235)

7. PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS

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

	NOTES	2017 RMB'000	2016 RMB'000 (RESTATED)
Employee benefit expenses (including directors' remuneration (note 10)):			
Wages and salaries		**1,177,535**	916,048
Social insurance costs and staff welfare		**209,703**	163,346
Share-based compensation costs		**235,194**	54,872
Pension plan contributions		**122,557**	93,694
		1,744,989	1,227,960
Minimum lease payments under operating leases		**1,141,112**	549,828
Cost of inventories sold		**7,674**	7,440
Cost of services provided		**650,971**	373,219
Depreciation	(a)	**323,819**	266,842
Amortisation of prepaid land lease payments	(a),17	**4,448**	4,340
Amortisation of other intangible assets	(a)	**33,416**	16,214
Impairment/(reversal) of trade and other receivables*		**4,880**	(177)
Donation*		**1,817**	160
Auditor's remuneration		**6,200**	5,850

* 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

	2017 RMB'000	2016 RMB'000 (RESTATED)
Included in:		
Cost of revenue	**295,594**	245,511
Research and development costs	**45,984**	23,826
Selling and distribution expenses	**2,620**	1,144
Administrative expenses	**17,485**	16,915
	361,683	287,396

8. FINANCE INCOME

An analysis of finance income is as follows:

	NOTE	2017 RMB'000	2016 RMB'000 (RESTATED)
Bank interest income		**193,659**	152,390
Interest income from loans to related parties	46(a)	**1,308**	2,756
Others		**—**	2,897
		194,967	158,043

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000 (RESTATED)
Interest on convertible bonds	**45,073**	78,238
Interest on redeemable convertible preferred shares	**49,746**	23,137
Interest on bank loans	**16,675**	4,285
Interest on finance leases	**897**	1,445
	112,391	107,105

10. 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, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 RMB'000	2016 RMB'000
Fees	**878**	902
Other emoluments:		
Salaries, allowances and benefits in kind	**4,361**	4,386
Discretionary bonuses	**420**	100
Pension scheme contributions	**74**	92
Share-based compensation	**91,139**	(3,079)
	96,872	2,401

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2017 RMB'000	2016 RMB'000
Shun Tak Wong	**270**	277
David Yuen Kwan Tang	**270**	277
Wenjie Wu	**338**	348
	878	902

There were no other emoluments payable to the independent non-executive directors during the year (2016: nil).

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

(b) Executive directors, non-executive directors and the chief executive

	2017			
	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION SCHEME CONTRIBUTIONS RMB'000
Executive directors:				
Yuk Keung Ng	—	2,320	—	—
Tao Zou	—	1,509	420	47
Non-executive directors:				
Pak Kwan Kau	—	270	—	—
Jun Lei	—	262	—	27
Chi Ping Lau[1]	—	—	—	—
	—	4,361	420	74

1 Mr. Chi Ping Lau agreed to waive his remuneration for the year ended 31 December 2017.

	2016			
	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION SCHEME CONTRIBUTIONS RMB'000
Executive directors:				
HongJiang Zhang[1]	—	1,060	—	43
Yuk Keung Ng	—	2,129	100	—
Tao Zou	—	659	—	25
Non-executive directors:				
Pak Kwan Kau	—	277	—	—
Jun Lei	—	261	—	24
Chi Ping Lau[2]	—	—	—	—
	—	4,386	100	92

1 On 1 December 2016, Dr. HongJiang Zhang retired from the positions of executive director and chief executive officer of the Company, as well as other positions in the Group due to the expiration of his tenure. On the same day, Mr. Tao Zou was appointed as the chief executive officer of the Company with a term of five years.

2 Mr. Chi Ping Lau agreed to waive his remuneration for the year ended 31 December 2016.

During the year and prior years, certain directors were granted share options and awarded shares, in respect of their services to the Group. The fair value of such share options and awarded shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant. During the year ended 31 December 2017, share-based compensation costs of RMB60,480,000 and RMB3,153,000 were recognised in the financial statements for Mr. Tao Zou and Mr. Yuk Keung Ng, respectively (2016：minus RMB3,891,000, RMB98,000 and RMB714,000 for Mr. Hongjiang Zhang, Mr. Tao Zou and Mr. Yuk Keung Ng, respectively). Further details of the share options and share awards granted to Mr. Tao Zou and Mr. Yuk Keung Ng are set out in note 38 to the financial statements.

In addition, Mr. Jun Lei purchased certain equity interests of a non-wholly-owned subsidiary of the Group from an original holder during the year ended 31 December 2017 and such arrangement was accounted for as equity-settled transaction as further detailed in note 2.4 to the financial statements, and the related share-based compensation costs for the year is RMB27,506,000.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors and the chief executive (2016: nil), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining two (2016: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	**3,558**	8,179
Discretionary bonuses	**1,187**	1,931
Pension scheme contributions	**202**	550
Share-based compensation	**31,102**	103,399
	36,049	114,059

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 2017	 2016
RMB11,500,001 to RMB12,000,000	**—**	1
RMB17,000,001 to RMB17,500,000	**—**	1
RMB17,500,001 to RMB18,000,000	**1**	—
RMB18,000,001 to RMB18,500,000	**1**	—
RMB19,500,001 to RMB20,000,000	**—**	1
RMB26,500,001 to RMB27,000,000	**—**	1
RMB38,000,001 to RMB38,500,000	**—**	1
	2	5

During the year and the prior years, share options and awarded shares were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 38 to the financial statements. The fair value of such options and awarded shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosure.

12. INCOME TAX

PRC corporate income tax represents the tax charged on the estimated assessable profits arising in the 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% (2016: 16.5%) on estimated assessable profits arising in Hong Kong during the year ended 31 December 2017.

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

	NOTE	2017 RMB'000	2016 RMB'000 (RESTATED)
Current — Mainland China		**168,179**	135,166
Current — Hong Kong		**69,642**	19,443
Current — Elsewhere		**17,787**	24,343
Deferred	36	**(119,614)**	(11,105)
Total tax charge for the year		**135,994**	167,847
Total tax charge for the year from continuing operations		**133,834**	177,156
Total tax charge/(credit) for the year from a discontinued operation		**2,160**	(9,309)
		135,994	167,847

12. INCOME TAX (continued)

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:

	2017 RMB'000	%	2016 RMB'000 (RESTATED)	%
Profit/(loss) before tax from continuing operations	**912,114**		(81,556)	
Profit/(loss) before tax from a discontinued operation	**2,520,509**		(42,872)	
	3,432,623		(124,428)	
Tax at the statutory tax rate of Mainland China	**858,156**	**25.0**	(31,107)	25.0
Lower tax rates for specific provinces or enacted by local authority	**(165,952)**	**(4.8)**	(172,568)	138.7
Effect of different tax rates in different jurisdictions	**(551,743)**	**(16.1)**	262,597	(211.0)
Effect on opening deferred tax of change in rates	**(68,467)**	**(2.0)**	4,459	(3.6)
Income not subject to tax	**(10,705)**	**(0.3)**	(6,811)	5.5
Expenses not deductible for tax	**53,776**	**1.6**	77,713	(62.5)
Research and development super deduction	**(80,070)**	**(2.3)**	(66,200)	53.2
Effect of withholding tax on the gain of disposal of investment	**3,989**	**0.1**	3,341	(2.7)
Profit and losses attributable to joint ventures and associates	**(30,147)**	**(0.9)**	(4,118)	3.3
Tax losses and temporary differences not recognised	**125,955**	**3.7**	81,121	(65.2)
Tax losses and other deductible temporary differences utilised from previous periods	**(27,886)**	**(0.8)**	(13,661)	11.0
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**21,500**	**0.6**	29,938	(24.1)
Adjustments in respect of current tax of previous periods	**7,588**	**0.2**	3,143	(2.5)
Tax charge at the Group's effective rate	**135,994**	**4.0**	167,847	(134.9)
Tax charge from continuing operations at the effective rate	**133,834**	**14.7**	177,156	(217.2)
Tax charge/(credit) from a discontinued operation at the effective rate	**2,160**	**0.1**	(9,309)	21.7

The share of tax credit attributable to associates of RMB1,463,000 (2016: RMB914,000) and the tax expense attributable to joint ventures of RMB2,205,000 (2016: tax credit of RMB4,000) were included in "share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

13. DISCONTINUED OPERATION

On 12 February 2017, the Company entered into a voting proxy agreement with Mr. Sheng Fu, the chief executive officer and director of Cheetah Mobile Inc. Pursuant to this agreement, the Company will delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah Mobile Inc. to Mr. Sheng Fu (as the representative of the management of Cheetah Mobile Inc.), subject to the approval of the shareholders of the Company and signing of the definitive agreement in relation to the possible investment in robotics business between Cheetah Mobile and Mr. Sheng Fu.

On 26 May 2017, Beijing Kingsoft Internet Security Software Co., Ltd., a wholly-owned subsidiary of Cheetah Mobile Inc., entered into a capital injection agreement with Mr. Sheng Fu, Beijing OrionStar Technology Co., Ltd. (as the target company), other investors and existing shareholders in relation to the investment in robotics business. On 29 September 2017, the aforementioned voting proxy agreement was approved by the shareholders of the Company and became effective from 1 October 2017. As a result, the Group lost control over Cheetah Mobile.

Cheetah Mobile carries out the "information security and internet services segment" of the Group. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the operating results of Cheetah Mobile before the deemed disposal have been presented as a discontinued operation. The comparative figures for the consolidated statement of profit or loss are restated to reflect the reclassification between continuing operations and a discontinued operation of the Group accordingly.

13. DISCONTINUED OPERATION (continued)

The net assets of Cheetah Mobile disposed of as at 1 October 2017 were as follows:

	NOTES	RMB'000
Net assets disposed of:		
Property, plant and equipment	16	95,021
Goodwill	18	924,163
Other intangible assets	19	158,285
Investments in joint ventures		106,977
Investments in associates		252,793
Available-for-sale investments		454,990
Other financial assets		187,235
Deferred tax assets	36	110,171
Inventories		15,823
Trade receivables		555,955
Prepayments, deposits and other receivables		618,356
Pledged deposits		66,369
Restricted cash		8,493
Cash and bank balances		2,283,053
Trade payables		(234,755)
Other payables and accruals		(1,195,033)
Interest-bearing bank loans		(462,032)
Deferred revenue		(48,139)
Income tax payable		(55,891)
Deferred tax liabilities	36	(38,179)
Liability component of redeemable convertible preferred shares		(315,295)
Other liabilities		(3,335)
Non-controlling interests		(1,850,855)
		1,634,170
Exchange fluctuation reserve		(57,355)
		1,576,815
Gain on deemed disposal of a subsidiary		2,224,291
Investments in associates		3,801,106

13. DISCONTINUED OPERATION (continued)

An analysis of the net outflows of cash and cash equivalents in respect of the deemed disposal of Cheetah Mobile is as follows:

	2017 RMB'000
Cash consideration	—
Cash and cash equivalents disposed of	**(1,652,868)**
Net cash outflows from the deemed disposal of a subsidiary	**(1,652,868)**

The results of the discontinued operation are presented below:

	2017* RMB'000	2016 RMB'000
Revenue	**3,518,029**	4,448,591
Expenses	**(3,247,173)**	(4,400,833)
Other gains/(losses), net	**94,550**	(37,539)
Finance income	**22,605**	15,675
Finance costs	**(21,524)**	(7,892)
Share of losses of joint ventures	**(1,101)**	(810)
Share of losses of associates	**(69,168)**	(60,064)
Profit/(loss) before tax from the discontinued operation	**296,218**	(42,872)
Income tax expense	**(2,160)**	9,309
Profit/(loss) for the period/year from a discontinued operation	**294,058**	(33,563)
Gain on deemed disposal of a subsidiary	**2,224,291**	—
Profit/(loss) for the period/year from a discontinued operation	**2,518,349**	(33,563)

13. DISCONTINUED OPERATION (continued)

The net cash flows incurred by Cheetah Mobile are as follows:

	2017* RMB'000	2016 RMB'000
Operating activities	**353,057**	412,138
Investing activities	**(358,720)**	(1,007,624)
Financing activities	**247,531**	116,552
Net cash inflow/(outflow)	**241,868**	(478,934)
Earnings per share:		
Basic, from the discontinued operation	**RMB1.84**	—
Diluted, from the discontinued operation	**RMB1.75**	—

* These numbers represent the operating results/cash flows prior to the deemed disposal on 1 October 2017.

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2017	2016
Profit attributable to ordinary equity holders of the parent from the discontinued operation	**RMB2,399,286,000**	RMB4,142,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,298,969,084**	1,290,193,487
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**1,366,501,357**	1,290,193,487

14. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Proposed final dividend (notes (a) and (b)):		
HK$0.11(2016: HK$0.10) per share based on issued share capital as at year end	**123,326**	116,643
Less: Dividend for shares held for share award scheme as at year end	**(898)**	(967)
	122,428	115,676

Notes:

(a) The actual amount of the 2016 dividend finally paid was RMB112,678,000, after eliminating the amount of RMB928,000 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.

15. 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 1,298,969,084 (2016: 1,290,193,487) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the convertible bonds of the Company, the share option schemes and the share award schemes adopted by the Group's subsidiaries and associate, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2017 RMB'000	2016 RMB'000 (RESTATED)
EARNINGS		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	**802,551**	(274,874)
From a discontinued operation	**2,399,286**	4,142
	3,201,837	(270,732)
Increase in earnings adjusted for the convertible bonds of the Company	**30,703**	—
Decrease in earnings adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries and associate	**(1,081)**	—
	3,231,459	(270,732)
Attributable to:		
Continuing operations	**832,852**	(274,874)
Discontinued operation	**2,398,607**	4,142
	3,231,459	(270,732)

	NUMBER OF SHARES 2017	 2016
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	**1,298,969,084**	1,290,193,487
Effect of dilution — weighted average number of ordinary shares:		
Share options	**3,225,699**	—
Awarded shares	**3,553,233**	—
Convertible bonds	**60,753,341**	—
	1,366,501,357	1,290,193,487

16. PROPERTY, PLANT AND EQUIPMENT

	BUILDINGS RMB'000	ELECTRONIC EQUIPMENT RMB'000	OFFICE EQUIPMENT AND FIXTURES RMB'000	MOTOR VEHICLES RMB'000	LEASEHOLD IMPROVEMENTS RMB'000	CONSTRUCTION IN PROGRESS RMB'000	TOTAL RMB'000
31 DECEMBER 2017							
At 31 December 2016 and 1 January 2017:							
Cost	**256,539**	**1,139,361**	**156,056**	**8,135**	**79,698**	**264,331**	**1,904,120**
Accumulated depreciation	**(33,069)**	**(616,131)**	**(129,262)**	**(4,432)**	**(23,460)**	**—**	**(806,354)**
Net carrying amount	**223,470**	**523,230**	**26,794**	**3,703**	**56,238**	**264,331**	**1,097,766**
At 1 January 2017, net of accumulated depreciation	**223,470**	**523,230**	**26,794**	**3,703**	**56,238**	**264,331**	**1,097,766**
Additions	**78,377**	**370,467**	**4,022**	**3,656**	**2,165**	**229,054**	**687,741**
Acquisition from business combination (note 41)	**—**	**70**	**10**	**—**	**—**	**—**	**80**
Disposals	**—**	**(282)**	**(152)**	**(417)**	**(130)**	**—**	**(981)**
Depreciation provided during the year	**(5,522)**	**(331,023)**	**(7,364)**	**(1,187)**	**(13,421)**	**—**	**(358,517)**
Deemed disposal of a subsidiary (note 13)	**—**	**(34,217)**	**(15,299)**	**(2,775)**	**(40,303)**	**(2,427)**	**(95,021)**
Exchange realignment	**—**	**(1,666)**	**(99)**	**(88)**	**(12)**	**—**	**(1,865)**
At 31 December 2017, net of accumulated depreciation and impairment	**296,325**	**526,579**	**7,912**	**2,892**	**4,537**	**490,958**	**1,329,203**
At 31 December 2017:							
Cost	**334,916**	**1,354,679**	**132,299**	**5,890**	**14,565**	**490,958**	**2,333,307**
Accumulated depreciation and impairment	**(38,591)**	**(828,100)**	**(124,387)**	**(2,998)**	**(10,028)**	**—**	**(1,004,104)**
Net carrying amount	**296,325**	**526,579**	**7,912**	**2,892**	**4,537**	**490,958**	**1,329,203**
31 DECEMBER 2016							
At 31 December 2015 and 1 January 2016:							
Cost	256,539	897,508	149,092	5,879	65,936	142,386	1,517,340
Accumulated depreciation	(28,387)	(389,923)	(121,685)	(3,135)	(8,131)	—	(551,261)
Net carrying amount	228,152	507,585	27,407	2,744	57,805	142,386	966,079
At 1 January 2016, net of accumulated depreciation	228,152	507,585	27,407	2,744	57,805	142,386	966,079
Additions	—	352,331	7,836	2,139	14,002	121,945	498,253
Acquisition from business combination (note 41)	—	366	35	—	119	—	520
Disposals	—	(30,176)	(1,130)	—	(27)	—	(31,333)
Depreciation provided during the year	(4,682)	(283,929)	(7,740)	(1,255)	(15,690)	—	(313,296)
Disposal of a subsidiary (note 42)	—	(1,166)	—	—	—	—	(1,166)
Impairment	—	(20,750)	—	—	—	—	(20,750)
Government grants received	—	(2,731)	—	—	—	—	(2,731)
Exchange realignment	—	1,700	386	75	29	—	2,190
At 31 December 2016, net of accumulated depreciation and impairment	223,470	523,230	26,794	3,703	56,238	264,331	1,097,766
At 31 December 2016:							
Cost	256,539	1,139,361	156,056	8,135	79,698	264,331	1,904,120
Accumulated depreciation and impairment	(33,069)	(616,131)	(129,262)	(4,432)	(23,460)	—	(806,354)
Net carrying amount	223,470	523,230	26,794	3,703	56,238	264,331	1,097,766

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of electronic equipment at 31 December 2017 was RMB585,000 (2016: RMB2,100,000).

During the year ended 31 December 2017, no impairment loss was recognised by the Group (2016: RMB20,750,000) for property, plant and equipment of the Group. The impairment loss recognised in 2016 belongs to the cloud services.

17. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**272,386**	276,726
Addition	**26,610**	—
Amortisation during the year	**(4,448)**	(4,340)
Carrying amount at 31 December	**294,548**	272,386
Current portion included in prepayments, deposits and other receivables	**(4,987)**	(4,340)
Non-current portion	**289,561**	268,046

18. GOODWILL

	NOTES	RMB'000
At 1 January 2016:		
Cost		642,783
Accumulated impairment		(23,746)
Net carrying amount		619,037
Cost at 1 January 2016, net of accumulated impairment		619,037
Acquisition of subsidiaries	41	287,049
Exchange realignment		48,570
Cost and net carrying amount at 31 December 2016		954,656
At 31 December 2016:		
Cost		954,656
Accumulated impairment		—
Net carrying amount		954,656
Cost at 1 January 2017, net of accumulated impairment		**954,656**
Acquisition of a subsidiary	41	**14,083**
Deemed disposal of a subsidiary	13	**(924,163)**
Exchange realignment		**(35,017)**
Cost and net carrying amount at 31 December 2017		**9,559**
At 31 December 2017:		
Cost		**9,559**
Accumulated impairment		**—**
Net carrying amount		**9,559**

18. GOODWILL (continued)

Impairment testing of goodwill

As at 31 December 2017, goodwill of RMB9,559,000 was allocated to the cloud services cash-generating unit for impairment testing.

Cloud services cash generating unit

The recoverable amount of the cloud 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. The discount rate applied to the cash flow projections is 19%, which is determined by reference to the average rate for similar industry and the business risk of the relevant business unit.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill of the cloud services cash-generating unit:

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 of cloud services cash-generating unit, in the opinion of the directors, no impairment provision was considered necessary as at 31 December 2017 (2016: nil).

19. OTHER INTANGIBLE ASSETS

	PURCHASED SOFTWARE RMB'000	LICENCE RIGHTS FOR GAMES RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	USER BASE RMB'000	OTHERS RMB'000	TOTAL RMB'000
31 DECEMBER 2017						
At 1 January 2017:						
Cost	**400,209**	**78,206**	**27,229**	**173,598**	**60,055**	**739,297**
Accumulated amortisation and impairment	**(239,394)**	**(63,646)**	**(27,229)**	**(105,127)**	**(8,150)**	**(443,546)**
Net carrying amount	**160,815**	**14,560**	**—**	**68,471**	**51,905**	**295,751**
Cost at 1 January 2017, net of accumulated amortisation and impairment	**160,815**	**14,560**	**—**	**68,471**	**51,905**	**295,751**
Additions	**23,063**	**—**	**—**	**—**	**734**	**23,797**
Acquisition from business combination (note 41)	**7,706**	**—**	**—**	**—**	**—**	**7,706**
Amortisation provided during the year	**(71,172)**	**(2,183)**	**—**	**(22,312)**	**(8,957)**	**(104,624)**
Impairment during the year	**—**	**(172)**	**—**	**—**	**—**	**(172)**
Disposals	**(201)**	**—**	**—**	**—**	**(31)**	**(232)**
Deemed disposal of a subsidiary (note 13)	**(72,443)**	**(11,612)**	**—**	**(43,797)**	**(30,433)**	**(158,285)**
Exchange realignment	**(3,877)**	**(233)**	**—**	**(2,362)**	**(1,094)**	**(7,566)**
At 31 December 2017	**43,891**	**360**	**—**	**—**	**12,124**	**56,375**
At 31 December 2017:						
Cost	**128,038**	**1,973**	**27,229**	**—**	**15,583**	**172,823**
Accumulated amortisation and impairment	**(84,147)**	**(1,613)**	**(27,229)**	**—**	**(3,459)**	**(116,448)**
Net carrying amount	**43,891**	**360**	**—**	**—**	**12,124**	**56,375**
31 DECEMBER 2016						
At 1 January 2016:						
Cost	300,938	80,813	27,229	114,196	24,005	547,181
Accumulated amortisation and impairment	(139,918)	(63,417)	(27,229)	(63,589)	(6,189)	(300,342)
Net carrying amount	161,020	17,396	—	50,607	17,816	246,839
Cost at 1 January 2016, net of accumulated amortisation and impairment	161,020	17,396	—	50,607	17,816	246,839
Additions	66,791	8,033	—	6,688	233	81,745
Acquisition from business combination (note 41)	13,914	—	—	42,763	34,906	91,583
Amortisation provided during the year	(88,680)	(5,498)	—	(36,116)	(2,823)	(133,117)
Impairment during the year	—	(2,889)	—	—	—	(2,889)
Disposals	—	(2,729)	—	—	—	(2,729)
Exchange realignment	7,770	247	—	4,529	1,773	14,319
At 31 December 2016	160,815	14,560	—	68,471	51,905	295,751
At 31 December 2016:						
Cost	400,209	78,206	27,229	173,598	60,055	739,297
Accumulated amortisation and impairment	(239,394)	(63,646)	(27,229)	(105,127)	(8,150)	(443,546)
Net carrying amount	160,815	14,560	—	68,471	51,905	295,751

19. OTHER INTANGIBLE ASSETS (continued)

During the year ended 31 December 2017, the Group recognised an impairment loss of RMB172,000 (2016: RMB2,889,000) for certain other intangible assets of the Group. These intangible assets belong to the discontinued operation.

20. INVESTMENTS IN JOINT VENTURES

	2017 RMB'000	2016 RMB'000
Share of net assets	**153,649**	147,144
Goodwill on acquisition	**52,785**	37,803
	206,434	184,947
Provision for impairment	**(29,324)**	(19,435)
	177,110	165,512

The Group's shareholdings in the joint ventures all comprise equity shares held by the Company's subsidiaries.

Particulars of the Group's material joint venture are as follows:

NAME	PARTICULARS OF ISSUED SHARES HELD	PLACE OF REGISTRATION AND BUSINESS	PERCENTAGE OF OWNERSHIP INTEREST	PERCENTAGE OF VOTING POWER	PERCENTAGE OF PROFIT SHARING	PRINCIPAL ACTIVITIES
Zhuhai Jianxin Interactive Entertainment Co., Ltd. ("Zhuhai Jianxin")	Ordinary shares	Mainland China	40%	40%	40%	Research and development of games

Zhuhai Jianxin, which is considered as a material joint venture of the Group, is a research and development centre of mobile games in Mainland China and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Zhuhai Jianxin adjusted for any differences in accounting policies and reconciled to the carrying amount in consolidated financial statements:

20. INVESTMENTS IN JOINT VENTURES (continued)

	2017 RMB'000	2016 RMB'000
Cash and bank balance	**260,879**	12,940
Other current assets	**121,370**	312,046
Current assets	**382,249**	324,986
Non-current assets	**6,911**	4,817
Current liabilities	**94,783**	53,496
Net assets	**294,377**	276,307
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**40%**	40%
Group's share of net assets of the joint venture	**117,751**	110,523
Carrying amount of the investment	**123,748**	116,520
Revenue	**336,111**	276,732
Interest income	**3,119**	8
Depreciation and amortisation	**(1,456)**	(16)
Profit and total comprehensive income for the year	**324,280**	273,913
Dividend received	**85,601**	—

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

	2017 RMB'000	2016 RMB'000 (RESTATED)
Share of the joint ventures' loss from continuing operations for the year	**(8,673)**	(8,274)
Share of the joint ventures' total comprehensive loss from continuing operations	**(8,673)**	(8,274)
Aggregate carrying amount of the Group's investments in the joint ventures	**53,362**	48,992

(i) The Group has discontinued the recognition of its share of losses of two joint ventures because the share of losses of these joint ventures exceeded the Group's interests in the joint ventures and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of profits of these joint ventures for the current year were RMB386,000 (2016: loss of RMB8,091,000 (restated)). Cumulatively, the amounts of the Group's unrecognised share of losses of these joint ventures were RMB9,301,000 (2016: RMB9,687,000 (restated)), respectively.

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

(iii) During the year ended 31 December 2017, the Group recognised an impairment loss of RMB21,222,000 from continuing operations (2016: RMB8,102,000 (restated)) for investments in joint ventures.

(iv) The Group's loans to joint ventures are disclosed in note 46(b) to the financial statements.

21. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	**2,299,795**	254,305
Goodwill on acquisition	**1,578,820**	156,059
	3,878,615	410,364
Provision for impairment	**(194)**	(3,591)
	3,878,421	406,773

The Group's shareholdings in the associates all comprise equity share held by the Company's subsidiaries except for Cheetah Mobile Inc., the shareholding in which is held through the Company.

Particulars of the Group's material associate is as follows:

NAME	PARTICULARS OF ISSUED SHARES HELD	PLACE OF REGISTRATION AND BUSINESS	PERCENTAGE OF OWNERSHIP INTEREST	PERCENTAGE OF VOTING POWER	PERCENTAGE OF PROFIT SHARING	PRINCIPAL ACTIVITIES
Cheetah Mobile Inc.	Ordinary shares	Cayman Islands	48.12%	25.24%	48.12%	Investment holding

As disclosed in note 13, Cheetah Mobile becomes one of the Group's associates and is accounted for using the equity method since the deemed disposal.

21. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information in respect of Cheetah Mobile adjusted for any differences in accounting policies and reconciled to the carrying amount in consolidated financial statements:

	2017 RMB'000
Current assets	**5,454,348**
Non-current assets, excluding goodwill	**2,357,228**
Goodwill on acquisition of the associate	**1,553,544**
Current liabilities	**2,427,084**
Non-current liabilities	**545,210**
Non-controlling interests	**142,811**
Net assets	**6,250,015**
Net assets, excluding goodwill	**4,696,471**
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	**48.12%**
Group's share of net assets of the associate, excluding goodwill	**2,259,942**
Goodwill on acquisition (less cumulative impairment)	**1,553,544**
Carrying amount of the investment	**3,813,486**
Revenue	**1,356,602**
Profit for the period	**146,460**
Other comprehensive loss	**(40,785)**
Total comprehensive income for the period	**105,675**

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

	2017 RMB'000	2016 RMB'000 (RESTATED)
Share of the associates' losses for the year	**(11,670)**	(6,683)
Share of the associates' other comprehensive loss	**(394)**	—
Share of the associates' total comprehensive loss	**(12,064)**	(6,683)
Aggregate carrying amount of the Group's investments in the associates	**64,935**	406,773

21. INVESTMENTS IN ASSOCIATES (continued)

(i) On 26 February 2016, the Company entered into a share purchase agreement with Xiaomi Corporation and other shareholders of Zhigu Holdings Limited ("Zhigu"), an associate of the Company, pursuant to which, the Company agreed to sell and Xiaomi Corporation agreed to purchase all the shares held by the Company in Zhigu at a consideration of US$7.5 million (equivalent to RMB49,019,000). Upon the closing of the transaction, a gain of RMB25,169,000, which included a reclassification from other comprehensive loss of RMB129,000, has been recognised in the statement of profit or loss for the year ended 31 December 2016.

(ii) The Group treated these investments as associates because the Group is able to have significant influence on these investees through its representations on the investees' boards of directors.

(iii) During the year ended 31 December 2017, no impairment loss was recognised by the Group from continuing operations (2016: RMB194,000 (restated)) for investments in associates.

(iv) The Group's loans to associates are disclosed in note 46(b) to the financial statements.

22. AVAILABLE-FOR-SALE INVESTMENTS

	NOTES	2017 RMB'000	2016 RMB'000
Listed equity investments in the United States, at fair value	(i)	**1,252,500**	665,530
Unlisted equity investments, at fair value	(i)	**—**	131,803
Unlisted equity investments, at cost	(ii)	**115,412**	462,080
		1,367,912	1,259,413
Provision for impairment	(ii)	**(10,696)**	(3,910)
		1,357,216	1,255,503
Current portion		**(88,000)**	(204,849)
Non-current portion		**1,269,216**	1,050,654

During the year, the gross gain in respect of the Group's available-for-sale investments at fair value recognised in other comprehensive income amounted to RMB782,464,000 (2016: gross loss of RMB853,550,000), none of which (2016: loss of RMB890,203,000) was reclassified from other comprehensive income to the statement of profit or loss during the year.

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.

Notes:

(i) During the year ended 31 December 2017, certain of the Group's available-for-sale investments measured at fair value were individually determined to be impaired on the basis that there was a "significant" or "prolonged" decline in the fair value of the equity investments. Impairment losses of RMB158,367,000 from continuing operations (2016: RMB1,109,544,000(restated)), none of which was reclassified from other comprehensive income (2016: a reclassification of RMB830,787,000 (restated)) to the statement of profit or loss during the year.

The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately RMB1,055,908,000.

(ii) During the year ended 31 December 2017, certain of the Group's available-for-sale investments measured at cost were individually determined to be impaired, impairment losses of RMB10,345,000 from continuing operations (2016: nil (restated)) were recognised in the statement of profit or loss for the year.

22. AVAILABLE-FOR-SALE INVESTMENTS (continued)

As at 31 December 2017, the unlisted equity investments with a carrying amount of RMB104,716,000 (2016: RMB458,170,000) including the current portion and non-current portion of RMB88,000,000 and RMB16,716,000, respectively (2016: RMB147,549,000 and RMB310, 621,000, respectively), were stated at cost less impairment, because the range of reasonable fair value estimates is so significant that the directors are of the opinion that the fair value cannot be measured reliably. The Group does not intend to dispose of the non-current portion of available-for-sale investments in the near future.

(iii) As at 31 December 2017, there was no available-for-sale investment of the Group with carrying amount exceeding 5% of the Group's total assets (2016: nil).

23. OTHER FINANCIAL ASSETS

	NOTES	2017 RMB'000	2016 RMB'000
Ordinary share subscription option	(i)	**59,123**	38,621
Others		**4,307**	32,470
		63,430	71,091

Note:

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

24. OTHER NON-CURRENT ASSETS

	2017 RMB'000	2016 RMB'000
Long term prepayments, deposits and other receivables	**38,334**	34,502
Others	**4,306**	8,957
	42,640	43,459

25. INVENTORIES

	2017 RMB'000	2016 RMB'000
Packaging materials	**81**	366
Trading stocks	**10,246**	10,732
	10,327	11,098

26. TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**1,174,852**	1,860,277
Impairment	**(7,107)**	(86,121)
	1,167,745	1,774,156

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 aging 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:

	2017 RMB'000	2016 RMB'000
0 to 30 days	**473,039**	908,394
31 to 60 days	**152,404**	191,128
61 to 90 days	**143,342**	456,060
91 to 365 days	**344,455**	144,024
Over one year	**54,505**	74,550
	1,167,745	1,774,156

26. TRADE RECEIVABLES (continued)

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

	2017 RMB'000	2016 RMB'000
At 1 January	**86,121**	20,117
Impairment losses recognised	**4,818**	50,754
Business combination	**—**	9,340
Impairment losses reversed	**(20)**	(1,085)
Amount written off as uncollectible	**(1,498)**	(828)
Deemed disposal of a subsidiary	**(81,723)**	—
Exchange realignment	**(591)**	7,823
	7,107	86,121

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB7,107,000 (2016: RMB86,121,000) with a carrying amount before provision of RMB7,107,000 (2016: RMB88,844,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**496,585**	1,325,195
0 to 30 days past due	**128,881**	157,269
31 to 60 days past due	**143,342**	91,034
61 to 90 days past due	**344,432**	129,101
91 to 365 days past due	**44,221**	57,899
Over 1 year past due	**10,284**	10,935
	1,167,745	1,771,433

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 of RMB15,117,000 (2016: nil) due from an associate, an amount of RMB163,920,000 (2016: RMB643,202,000) due from a company whose parent has a significant influence on the Company, and an amount of RMB187,389,000 (2016: RMB132,188,000) due from a company controlled by a director of the Company which is repayable on credit terms similar to those offered to the major customers of the Group.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	NOTE	2017 RMB'000	2016 RMB'000
Prepayments		**62,946**	121,599
Deposits		**6,216**	16,368
Due from related parties	46(b)	**31,136**	141,233
Other receivables		**579,485**	856,105
		679,783	1,135,305
Impairment		**(171)**	(13,277)
		679,612	1,122,028

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

	2017 RMB'000	2016 RMB'000
At 1 January	**13,277**	10,082
Impairment losses recognised	**2,185**	6,212
Impairment losses reversed	**(822)**	(906)
Amount written off as uncollectible	**(466)**	(2,611)
Deemed disposal of a subsidiary	**(13,491)**	—
Exchange realignment	**(512)**	500
	171	13,277

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

	NOTE	2017 RMB'000	2016 RMB'000
Cash and bank balances		**970,465**	1,718,341
Non-pledged time deposits with original maturity of less than three months when acquired		**1,377,573**	3,018,595
Principal protected structure deposits with original maturity of less than three months when acquired		**688,450**	1,039,400
		3,036,488	5,776,336
Non-pledged time deposits with original maturity of over three months when acquired		**1,912,156**	1,229,887
Principal protected structure deposits with original maturity of over three months when acquired		**3,557,340**	2,819,271
		5,469,496	4,049,158
Cash and bank deposits		**8,505,984**	9,825,494
Pledged time deposits for bank loans		**—**	69,370
Restricted cash	(iii)	**93,400**	98,381
		8,599,384	9,993,245

28. CASH AND BANK DEPOSITS, PLEDGED DEPOSITS AND RESTRICTED CASH (continued)

(i) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of one day to and a year depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

(ii) The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(iii) As at 31 December 2017, restricted cash of RMB93,400,000 (2016: RMB98,381,000) was not a part of cash and cash equivalents, which was not available for the Group's use.

The restricted cash as at 31 December 2017 represents the escrow amount and its related interest income held by a subsidiary of the Company, which shall be joint-controlled by the subsidiary of the Company and a company whose parent has a significant influence on the Company in accordance with the terms of the share purchase agreement in connection with the disposal of shares of Seasun Holdings as disclosed in note 46(a)(x).

The restricted cash as at 31 December 2016 belonged to the discontinued operation.

29. TRADE PAYABLES

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

	2017 RMB'000	2016 RMB'000
0 to 30 days	**87,583**	331,638
31 to 60 days	**32,690**	60,214
61 to 90 days	**2,309**	111,861
91 to 365 days	**54,446**	51,213
Over 1 year	**2,273**	5,562
	179,301	560,488

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

Included in the Group's trade payables are amounts of RMB160,000 (2016: RMB15,469,000), RMB10,000 (2016: RMB26,223,000) and RMB106,804,000 (2016: RMB285,485,000), respectively, due to a company controlled by a director of the Company, a company whose parent has a significant influence on the Company and a joint venture of the Group, which are repayable on credit terms similar to those offered by the counterparty.

30. OTHER PAYABLES AND ACCRUALS

	NOTES	2017 RMB'000	2016 RMB'000
Deposits received from customers		**1,075**	11,390
Advance received from disposal of an available-for-sale investment		**88,000**	—
Other payables		**697,270**	1,010,355
Accruals		**676,542**	846,575
Other taxes payable		**74,260**	87,183
Consideration for acquiring businesses		**—**	129,081
Finance lease payables	35	**6,551**	17,203
Due to related parties	46(b)	**68,969**	301
		1,612,667	2,102,088
Non-current portion			
Consideration for acquiring businesses		**—**	(13,893)
Finance lease payables	35	**—**	(5,788)
		—	(19,681)
Current portion		**1,612,667**	2,082,407

Other payables are non-interest-bearing.

31. INTEREST-BEARING BANK LOANS

	NOTE	EFFECTIVE INTEREST RATE	MATURITY	RMB'000
At 31 December 2017				
Current				
Bank loan — unsecured		**2.37% PER ANNUM**	**2018**	**326,710**
Current portion of long term bank loans — unsecured		**4.28% PER ANNUM**	**2018**	**47,455**
				374,165
Non-current				
Bank loans — unsecured		**4.28% PER ANNUM**	**2019–2021**	**287,682**
				661,847
At 31 December 2016				
Current				
Bank loan — secured	(ii)	2.07%–2.41% per annum	2017	346,850
Current portion of long term bank loans — unsecured		0%–3.02% per annum	2017	32,694
				379,544
Non-current				
Bank loans — unsecured		0%–4.28% per annum	2018–2021	438,330
				817,874

31. INTEREST-BEARING BANK LOANS (continued)

	2017 RMB'000	2016 RMB'000
Analysed into:		
Within one year or on demand	**374,165**	379,544
In the second year	**56,458**	96,045
In the third to fifth years, inclusive	**231,224**	342,285
	661,847	817,874

Notes:

(i) The Group has overdraft facilities amounting to US$75,000,000 and RMB400,000,000, respectively (2016: US$110,000,000 and RMB400,000,000, respectively), of which US$50,000,000 and RMB335,137,000, respectively (2016: US$69,767,000 and RMB319,532,000, respectively) had been utilised as at the end of the reporting period.

(ii) As at 31 December 2016, interest-bearing bank loans of the Group was secured by the pledge of certain of the Group's time deposits amounting to RMB69,370,000.

(iii) As at 31 December 2017, interest-bearing bank loans of the Group amounting to RMB326,710,000, RMB335,137,000 and nil were denominated in US$, RMB and Euro, respectively (2016: RMB447,437,000, RMB319,532,000 and RMB50,905,000, respectively).

32. DEFERRED REVENUE

	2017 RMB'000	2016 RMB'000
Entertainment software	**511,095**	490,536
Information security software	**4,902**	43,839
Office software	**75,801**	16,323
Government grants	**37,547**	34,373
	629,345	585,071
Less: Current portion	**(608,557)**	(547,462)
Non-current portion	**20,788**	37,609

33. CONVERTIBLE BONDS

		2017 RMB'000	2016 RMB'000
Liability component			
2013 Convertible bonds	(a)	**832,876**	885,984
2014 Convertible bonds	(b)	**37,864**	2,025,370
		870,740	2,911,354
Less: Current portion		**(832,876)**	—
Non-current portion		**37,864**	2,911,354
Equity component			
2013 Convertible bonds	(a)	**6,290**	6,290
2014 Convertible bonds	(b)	**1,274**	66,005
		7,564	72,295

(a) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK$1,356,000,000 which bear interest at a rate of 3% per annum payable semi-annually (the "2013 Convertible Bonds"). The 2013 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK$16.9363 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2013 Convertible Bonds at principal amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days' prior notice. On the maturity date, any 2013 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

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

In accordance with the respective terms and conditions of the 2013 Convertible Bonds, as a result of certain distributions and issuance of shares by the Company, the conversion price of the 2013 Convertible Bonds was adjusted to HK$16.70 per share on 2 June 2015 and further adjusted to HK$16.46 per share effective on 2 June 2016.

There was no conversion or redemption of the 2013 Convertible Bonds during the year ended 31 December 2017 (2016: nil). The aggregate principal amount of the 2013 Convertible Bonds remaining outstanding as at 31 December 2017 was HK$1,000 million, which was fully converted into ordinary share of the Company in January 2018.

33. CONVERTIBLE BONDS (continued)

(a) (continued)

The movements of the liability component and the equity component of the 2013 Convertible Bonds for the years ended 31 December 2017 and 2016 are set out below:

	LIABILITY COMPONENT RMB'000	EQUITY COMPONENT RMB'000
At 1 January 2016	824,881	6,290
Exchange realignment	55,986	—
Interest expenses	5,117	—
At 31 December 2016	885,984	6,290
Exchange realignment	**(58,312)**	**—**
Interest expenses	**5,204**	**—**
At 31 December 2017	**832,876**	**6,290**

(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 nor more than 60 days' prior notice. On the maturity date, any 2014 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

33. CONVERTIBLE BONDS (continued)

(b) (continued)

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.

Similar to the 2013 Convertible Bonds, in accordance with the respective terms and conditions of the 2014 Convertible Bonds, the conversion price of the 2014 Convertible Bonds was adjusted to HK$43.29 per share on 2 June 2015 and further adjusted to HK$42.67 per share on 2 June 2016.

On 11 April 2017, the Company redeemed, at the options of certain bondholders of the 2014 Convertible Bonds, a portion of the 2014 Convertible Bonds representing the principal amount of HK$2,281,000,000 at an aggregate principal amount together with accrued and unpaid interest to such date. The aggregate principal amount of the 2014 Convertible Bonds remaining outstanding as at 31 December 2017 was HK$46,000,000.

The movements of the liability component and the equity component of the 2014 Convertible Bonds for the years ended 31 December 2017 and 2016 are set out below:

	LIABILITY COMPONENT RMB'000	EQUITY COMPONENT RMB'000
At 1 January 2016	1,874,817	66,005
Exchange realignment	127,640	—
Interest expenses	22,913	—
At 31 December 2016	2,025,370	66,005
Redemption of the convertible bonds	**(1,932,659)**	**(64,731)**
Exchange realignment	**(61,561)**	**—**
Interest expenses	**6,714**	**—**
At 31 December 2017	**37,864**	**1,274**

34. REDEEMABLE CONVERTIBLE PREFERRED SHARES ISSUED BY A SUBSIDIARY

		2017 RMB'000	2016 RMB'000
Liability components			
Series C redeemable convertible preferred shares	(a)	**363,786**	358,221
Series D redeemable convertible preferred shares	(b)	**658,004**	—
Warrant	(b),(c)	**49,557**	—
		1,071,347	358,221
Less: Current portion		**(121,076)**	(41,387)
Non-current portion		**950,271**	316,834
Equity component			
Series C redeemable convertible preferred shares	(a)	**5,438**	5,438
Series D redeemable convertible preferred shares	(b)	**141,347**	—
		146,785	5,438

(a) On 10 March 2016 and 16 May 2016, Kingsoft Cloud issued 102,292,297 and 83,372,895 series C redeemable convertible preferred shares with a par value of US$0.001 each to certain investors and the Company, respectively, at a price of US$0.58655 per share for an aggregate consideration of US$108,903,000 (equivalent to RMB710,307,000).

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

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

34. REDEEMABLE CONVERTIBLE PREFERRED SHARES ISSUED BY A SUBSIDIARY (continued)

(a) (continued)

Based on the terms of the articles of association of Kingsoft Cloud, the series C redeemable convertible preferred shares are split and accounted for as follows: (i) financial liability stated at amortised cost for the redemption rights; (ii) derivative financial liability measured at fair value with changes in fair value through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity. During the year ended 31 December 2017, a gain of RMB7,231,000 (2016: loss of RMB731,000) resulting from the changes in fair value of conversion rights was recognised through profit or loss. The movements of the series C redeemable convertible preferred shares for the year ended 31 December 2017 are set out below:

	LIABILITY COMPONENTS		EQUITY COMPONENT
	THE REDEMPTION RIGHTS RMB'000	THE CONVERSION RIGHTS RMB'000	RMB'000
Upon issuance	275,283	38,199	5,438
Fair value changes	—	731	—
Exchange realignment	18,453	2,457	—
Interest expenses	23,098	—	—
At 31 December 2016	316,834	41,387	5,438
Fair value changes	**—**	**(7,231)**	**—**
Exchange realignment	**(19,291)**	**(2,565)**	**—**
Interest expenses	**34,652**	**—**	**—**
At 31 December 2017	**332,195**	**31,591**	**5,438**

(b) On 21 September 2017, Kingsoft Cloud issued 58,922,728 and 58,922,728 series D redeemable convertible preferred shares with a par value of US$0.001 to Liyue Jinshi Investment L.P. and the Company, respectively, at a price of US$0.84857 per share for an aggregate consideration of US$100,000,000 (equivalent to RMB658,670,000).

On 6 December 2017, Kingsoft Cloud issued 81,313,365 and 117,845,456 series D redeemable convertible preferred shares with a par value of US$0.001 to New Cloud Ltd. ("Minsheng Investor"), an offshore investor designated by China Minsheng Trust Co., Ltd. ("Minsheng Trust"), and the Company, at a price of US$0.84857 per share for an aggregate consideration of US$69,000,000 and US$100,000,000, respectively (equivalent to RMB456,525,000 and RMB661,630,000, respectively). Pursuant to the agreement reached by Kingsoft Cloud and Minsheng Trust on 11 October 2017, the original agreed amount of subscription by Mingsheng Investor was US$100 million for 117,845,456 series D redeemable convertible preferred shares. As a result of the actual US$ contribution injected by Minsheng Investor was less than US$100 million, only 81,313,365 series D redeemable convertible preferred shares were issued to Mingsheng Investor. On 4 December 2017, Minsheng Trust designated an onshore investor to provide an interest-free loan denominated in RMB of RMB204,895,000 (the "Loan", equivalent to US$31,000,000) to Beijing Kingsoft Cloud Network Technology Co., Ltd., a PRC subsidiary of Kingsoft Cloud, for the shortage of US$31,000,000, and Kingsoft Cloud issued a warrant (the "Warrant") to Minsheng Investor to subscribe for the remaining 36,532,091 series D redeemable convertible preferred shares not issued at US$0.84857 per share for an aggregate consideration of US$31,000,000.

34. REDEEMABLE CONVERTIBLE PREFERRED SHARES ISSUED BY A SUBSIDIARY (continued)

(b) (continued)

According to the articles of association of Kingsoft Cloud amended and restated on 21 September and 6 December 2017, if Kingsoft Cloud fails to consummate a qualified public offering prior to the fifth anniversary of 16 May 2016, at the option of the holder of the series D 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 D redeemable convertible preferred share equal to the applicable series D redeemable convertible preferred shares issue price and a return at a pre-determined compound rate. The redemption rights shall be terminated upon the closing of a qualified public offering.

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

Based on the terms of the articles of association of Kingsoft Cloud, the series D redeemable convertible preferred shares are split and accounted for as follows: (i) financial liability stated at amortised cost for the redemption rights; (ii) derivative financial liability measured at fair value with changes in fair value through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity. During the year ended 31 December 2017, a loss of RMB5,353,000 resulting from the changes in fair value of conversion rights was recognised through profit or loss. The movements of the series D redeemable convertible preferred shares for the year ended 31 December 2017 are set out below:

	LIABILITY COMPONENTS		EQUITY COMPONENT
	THE REDEMPTION RIGHTS RMB'000	THE CONVERSION RIGHTS RMB'000	RMB'000
Upon issuance	609,531	34,982	141,347
Fair value changes	—	5,353	—
Exchange realignment	(6,549)	(407)	—
Interest expenses	15,094	—	—
At 31 December 2017	618,076	39,928	141,347

34. REDEEMABLE CONVERTIBLE PREFERRED SHARES ISSUED BY A SUBSIDIARY (continued)

(c) The Warrant was classified as a derivative financial liability measured at fair value on initial recognition and subsequently measured at fair value with changes in fair value through profit or loss and the Loan, which was included in the current liabilities as other payables, was classified as a financial liability measured at fair value on initial recognition and at amortised cost subsequently. The movements of the Loan and Warrant for the year ended 31 December 2017 are set out below:

	LOAN RMB'000	WARRANT RMB'000
Upon issuance	**151,800**	**53,143**
Fair value changes	**—**	**(2,945)**
Exchange realignment	**(10)**	**(641)**
Interest expenses	**1,716**	**—**
At 31 December 2017	**153,506**	**49,557**

35. FINANCE LEASE PAYABLES

The Group leases certain of its electronic equipment for its cloud business. These leases are classified as finance leases and have remaining lease terms within one year.

At 31 December 2017, the total future minimum lease payments under finance leases and their present values were as follows:

	MINIMUM LEASE PAYMENTS 2017 RMB'000	MINIMUM LEASE PAYMENTS 2016 RMB'000	PRESENT VALUE OF MINIMUM LEASE PAYMENTS 2017 RMB'000	PRESENT VALUE OF MINIMUM LEASE PAYMENTS 2016 RMB'000
Amounts payable:				
Within one year	**6,870**	12,312	**6,551**	11,415
After one year but not more than three years	**—**	6,107	**—**	5,788
Total minimum finance lease payments	**6,870**	18,419	**6,551**	17,203
Future finance charges	**(319)**	(1,216)		
Total net finance lease payables	**6,551**	17,203		
Current portion	**(6,551)**	(11,415)		
Non-current portion	**—**	5,788		

Current and non-current portions of these finance lease payables are included in other payables and accruals and other liabilities, respectively.

36. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	2017					
	DEFERRED COST RMB'000	FAIR VALUE ADJUSTMENT ARISING FROM ACQUISITION OF SUBSIDIARIES RMB'000	WITHHOLDING TAXES ON THE DISTRIBUTABLE PROFITS OF THE GROUP'S PRC SUBSIDIARIES RMB'000	FAIR VALUE CHANGE RELATED TO AVAILABLE-FOR-SALE INVESTMENTS RMB'000	OTHERS RMB'000	TOTAL RMB'000
At 1 January 2017	1,199	56,133	50,100	9,500	5,269	122,201
Acquisition of a subsidiary (note 41)	—	1,155	—	—	—	1,155
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12)	(910)	(19,572)	(13,000)	—	5,978	(27,504)
Deemed disposal of a subsidiary (note 13)	—	(38,179)	—	—	—	(38,179)
Exchange realignment	—	1,034	—	—	—	1,034
Gross deferred tax liabilities at 31 December 2017	289	571	37,100	9,500	11,247	58,707

Deferred tax assets

	2017							
	DEFERRED REVENUE RMB'000	ACCRUALS RMB'000	GOVERNMENT GRANTS RMB'000	PROVISIONS RMB'000	PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS RMB'000	TAX LOSSES RMB'000	OTHERS RMB'000	TOTAL RMB'000
At 1 January 2017	7,814	10,294	2,354	21,166	16,501	61,385	354	119,868
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 12)	58,777	16,577	(685)	4,496	(5,282)	8,690	9,537	92,110
Deemed disposal of a subsidiary (note 13)	(3,128)	(2,557)	(1,532)	(18,331)	(4,657)	(70,075)	(9,891)	(110,171)
Gross deferred tax assets at 31 December 2017	63,463	24,314	137	7,331	6,562	—	—	101,807

36. DEFERRED TAX (continued)

The movements in deferred tax liabilities and assets during the year are as follows: (continued)

Deferred tax liabilities

	2016					
	DEFERRED COST RMB'000	FAIR VALUE ADJUSTMENT ARISING FROM ACQUISITION OF SUBSIDIARIES RMB'000	WITHHOLDING TAXES ON THE DISTRIBUTABLE PROFITS OF THE GROUP'S PRC SUBSIDIARIES RMB'000	FAIR VALUE CHANGE RELATED TO AVAILABLE-FOR-SALE INVESTMENTS RMB'000	OTHERS RMB'000	TOTAL RMB'000
At 1 January 2016	2,244	38,900	20,162	—	1,234	62,540
Acquisition of subsidiaries (note 41)	—	28,520	—	—	—	28,520
Fair value change recognised in the statement of other comprehensive income	—	—	—	9,500	—	9,500
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12)	(1,045)	(12,769)	29,938	—	4,035	20,159
Exchange realignment	—	1,482	—	—	—	1,482
Gross deferred tax liabilities at 31 December 2016	1,199	56,133	50,100	9,500	5,269	122,201

Deferred tax assets

	2016							
	DEFERRED REVENUE RMB'000	ACCRUALS RMB'000	GOVERNMENT GRANTS RMB'000	PROVISIONS RMB'000	PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS RMB'000	TAX LOSSES RMB'000	OTHERS RMB'000	TOTAL RMB'000
At 1 January 2016	3,554	9,605	1,270	4,288	20,087	11,270	5,230	55,304
Acquisition of subsidiaries (note 41)	—	—	—	—	—	33,300	—	33,300
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 12)	4,260	689	1,084	16,878	(3,586)	16,815	(4,876)	31,264
Gross deferred tax assets at 31 December 2016	7,814	10,294	2,354	21,166	16,501	61,385	354	119,868

* The share of deferred tax liability arising from acquisition of subsidiaries amounting to RMB1,155,000 (2016: RMB28,520,000) was not charged to the statement of profit or loss.

36. DEFERRED TAX (continued)

The Group has tax losses arising in Mainland China of RMB1,612,762,000 as at 31 December 2017 (2016: RMB1,235,187,000) that will expire in one to five years for offsetting against future taxable profits.

The amounts and expiration dates of the tax losses carried forward at 31 December 2017 and 2016 are listed below:

	2017 RMB'000	2016 RMB'000
Expiration date		
31 December 2017	—	51,032
31 December 2018	**45,997**	85,225
31 December 2019	**165,941**	182,559
31 December 2020	**367,375**	442,591
31 December 2021	**421,663**	473,780
31 December 2022	**611,786**	—

The Group also has tax losses arising in Hong Kong of RMB114,100,000 (2016: RMB126,872,000) 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:

	2017 RMB'000	2016 RMB'000
Tax losses	**1,727,052**	1,393,680
Deductible temporary differences	—	39,193
	1,727,052	1,432,873

36. DEFERRED TAX (continued)

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.

A 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 RMB4,911 million at 31 December 2017 (2016: RMB4,064 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.

37. SHARE CAPITAL

Shares

	2017 RMB'000	**2016 RMB'000**
Authorised:		
2,400,000,000 (2016: 2,400,000,000) ordinary shares of US$0.0005 each	**9,260**	9,260
Issued and fully paid:		
1,312,975,387 (2016: 1,303,985,687) ordinary shares of US$0.0005 each	**5,127**	5,097

37. SHARE CAPITAL (continued)

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

	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 2016		1,287,800,449*	5,092	2,474,663	(34,766)	2,444,989
Approved and paid final dividend in respect of the previous year	14	—	—	(110,111)	—	(110,111)
Exercise of share options	38	1,506,400	5	4,577	—	4,582
Vested awarded shares transferred to employees	38	3,865,000	—	—	9,289	9,289
At 31 December 2016 and 1 January 2017		**1,293,171,849**	**5,097**	**2,369,129**	**(25,477)**	**2,348,749**
Approved and paid final dividend in respect of the previous year	14	**—**	**—**	**(112,678)**	**—**	**(112,678)**
Exercise of share options	38	**8,989,700**	**30**	**31,507**	**—**	**31,537**
Vested awarded shares transferred to employees	38	**1,254,101**	**—**	**—**	**2,960**	**2,960**
At 31 December 2017		**1,303,415,650**	**5,127**	**2,287,958**	**(22,517)**	**2,270,568**

* Excluding 9,559,737 (2016: 10,813,838) shares held by the Share Award Scheme Trust as at 31 December 2017

(i) The subscription rights attaching to 3,089,700 share options (2016: 1,506,400) were exercised at the subscription price US$0.24 per share (2016: US$0.24), and attaching to 5,900,000 share options (2016: nil) were exercised at the subscription price from HK$2.89 to HK$3.28 per share, resulting in the issue of 8,989,700 shares (2016: 1,506,400) for a total cash consideration, before expenses, of RMB20,602,000 (2016: RMB2,484,000). An amount of RMB10,935,000 (2016: RMB2,098,000) was transferred from the share-based compensation reserve to share premium account upon the exercise of the share options.

During the year ended 31 December 2017, 1,254,101 awarded shares (2016: 3,865,000) were vested and transferred to employees. An amount of RMB2,960,000 (2016: RMB9,289,000) was transferred from the share-based compensation reserve to treasury shares upon the transfer of the shares.

37. 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 38 to the financial statements.

38. SHARE-BASED COMPENSATION COSTS

Share Option Schemes

(a) The Company's 2007 Pre-IPO Share Option Scheme

The Company adopted the 2007 Pre-IPO Share Option Scheme in January 2007 ("2007 Scheme"). The 2007 Scheme was terminated on 3 September 2007. No share options have been granted since then.

The following table illustrates the number of and movements in the share options outstanding under the 2007 Scheme for the years ended 31 December 2017 and 2016, and their weighted average exercise prices ("WAEP").

	2017 NUMBER OF SHARE OPTIONS	2017 WAEP US$ PER SHARE	2016 NUMBER OF SHARE OPTIONS	2016 WAEP US$ PER SHARE
Outstanding at 1 January	**3,089,700**	**0.2400**	4,622,100	0.2412
Forfeited during the year	**—**	**—**	(26,000)	0.4616
Exercised during the year	**(3,089,700)**	**0.2400**	(1,506,400)	0.2400
Outstanding at 31 December	**—**	**—**	3,089,700	0.2400
Exercisable at 31 December	**—**	**—**	3,089,700	0.2400

The weighted average share price at the date of exercise for the options during the year was HK$16.18 per share.

The 3,089,700 share options exercised during the year resulted in the issue of 3,089,700 ordinary shares of the Company with share capital of RMB10,000 and share premium of RMB5,096,000 (before issue expenses).

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(a) *The Company's 2007 Pre-IPO Share Option Scheme (continued)*

The date of grant and exercise price of the share options under the 2007 Scheme outstanding as at 31 December 2017 and 2016 are as follows:

	NUMBER OF SHARE OPTIONS					
	AT 1 JANUARY 2017	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	AT 31 DECEMBER 2017	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
Name or category of participant						
OTHER EMPLOYEES						
In aggregate	**3,089,700**	**(3,089,700)**	**—**	**—**	**1 FEBRUARY 2007**	**0.2400**

	NUMBER OF SHARE OPTIONS					
	AT 1 JANUARY 2016	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	AT 31 DECEMBER 2016	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
Name or category of participant						
OTHER EMPLOYEES						
In aggregate	4,596,100	(1,506,400)	—	3,089,700	1 February 2007	0.2400
	26,000	—	(26,000)	—	1 August 2007	0.4616
	4,622,100	(1,506,400)	(26,000)	3,089,700		

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

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

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

The total number of shares which may be issued upon exercise of all share options to be granted under the 2011 Share Option 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 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their 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.

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

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

The following share options were outstanding under the 2011 Share Option Scheme during the years ended 31 December 2017 and 2016:

	2017 NUMBER OF SHARE OPTIONS	2017 WAEP HK$ PER SHARE	2016 NUMBER OF SHARE OPTIONS	2016 WAEP HK$ PER SHARE
Outstanding at 1 January	**5,900,000**	**3.05**	5,900,000	3.05
Granted during the year	**4,600,000**	**20.58**	—	—
Exercised during the year	**(5,900,000)**	**3.05**	—	—
Outstanding at 31 December	**4,600,000**	**20.58**	5,900,000	3.05
Exercisable at 31 December	**800,000**	**20.25**	5,300,000	3.02

The weighted average share price at the date of the exercise for the options during the year was HK$22.18.

38. 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 Share Option Scheme outstanding as at 31 December 2017 and 2016 are as follows:

	NUMBER OF SHARE OPTIONS					
	AT 1 JANUARY 2017	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	AT 31 DECEMBER 2017	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE
Name or category of participant						
EXECUTIVE DIRECTORS						
Yuk Keung Ng	**2,400,000**	**—**	**(2,400,000)**	**—**	**20 JULY 2012**	**3.28**
Tao Zou	**—**	**4,000,000**	**—**	**4,000,000**	**21 APRIL 2017**	**20.25**
Yuk Keung Ng	**—**	**600,000**	**—**	**600,000**	**23 NOVEMBER 2017**	**22.75**
OTHER GRANTEE(S)						
In aggregate	**3,500,000**	**—**	**(3,500,000)**	**—**	**20 DECEMBER 2011**	**2.89**
	5,900,000	**4,600,000**	**(5,900,000)**	**4,600,000**		

	NUMBER OF SHARE OPTIONS					
	AT 1 JANUARY 2016	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	AT 31 DECEMBER 2016	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE
Name or category of participant						
EXECUTIVE DIRECTORS						
Yuk Keung Ng	2,400,000	—	—	2,400,000	20 July 2012	3.28
OTHER GRANTEE(S)						
In aggregate	3,500,000	—	—	3,500,000	20 DECEMBER 2011	2.89
	5,900,000	—	—	5,900,000		

The weighted average remaining contractual life for the Company's share options outstanding under the 2011 Share Option Scheme as at 31 December 2017 was 9.38 years (2016: 5.20 years).

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

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

The total expense in respect of the 2011 Share Option Scheme for the year ended 31 December 2017 was RMB15,914,000 (2016: minus RMB2,230,000).

The 5,900,000 share options exercised during the year resulted in the issue of 5,900,000 ordinary shares of the Company with share capital of RMB20,000 and share premium of RMB15,476,000 (before issue expenses).

At the end of the reporting period, the Company had 4,600,000 share options outstanding under the 2011 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 4,600,000 additional ordinary shares of the Company and additional share capital of RMB15,000 and share premium of RMB79,104,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 4,600,000 share options outstanding under the above two schemes, which represented approximately 0.33% of the Company's shares in issue as at that date.

(c) Kingsoft Cloud Share Option Scheme

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

The following share options were outstanding under the Kingsoft Cloud Share Option Scheme during the years ended 31 December 2017 and 2016:

	2017 NUMBER OF SHARE OPTIONS	2017 WAEP US$ PER SHARE	2016 NUMBER OF SHARE OPTIONS	2016 WAEP US$ PER SHARE
Outstanding at 1 January	**147,330,000**	**0.06**	95,850,000	0.05
Granted during the year	**77,050,000**	**0.07**	78,450,000	0.07
Forfeited during the year	**(37,290,000)**	**0.07**	(26,970,000)	0.07
Outstanding at 31 December	**187,090,000**	**0.07**	147,330,000	0.06
Exercisable at 31 December	**56,658,000**	**0.05**	30,790,000	0.05

The fair value of the share options of Kingsoft Cloud granted during the year ended 31 December 2017 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:

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(c) Kingsoft Cloud Share Option Scheme (continued)

	2017	2016
Dividend yield (%)	**—**	—
Expected volatility (%)	**44.6%**	51.7%–51.8%
Risk-free interest rate (%)	**1.8%**	0.9%–1.0%
Expected forfeiture rate (%)	**5%**	14%
Weighted average share price (US$ per share)	**0.48**	0.16

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.

187,090,000 share options of Kingsoft Cloud were outstanding as at 31 December 2017 with the weighted average remaining contractual life of 8.03 years (2016: 7.98), among which, 56,658,000 were exercisable.

The total expense in respect of the share options granted under the Kingsoft Cloud Share Option Scheme for the year ended 31 December 2017 was RMB25,709,000 (2016: RMB26,283,000).

(d) Seasun Holdings Share Option Scheme

On 27 June 2013 (the "Seasun Holdings Share Option Adoption Date"), the shareholders of the Company and Seasun Holdings, a subsidiary of the Company, approved and adopted the Seasun Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Seasun Holdings and its subsidiaries are entitled to participate. The maximum number of ordinary shares under the Seasun Holdings Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 80,000,000 shares (representing 10% of the shares in issue). On 24 May 2017, the shareholders of the Company and Seasun Holdings approved to amend the maximum number of ordinary shares, which may be issued upon exercise in the Seasun Holdings Share Option Scheme, to be 40,000,000 shares. The Seasun Holdings Share Option Scheme shall be valid and effective for a term of ten years commencing on the Seasun Holdings Share Option Adoption Date. The exercise price and exercise period of share options are determinable by the board of Seasun Holdings.

The following share options were outstanding under the Seasun Holdings Share Option Scheme during the years ended 31 December 2017 and 2016:

	2017 NUMBER OF SHARE OPTIONS	2017 WAEP RMB PER SHARE	2016 NUMBER OF SHARE OPTIONS	2016 WAEP RMB PER SHARE
Outstanding at 1 January	**15,440,000**	**1.62**	15,665,000	1.43
Granted during the year	**12,401,111**	**4.76**	2,250,000	2.44
Forfeited during the year	**(1,453,600)**	**2.31**	(2,475,000)	1.85
Cancelled during the year	**(1,430,800)**	**1.45**	—	—
Outstanding at 31 December	**24,956,711**	**2.43**	15,440,000	1.62
Exercisable at 31 December	**3,596,000**	**1.00**	—	—

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(d) Seasun Holdings Share Option Scheme (continued)

The fair value of the share options of Seasun Holdings granted during the year ended 31 December 2017 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:

	2017	2016
Dividend yield (%)	**10%**	—
Expected volatility (%)	**54%–55%**	57.00%
Risk-free interest rate (%)	**1.36%–1.72%**	1.79%
Expected forfeiture rate (%)	**6%**	9.70%
Weighted average share price (RMB per share)	**5.20**	0.66

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.

24,956,711 share options of Seasun Holdings were outstanding as at 31 December 2017 with the weighted average remaining contractual life of 8.02 years (2016: 7.66 years), among which, 3,596,000 were exercisable.

The total expense in respect of the share options granted under the Seasun Holdings Share Option Scheme for the year ended 31 December 2017 was RMB10,502,000 (2016: RMB4,406,000).

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 is valid and effective for a term of five years commencing from 31 March 2008. On 25 November 2010, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2013 to 30 March 2017. On 19 November 2016, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2017 to 30 March 2022. 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.

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

The following awarded shares were outstanding under the Share Award Scheme during the years ended 31 December 2017 and 2016:

	2017 NUMBER OF AWARDED SHARES	2016 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**1,606,301**	6,109,601
Granted during the year	**5,535,000**	30,000
Forfeited during the year	**(56,900)**	(668,300)
Vested and transferred during the year	**(1,254,101)**	(3,865,000)
Outstanding as at 31 December	**5,830,300**	1,606,301
Exercisable as at 31 December	**7,500**	50,500

The awarded shares under the Share Award Scheme outstanding as at 31 December 2017 are as follows:

	NUMBER OF AWARDED SHARES					
	AT 1 JANUARY 2017	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	VESTED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2017	GRANT DATE
Name or category of participant						
EXECUTIVE DIRECTORS						
Yuk Keung Ng	120,000	—	—	(80,000)	40,000	29 NOVEMBER 2013
	—	600,000	—	—	600,000	23 NOVEMBER 2017
Tao Zou	100,000	—	—	(100,000)	—	1 JUNE 2012
	—	3,000,000	—	—	3,000,000	21 APRIL 2017
	220,000	3,600,000	—	(180,000)	3,640,000	

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

	NUMBER OF AWARDED SHARES					
	AT 1 JANUARY 2017	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	VESTED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2017	GRANT DATE
Name or category of participant						
OTHER EMPLOYEES						
In aggregate						
	10,000	—	—	(3,000)	7,000	26 JUNE 2008
	2	—	—	(2)	—	26 MAY 2010
	15,799	—	—	(15,799)	—	4 APRIL 2012
	742,000	—	(20,000)	(722,000)	—	1 JUNE 2012
	50,000	—	—	(50,000)	—	3 DECEMBER 2012
	120,000	—	—	(120,000)	—	17 DECEMBER 2012
	84,000	—	(4,000)	(42,000)	38,000	20 MARCH 2013
	20,000	—	—	(10,000)	10,000	1 JUNE 2013
	20,000	—	—	(10,000)	10,000	26 AUGUST 2013
	20,000	—	—	(10,000)	10,000	9 SEPTEMBER 2013
	52,000	—	—	(26,000)	26,000	13 NOVEMBER 2013
	60,500	—	(9,500)	(18,500)	32,500	19 MARCH 2014
	18,000	—	—	(6,000)	12,000	29 MAY 2014
	60,000	—	—	(15,000)	45,000	8 JANUARY 2015
	84,000	—	(21,000)	(19,800)	43,200	31 MARCH 2015
	30,000	—	(2,400)	(6,000)	21,600	19 FEBRUARY 2016
	—	1,350,000	—	—	1,350,000	1 JANUARY 2017
	—	35,000	—	—	35,000	22 APRIL 2017
	—	400,000	—	—	400,000	25 MAY 2017
	—	100,000	—	—	100,000	24 JULY 2017
	—	50,000	—	—	50,000	1 AUGUST 2017
	1,386,301	1,935,000	(56,900)	(1,074,101)	2,190,300	
	1,606,301	5,535,000	(56,900)	(1,254,101)	5,830,300	

The awarded shares under the Share Award Scheme outstanding as at 31 December 2016 are as follows:

	NUMBER OF AWARDED SHARES				
	AT 1 JANUARY 2016	FORFEITED DURING THE YEAR	VESTED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2016	GRANT DATE
Name or category of participant					
EXECUTIVE DIRECTORS					
Yuk Keung Ng	200,000	—	(80,000)	120,000	29 November 2013
Tao Zou	300,000	—	(200,000)	100,000	1 June 2012
	500,000	—	(280,000)	220,000	

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

	NUMBER OF AWARDED SHARES					
	AT 1 JANUARY 2016	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	VESTED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2016	GRANT DATE
Name or category of participant						
OTHER EMPLOYEES						
In aggregate						
	31,000	—	(21,000)	—	10,000	26 June 2008
	2	—	—	—	2	26 May 2010
	31,599	—	—	(15,800)	15,799	4 April 2012
	1,910,000	—	(180,000)	(988,000)	742,000	1 June 2012
	100,000	—	—	(50,000)	50,000	3 December 2012
	240,000	—	—	(120,000)	120,000	17 December 2012
	144,000	—	(12,000)	(48,000)	84,000	20 March 2013
	30,000	—	—	(10,000)	20,000	1 June 2013
	30,000	—	—	(10,000)	20,000	26 August 2013
	30,000	—	—	(10,000)	20,000	9 September 2013
	54,000	—	—	(2,000)	52,000	13 November 2013
	94,000	—	(11,500)	(22,000)	60,500	19 March 2014
	24,000	—	—	(6,000)	18,000	29 May 2014
	2,503,000	—	(307,000)	(2,196,000)	—	6 July 2014
	160,000	—	(96,000)	(64,000)	—	2 December 2014
	75,000	—	—	(15,000)	60,000	8 January 2015
	153,000	—	(40,800)	(28,200)	84,000	31 March 2015
	—	30,000	—	—	30,000	19 February 2016
	5,609,601	30,000	(668,300)	(3,585,000)	1,386,301	
	6,109,601	30,000	(668,300)	(3,865,000)	1,606,301	

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 2017 was RMB15.08 per share (2016: RMB12.60 per share).

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 2017, the Share Award Scheme Trust did not acquire shares (2016: nil) of the Company through purchases from the open market.

As at 31 December 2017, 3,729,437 (2016: 9,207,537) forfeited or unawarded shares were held by the Share Award Scheme Trust and would be granted in future.

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

At the date of approval of these financial statements, the Company had 5,830,300 awarded shares outstanding under the Share Award Scheme, which represented approximately 0.44% of the Company's shares in issue as at that date.

The total expense recognised in respect of the Awarded Shares for the year ended 31 December 2017 was RMB33,890,000 (2016: RMB15,270,000).

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

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

The following awarded shares were outstanding under the Kingsoft Cloud Share Award Scheme during the years ended 31 December 2017 and 2016:

	2017 NUMBER OF AWARDED SHARES	**2016 NUMBER OF AWARDED SHARES**
Outstanding as at 1 January	**45,642,976**	41,582,000
Granted during the year	**8,400,000**	4,060,976
Forfeited during the year	**(50,400)**	—
Outstanding as at 31 December	**53,992,576**	45,642,976
Exercisable as at 31 December	**26,350,000**	26,350,000

The fair value of awarded shares was determined with reference to the fair values of Kingsoft Cloud's ordinary shares at their respective grant dates, which was valued with the assistance of an independent third party valuer using a discounted cash flow method.

At 31 December 2017, 15,932,900 (2016: 24,282,500) forfeited or unawarded shares were held by the Kingsoft Cloud Share Award Scheme Trust, which represented approximately 0.80%of Kingsoft Cloud's shares in issue as at that date.

38. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

(b) Kingsoft Cloud Share Award Scheme adopted by Kingsoft Cloud (continued)

The total expense in respect of the Kingsoft Cloud awarded shares for the year ended 31 December 2017 was RMB17,195,000 (2016: RMB5,127,000).

(c) Seasun Holdings Share Award Scheme adopted by Seasun Holdings

On 21 March 2017, the directors of the Company and Seasun Holdings approved and adopted the Seasun Holdings Share Award Scheme, in which selected employees of Seasun Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of Seasun Holdings, the Seasun Holdings Share Award Scheme is valid and effective for a term of ten years commencing from 21 March 2017. The directors of Seasun Holdings will not grant those awarded shares which would result in the total number of shares (but not counting any shares which have lapsed or have been forfeited) being greater than 50,832,211 shares, as at the date of such grant.

The following table illustrates the number of and movements in the Seasun Holdings Awarded Shares during the year ended 31 December 2017.

	2017 NUMBER OF AWARDED SHARES
At the adoption date	—
Awarded during the year	39,785,102
Outstanding at 31 December	39,785,102
Exercisable at 31 December	1,630,445

At 31 December 2017, 11,047,109 forfeited or unawarded shares were held by the Seasun Holdings Share Award Scheme Trust, which represented approximately 1.20% of Seasun Holdings' shares in issue as at that date.

The total expense in respect of the Seasun Holdings Share Award for the year ended 31 December 2017 was RMB71,759,000.

38. SHARE-BASED COMPENSATION COSTS (continued)

Other Restricted Share Schemes

During the years ended 31 December 2017 and 2016, in addition to the awarded shares granted under the above share award schemes, the restricted shares of the below subsidiaries were granted to eligible persons or their controlled companies for their employment or consultant service to the Group.

(a) *Restricted shares granted by Beijing Kingsoft Office*

On 3 December 2012, the directors of the Company and Kingsoft Office Software Holdings Limited ("KOS Holdings") approved and adopted the share award scheme (the "KOS 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. In November 2015, pursuant to the approval of the directors and the shareholders of KOS Holdings and a series of agreements, all the outstanding awarded shares under the KOS Share Award Scheme were replaced by the restricted shares of Beijing Kingsoft Office, held through certain limited partnerships. The limited partnerships were set up for the purpose of holding the shares of Beijing Kingsoft Office, which is a similar arrangement for the benefit of employees as the KOS Share Award Scheme Trust.

The following restricted shares granted by Beijing Kingsoft Office were outstanding during the years ended 31 December 2017 and 2016:

	2017 NUMBER OF AWARDED SHARES	2016 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**24,086,988**	17,051,988
Granted during the year	**5,911,182**	12,345,000
Vested and transferred during the year	**(5,401,751)**	—
Forfeited during the year	**(419,597)**	(5,310,000)
Outstanding as at 31 December	**24,176,822**	24,086,988
Exercisable as at 31 December	**—**	—

The total expense recognised in the statement of profit or loss in respect of these restricted shares granted by Beijing Kingsoft Office for the year ended 31 December 2017 was RMB59,221,000 (2016: RMB6,622,000).

38. SHARE-BASED COMPENSATION COSTS (continued)

Other Restricted Share Schemes

(b) Restricted shares granted by Kingsoft Cloud

The following restricted shares granted by Kingsoft Cloud were outstanding during the years ended 31 December 2017 and 2016:

	2017 NUMBER OF AWARDED SHARES	2016 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**11,000,000**	41,437,500
Vested and transferred during the year	**(5,000,000)**	(18,430,000)
Forfeited during the year	**—**	(12,007,500)
Outstanding as at 31 December	**6,000,000**	11,000,000
Exercisable as at 31 December	**—**	—

The total expense recognised in the statement of profit or loss in respect of these restricted shares granted by Kingsoft Cloud for the year ended 31 December 2017 was RMB791,000 (2016: RMB1,449,000).

39. RESERVES

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 77.

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 profits 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 changes in equity of the financial statements on page 77.

40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

WPS Holdings

As at 31 December 2017, the percentage of equity interests held by non-controlling interests of WPS Holdings was 27.68% (2016: 26.88%), and the accumulated balance of non-controlling interest of WPS Holdings was RMB292,377,000 (2016: RMB216,495,000). During the year ended 31 December 2017, profit attributable to and dividends paid to the non-controlling interest of WPS Holdings were RMB54,029,000 (2016: RMB45,893,000) and RMB5,018,000 (2016: nil), respectively.

The following table illustrated the summarised financial information of WPS Holdings and the amounts disclosed are before any inter-company eliminations:

	2017 RMB'000	2016 RMB'000
Revenue	**734,790**	579,414
Total expenses	**(589,223)**	(453,817)
Profit for the year	**145,567**	125,597
Total comprehensive income for the year	**142,236**	117,172
Current assets	**1,270,017**	931,657
Non-current assets	**74,724**	69,850
Current liabilities	**(274,116)**	(172,775)
Non-current liabilities	**(17,944)**	(14,402)
Net cash flows from operating activities	**340,413**	74,067
Net cash flows used in investing activities	**(331,597)**	(351,709)
Net cash flows used in financing activities	**(13,876)**	(3,363)
Net decrease in cash and cash equivalents	**(5,060)**	(281,005)

Seasun Holdings

As at 31 December 2017, the percentage of equity interests held by non-controlling interests of Seasun Holdings was 28.38% (2016: 23.79%), and the accumulated balance of non-controlling interest of Seasun Holdings was RMB311,891,000 (2016: RMB216,497,000). During the year ended 31 December 2017, the profit attributable to and dividends paid to non-controlling interest of Seasun Holdings were RMB196,331,000 (2016: RMB156,386,000) and RMB156,200,000 (2016: nil), respectively.

The following table illustrated the summarised financial information of Season Holdings and the amounts disclosed are before any inter-company eliminations:

40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

Seasun Holdings (continued)

	2017 RMB'000	2016 RMB'000
Revenue	**3,119,456**	2,504,775
Total expenses	**(2,380,617)**	(1,847,389)
Profit for the year	**738,839**	657,386
Total comprehensive income for the year	**730,735**	655,978
Current assets	**3,002,125**	5,764,831
Non-current assets	**428,875**	301,340
Current liabilities	**(2,275,559)**	(5,089,710)
Non-current liabilities	**(38,456)**	(64,847)
Net cash flows from operating activities	**1,092,649**	719,936
Net cash flows used in investing activities	**(313,339)**	(729,019)
Net cash flows used in financing activities	**(178,108)**	(3,469)
Net increase/(decrease) in cash and cash equivalents	**601,202**	(12,552)

Kingsoft Cloud

As at 31 December 2017, the percentage of equity interests held by non-controlling interests of KCS Holdings was 39.06% (2016: 37.83%). During the year ended 31 December 2017, no dividends were paid to non-controlling interest of KCS Holdings (2016: nil).

	2017 RMB'000	2016 RMB'000
Revenue	**1,402,518**	776,406
Assets	**3,821,101**	2,032,770
Liabilities	**(1,972,602)**	(1,253,120)
Convertible redeemable preferred shares	**(2,625,366)**	(809,280)
Net (decrease)/increase in cash and cash equivalents	**(152,749)**	109,925

41. BUSINESS COMBINATIONS

Baomi Information Technology Co., Ltd. ("Baomi")

On 13 July 2017, Cheetah Mobile entered into a capital contribution agreement with Baomi, an associate of Cheetah Mobile, which incorporated in the PRC and mainly engaged in the development and sales of air cleaners, to acquire 30.52% equity interests in Baomi. The total consideration consists of (i) cash consideration of RMB28,578,000; (ii) a waiver of trade receivable of RMB6,922,000, and (iii) a transfer of intangible asset with book value of nil. Upon completion of this transaction, Cheetah Mobile owns 50.52% equity interests in Baomi and Baomi becomes a subsidiary of Cheetah Mobile.

The acquisition was accounted for as a business combination and the acquisition date was 31 August 2017. The Group remeasured the fair value of the equity interest held at the date of acquisition at an amount of RMB6,276,000, and a fair value gain of RMB6,276,000 was recognised in the profit from a discontinued operation during the year ended 31 December 2017.

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Software	7,706
Cash and cash equivalents	30,849
Trade receivables	289
Other receivables	4
Prepayments and other current assets	12,514
Property, plant and equipment	80
Accounts payable	(3,866)
Other payables and accruals	(5,289)
Deferred revenue	(272)
Deferred tax liabilities	(1,155)
Total identified net assets at fair value	40,860
Non-controlling interest	(13,167)
	27,693
Goodwill arising on acquisition	14,083
	41,776
Satisfied by:	
Cash	28,578
Trade receivable waived	6,922
Fair value of equity interest previously held as investment in a joint venture	6,276
	41,776

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB289,000 and RMB4,000, respectively. The gross contractual amounts of trade receivables were RMB289,000 and RMB4,000, respectively.

41. BUSINESS COMBINATIONS (continued)

Baomi Information Technology Co., Ltd. ("Baomi") (continued)

The Group incurred transaction costs of RMB323,200 included in administrative expenses in the consolidated statement of profit or loss.

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

	RMB'000
Cash consideration	(28,578)
Cash and cash equivalents	30,849
Net inflow of cash and cash equivalents included in cash flows used in investing activities	2,271

Since the acquisition, Baomi contributed RMB1,686,000 loss to the Group's profit from a discontinued operation and consolidated profit for the year ended 31 December 2017.

Had the combination taken place the beginning of the year, the profit from a discontinued operation of the Group and the profit of the Group for the year ended 31 December 2017 would have been RMB2,511,588,000 and RMB3,289,868,000, respectively.

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

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

In 2016, the Group entered into a share transfer agreement with another party to purchase another 20% equity interests in Qianyi at an aggregate cash consideration of RMB15,000,000.

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

41. BUSINESS COMBINATIONS (continued)

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

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Software	4,400
Non-compete agreement	5,300
Property, plant and equipment	186
Cash and cash equivalents	7,957
Other receivables	968
Prepayments and other current assets	1,024
Deferred tax liabilities	(2,208)
Total identified net assets at fair value	17,627
Goodwill arising on acquisition	7,373
	25,000
Satisfied by:	
Cash	21,000
Other payables	4,000
Total consideration	25,000

No material transaction costs were incurred in this acquisition.

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

41. BUSINESS COMBINATIONS (continued)

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

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

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

Since the acquisition, Qianyi contributed nil to the Group's turnover and RMB69,000 loss to the consolidated loss for the year ended 31 December 2016.

News Republic

On 22 May 2016, the Group entered into a stock purchase agreement with the original shareholders of News Republic to acquire 100% equity interests in News Republic, which is mainly engaged in news publishing, at a total consideration of US$55,401,000 (equivalent to RMB364,483,000). The total consideration consists of (i) cash of US$47,591,000 (equivalent to RMB313,098,000); (ii) cash consideration of US$4,000,000 (equivalent to RMB26,319,000) to be paid on the twelve month anniversary of the acquisition; and (iii) cash contingent consideration to be paid over a two-year period upon the fulfillment of certain performance-based requirements to News Republic.

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

41. BUSINESS COMBINATIONS (continued)

News Republic (continued)

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Software	5,263
Supplier relationship	42,763
Non-compete agreement	6,579
Trademark	23,027
Property, plant and equipment	334
Cash and cash equivalents	22,259
Accounts receivables	5,171
Deferred tax assets	33,300
Other receivables	1,743
Prepayments and other current assets	1,135
Deferred tax liabilities	(25,875)
Accounts payable	(13,491)
Accrued expenses and other liabilities	(15,215)
Total identified net assets at fair value	86,993
Goodwill arising on acquisition	277,490
	364,483
Satisfied by:	
Cash	313,098
Other payables	26,319
Contingent consideration	25,066
Total consideration	364,483

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

The Group incurred transaction costs of RMB9,135,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

41. BUSINESS COMBINATIONS (continued)

News Republic (continued)

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

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

Since the acquisition, News Republic contributed RMB39,240,000 to the Group's turnover included in a discontinued operation and RMB17,014,000 loss to the consolidated loss for the year ended 31 December 2016.

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

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

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

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

As at 31 December 2016, the fair value of the contingent consideration was US$4,376,000 (equivalent to RMB30,358,000). A fair value loss of RMB9,014,000 was recognised to the consolidated statement of profit or loss for the year ended 31 December 2017 (2016: RMB3,884,000). During the year ended 31 December 2017, the Group paid all of the contingent consideration.

41. BUSINESS COMBINATIONS (continued)

Cloud HIS Business

On 8 June 2016, the Group entered into a purchase agreement with a third party to acquire Cloud HIS Business at an aggregate cash consideration of RMB6,000,000. The Group and the third party also entered into a series of agreements including transfer of software copyrights and domain names related to the cloud HIS Business.

The acquisition was accounted for as a business combination and the acquisition date was 5 July 2016.

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Software and technology	4,251
Deferred tax liabilities	(437)
Total identified net assets at fair value	3,814
Goodwill arising on acquisition	2,186
	6,000
Satisfied by:	
Cash	3,900
Other payables	2,100
Total consideration	6,000

No material transaction costs were incurred in this acquisition.

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

	RMB'000
Cash consideration	(3,900)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(3,900)

As the business acquired is not a separate entity or segment and was integrated with the existing business of the Group after the acquisition date, it is impossible to distinguish the operating result of Cloud HIS Business from the Group. Therefore, it is impractical to disclose the revenue and profit or loss of the business contributed to the Group since the acquisition, or the revenue and profit or loss of the Group assuming the combination had taken place at the beginning of the year.

42. DEEMED DISPOSAL/DISPOSAL OF SUBSIDIARIES

Deemed disposal of a subsidiary

As disclosed in note 13 to the financial statements, Cheetah Mobile was deemed disposed by the Group and ceased to be a subsidiary of the Company since 1 October 2017.

Disposal of a subsidiary

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

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

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

An analysis of the net outflows of cash and cash equivalents in respect of the disposal of Jiangduoduo is as follows:

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

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	BANK LOANS RMB'000	FINANCE LEASE PAYABLES RMB'000	CONVERTIBLE BONDS RMB'000	REDEEMABLE CONVERTIBLE PREFERRED SHARES RMB'000
At 1 January 2017	**817,874**	**17,203**	**2,911,354**	**358,221**
Changes from financing cash flows	**325,142**	**(11,549)**	**(1,979,726)**	**1,302,400**
Equity component of redeemable convertible preferred shares	**—**	**—**	**—**	**(152,908)**
Redemption of convertible bonds in equity	**—**	**—**	**37,646**	**—**
Foreign exchange movement	**(19,137)**	**—**	**(113,835)**	**(40,498)**
Interest expense	**—**	**897**	**11,918**	**62,756**
Loss on redemption of convertible bonds	**—**	**—**	**3,383**	**—**
Decrease from deemed disposal of a subsidiary	**(462,032)**	**—**	**—**	**(315,295)**
Fair value changes	**—**	**—**	**—**	**10,177**
At 31 December 2017	**661,847**	**6,551**	**870,740**	**1,224,853**

44. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**305,098**	182,289
After one year but not more than five years	**53,697**	211,051
	358,795	393,340

As at 31 December 2017, the calculation of the lease payment of some electronic equipment was based on the actual usage of the relevant servers. The operating lease expenses under these operating leases were RMB1,355,639,000 for the year ended 31 December 2017 (2016: RMB853,977,000). 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.

45. COMMITMENTS

Capital commitments

	NOTE	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:			
Development of land and buildings	(i)	**533,426**	697,532
Acquisition of intangible assets		**—**	869
		533,426	698,401

(i) The capital commitment for the development of land and buildings at 31 December 2017 represented the commitment to invest in an aggregate amount of RMB533,426,000 (2016: RMB697,532,000) in the development of a piece of land in Zhuhai.

46. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	NOTES	2017 RMB'000	2016 RMB'000
Provision of services to a company whose parent has a significant influence on the Company	(i)	**40,173**	156,632
Provision of services to a company controlled by a director of the Company	(ii)	**341,133**	220,570
Licence fee from a company whose parent has a significant influence on the Company	(iii)	**455,637**	555,756
Fee from companies controlled by a director of the Company	(iv)	**53,295**	52,799
Purchases of products from a company controlled by a director of the Company	(v)	**9,124**	10,976
Purchase of services from a company controlled by a director of the Company	(vi)	**53,131**	64,411
Online marketing services from a company whose parent has a significant influence on the Company	(vii)	**25,396**	35,304
Licence fee to a joint venture	(viii)	**343,589**	279,283
Disposal of an associate to a company controlled by a director of the Company	(ix)	**—**	49,019
Partial disposal of a subsidiary's shares to a company whose parent has a significant influence on the company	(x)	**430,956**	—
Interest income from an associate		**—**	526
Interest income from non-controlling shareholders of subsidiaries		**1,308**	2,756
Provision of services to an associate		**6,304**	—
Licence fee from an associate		**2,569**	—

46. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(i) In 2015, the Group entered into framework agreements with a company whose parent has a significant influence on the Company. Pursuant to the framework agreements, the Group provides various forms of promotion services to this related company and its controlled affiliates through the Group's internet platforms. The price is based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting the similar transactions.

(ii) In 2014 and 2016, the Group entered into various agreements with a company controlled by a director of the Company. Pursuant to the agreements, the Group provides cloud storage services and promotion services to this related company and its affiliates at the prevailing fair market price in the same industry for similar transactions.

(iii) In 2016, the Group entered into various licensing agreements with a company whose parent has a significant influence on the Company to operate the Group's online games with this related company at the prevailing fair market price.

(iv) In 2015 and 2016, the Group entered into various licensing agreements with companies controlled by a director of the Company to operate the Group's online games with these related companies at the prevailing fair market price.

(v) The Group purchased hardware products, including but not limited to smart phones and phone accessories at market price from this related company.

(vi) In 2014 and 2016, the Group entered into framework agreements with a company controlled by a director of the Company. Pursuant to the framework agreements, this related company provides various forms of promotion services to the Group through the internet platforms. The price is based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting similar transactions.

(vii) In 2015 and 2016, the Group entered into framework agreements with a company whose parent has a significant influence on the Company. Pursuant to the framework agreements, the company whose parent has a significant influence on the Company provides various forms of promotion services to the Group through the internet platforms. The price is based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting the similar transactions.

(viii) In 2015 and 2016, the Group entered into the game joint development and operation agreement with a joint venture to jointly develop and operate the Group's online games at the prevailing fair market price.

(ix) As disclosed in note 21, the Company sold all the shares held by the Company in Zhigu to a company controlled by a director of the Company at a consideration of US$7.5 million (equivalent to RMB49,019,000).

(x) On 21 April 2017, a wholly-owned subsidiary of the Company entered into a share purchase agreement with a company whose parent has a significant influence on the Company, pursuant to which, 39,819,466 shares of Seasun Holdings were sold at a consideration of US$62,618,000 (equivalent to RMB430,956,000) to this related company.

46. 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	2017 RMB'000	2016 RMB'000
Due from related parties:			
Loans to a non-controlling shareholder of Seasun Holdings	(i)	**224**	99,622
Loan to an associate		**—**	6,526
Loan to a joint venture		**—**	2,500
Loans to a company controlled by a key management of the Company		**—**	2,310
Loans to non-controlling shareholders of Beijing Kingsoft Office	(ii)	**30,519**	30,275
Other receivables from an associate		**393**	—
	27	**31,136**	141,233
Receivables from an associate	26	**15,117**	—
Receivables from a company controlled by a director of the Company	26	**187,389**	132,188
Receivables from a company whose parent has significant influence on the Company	26	**163,920**	643,202
Due to related parties:			
Advance from a company controlled by a key management of the Company	30	**301**	301
Advance from an associate	30	**16,299**	—
Advance from non-controlling shareholder of Seasun Holdings	30	**52,369**	—
Payables to an associate		**460**	—
Payables to a company controlled by a director of the Company	29	**160**	15,469
Payables to a company whose parent has significant influence on the Company	29	**10**	26,223
Payables to a joint venture	29	**106,804**	285,485

46. RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

(i) On 8 April 2011, Seasun Holdings issued 160,000,000 ordinary shares (representing 20% of enlarged capital of Seasun 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 RMB150,301,000). Part of the consideration amounting to HK$151,475,000 (equivalent to RMB120,241,000) was funded by a loan advanced from KES Holdings, the parent of Seasun Holdings, which bears interest at the Hong Kong Interbank Offered Rate plus 1.3% for an initial term and the Hong Kong Bank Offered Loan Rate for the succeeding terms, and is secured by 128,000,000 shares of Seasun 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 included unpaid principal of nil (2016: RMB92,733,000) and interest receivable of RMB224,000 (2016: RMB4,009,000), respectively, as at 31 December 2017.

On 27 October 2016, the Group entered into a loan agreement with the aforementioned non-controlling shareholder of Seasun Holdings, pursuant to which, the Group provided a loan of US$400,000 (equivalent to RMB2,706,000) with interest rate of 2.876% to the non-controlling shareholder for the repurchase of its shares. As at 31 December 2016, the outstanding balance of the loan was RMB2,880,000, including the unpaid principal and interest receivables.

(ii) In 2015 and 2016, the Group entered into loan agreements with certain non-controlling shareholders of Beijing Kingsoft Office, pursuant to which, the Group has provided loans of RMB3,350,000 and RMB26,080,000, respectively, with interest rate of 4.75% per annum to the non-controlling shareholders for the subscription of shares of Beijing Office Software. The loans were secured by the shares of Beijing Office Software held by the non-controlling shareholders. The term of the above loans is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied. The outstanding balance included unpaid principal and interest receivable of RMB29,133,000 (2016: RMB29,133,000) and RMB1,386,000 (2016: RMB1,142,000), respectively, as at 31 December 2017.

46. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

Other than the directors' remuneration disclosed in note 10 to the financial statements, the compensation of other key management personnel of the Group is as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	**4,055**	3,449
Pension plan contributions	**271**	295
Share-based compensation costs	**54,935**	37,643
Total compensation paid to key management personnel	**59,261**	41,387

47. 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:

2017

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	**—**	**—**	**63,430**	**63,430**
Available-for-sale investments	**—**	**1,357,216**	**—**	**1,357,216**
Financial assets included in other non-current assets	**4,306**	**—**	**—**	**4,306**
Trade receivables	**1,167,745**	**—**	**—**	**1,167,745**
Financial assets included in prepayments, deposits and other receivables	**616,666**	**—**	**—**	**616,666**
Restricted cash	**93,400**	**—**	**—**	**93,400**
Cash and bank deposits	**8,505,984**	**—**	**—**	**8,505,984**
Total	**10,388,101**	**1,357,216**	**63,430**	**11,808,747**

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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	—	179,301	179,301
Financial liabilities included in other payables and accruals	—	1,090,153	1,090,153
Derivative financial instruments	121,076	—	121,076
Interest-bearing bank loans	—	661,847	661,847
Liability component of convertible bonds	—	870,740	870,740
Liability component of redeemable convertible preferred shares	—	950,271	950,271
Total	121,076	3,752,312	3,873,388

2016

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	—	—	71,091	71,091
Available-for-sale investments	—	1,255,503	—	1,255,503
Financial assets included in other non-current assets	30,619	—	—	30,619
Trade receivables	1,774,156	—	—	1,774,156
Financial assets included in prepayments, deposits and other receivables	1,000,429	—	—	1,000,429
Restricted cash	98,381	—	—	98,381
Pledged deposits	69,370	—	—	69,370
Cash and bank deposits	9,825,494	—	—	9,825,494
Total	12,798,449	1,255,503	71,091	14,125,043

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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	—	560,488	560,488
Financial liabilities included in other payables and accruals	30,358	1,362,352	1,392,710
Derivative financial instruments	41,387	—	41,387
Interest-bearing bank loans	—	817,874	817,874
Liability component of convertible bonds	—	2,911,354	2,911,354
Liability component of redeemable convertible preferred shares	—	316,834	316,834
Total	71,745	5,968,902	6,040,647

48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	CARRYING AMOUNTS		FAIR VALUES	
	2017 RMB'000	**2016 RMB'000**	**2017 RMB'000**	**2016 RMB'000**
FINANCIAL ASSETS				
Loan receivables	**4,306**	8,957	**4,306**	9,052
Available-for-sale investments	**1,252,500**	797,333	**1,252,500**	797,333
Other long term receivables	**—**	21,662	**—**	21,662
Other financial assets	**63,430**	71,091	**63,430**	71,091
	1,320,236	899,043	**1,320,236**	899,138
FINANCIAL LIABILITIES				
Derivative financial instruments	**121,076**	41,387	**121,076**	41,387
Liability component of convertible bonds	**870,740**	2,911,354	**870,740**	2,911,354
Liability components of redeemable convertible preferred shares	**950,271**	316,834	**950,271**	316,834
Other liabilities	**—**	30,358	**—**	30,358
Interest-bearing bank loans	**661,847**	817,874	**661,847**	818,730
	2,603,934	4,117,807	**2,603,934**	4,118,663

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

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 and financial liabilities included in other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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 2017 was assessed to be insignificant. The fair values of the liability portion of the convertible bonds and the liability component of the redeemable convertible preferred shares are estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of listed equity investments are based on quoted market prices. 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 Black Scholes 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.

The fair values of other liabilities 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.

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2017

	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	**1,252,500**	**—**	**—**	**1,252,500**
Other financial assets	**—**	**—**	**63,430**	**63,430**
	1,252,500	**—**	**63,430**	**1,315,930**

As at 31 December 2016

	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	665,530	131,803	—	797,333
Other financial assets	—	—	71,091	71,091
	665,530	131,803	71,091	868,424

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

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2017 RMB'000	2016 RMB'000
Other financial assets:		
At 1 January	**71,091**	26,294
Additions	**171,242**	28,829
Deemed disposal of a subsidiary	**(187,235)**	—
Total gain recognised in the statement of profit or loss	**12,689**	12,080
Total (loss)/gain recognised in other comprehensive income	**(4,357)**	3,888
At 31 December	**63,430**	71,091

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2017:

	VALUATION TECHNIQUES	SIGNIFICANT UNOBSERVABLE INPUTS	SENSITIVITY OF FAIR VALUE TO THE INPUT
Other financial assets	Black-Scholes Model	Fair value per share	5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB4,522,000 (RMB270,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB135,000 (RMB67,000)
		Volatility	5% increase (decrease) in volatility would result in increase(decrease) in fair value by RMB810,000 (RMB67,000)
Other financial assets	Equity valuation allocation model	Risk-free rate	5% increase (decrease) in risk-free rate would result in decrease (increase) in fair value by RMB7,000 (RMB7,000)
		Volatility	5% increase (decrease) in volatility would result in decrease (increase) in fair value by RMB91,000 (RMB91,000)

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2017

	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
Derivative financial instruments	**—**	**—**	**121,076**	**121,076**

As at 31 December 2016

	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
Derivative financial instruments	—	—	41,387	41,387
Other liabilities	—	—	30,358	30,358
	—	—	71,745	71,745

The movements in fair value measurements in Level 3 during the year are as follows:

	2017 RMB'000	2016 RMB'000
Other financial liabilities at fair value through profit or loss:		
At 1 January	**71,745**	23,339
Additions	**88,125**	63,345
Paid	**(38,351)**	(24,686)
Total loss recognised in the statement of profit or loss	**4,191**	4,109
Total (gain)/loss recognised in other comprehensive income	**(4,634)**	5,638
At 31 December	**121,076**	71,745

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

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUT	SENSITIVITY OF FAIR VALUE TO THE INPUT
Other liabilities	Equity valuation allocation model	Fair Value of equity value	5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB21,094,000 (RMB22,665,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB1,445,000 (RMB1,445,000)
		Volatility	5% increase (decrease) in volatility would result in increase(decrease) in fair value by RMB4,053,000 (RMB510,000)
		Probability of IPO	5% increase(decrease) in probability of IPO would result in decrease (increase) in fair value by RMB7,921,000 (RMB7,912,000)

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 (2016: nil).

Assets for which fair values are disclosed:

As at 31 December 2017

	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
Loans receivable	**—**	**4,306**	**—**	**4,306**

As at 31 December 2016

	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
Loans receivable	—	9,052	—	9,052

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

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2017

	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	**—**	**—**	**870,740**	**870,740**
Liability component of redeemable convertible preferred shares	**—**	**—**	**950,271**	**950,271**
Interest-bearing bank loans	**—**	**661,847**	**—**	**661,847**
	—	**661,847**	**1,821,011**	**2,482,858**

As at 31 December 2016

	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	—	—	2,911,354	2,911,354
Liability component of redeemable convertible preferred shares	—	—	316,834	316,834
Interest-bearing bank loans	—	818,730	—	818,730
	—	818,730	3,228,188	4,046,918

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, redeemable convertible preferred shares, 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, liquidity risk and equity price 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 different currencies. As at 31 December 2017, approximately RMB326,710,000, nil and RMB335,137,000 of the Group's bank loans were denominated in US$, Euro and RMB (2016: RMB447,437,000, RMB50,905,000 and RMB319,532,000), and bore interest at floating rates.

For the year ended 31 December 2017, if the average interest rate bank loans had been 5% (2016: 5%) higher/lower with all other variables held constant, the profit of the Group for the year would have been approximately RMB1,104,000 (2016: RMB1,293,000) lower/higher as a result of higher/lower finance costs.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 5% (2016: 40% (restated)) of the Group's revenue were denominated in currencies other than the functional currencies.

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
2017	
If RMB strengthens 5% against HK$	**(101,885)**
If RMB weakens 5% against HK$	**101,885**
If RMB strengthens 5% against US$	**(95,527)**
If RMB weakens 5% against US$	**95,527**
2016	
If RMB strengthens 5% against HK$	(157,519)
If RMB weakens 5% against HK$	157,519
If RMB strengthens 5% against US$	(73,052)
If RMB weakens 5% against US$	73,052

Credit risk

The Group trades only with recognised and creditworthy customers. 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 deposits, 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.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 maturities of trade payables, interest-bearing bank loans, convertible bonds and redeemable convertible preferred shares are disclosed in notes 29, 31, 33 and 34 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 2017, the Group's cash and bank deposits were approximately RMB8,505,984,000 (2016: RMB9,825,494,000), accounting for 80.7% (2016: 75.0%) of the Group's current assets and 47.9% (2016: 55.9%) of the Group's total assets. The Group believes that the exposure to liquidity risk is minimal.

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:

	31 DECEMBER 2017				
	ON DEMAND	LESS THAN THREE MONTHS	3 TO LESS THAN 12 MONTHS	1 TO 5 YEARS	TOTAL
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible bonds	**—**	**12,539**	**848,929**	**38,692**	**900,160**
Redeemable convertible preferred shares	**—**	**—**	**—**	**1,489,697**	**1,489,697**
Interest-bearing bank loans	**—**	**—**	**383,865**	**320,127**	**703,992**
Trade payables	**—**	**122,582**	**54,446**	**2,273**	**179,301**
Other payables and accurals	**1,307,714**	**210,719**	**40,302**	**53,932**	**1,612,667**

	31 DECEMBER 2016				
	ON DEMAND	LESS THAN THREE MONTHS	3 TO LESS THAN 12 MONTHS	1 TO 5 YEARS	TOTAL
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible bonds	—	13,418	39,436	3,041,865	3,094,719
Redeemable convertible preferred shares	—	—	—	455,037	455,037
Interest-bearing bank loans	—	353,319	80,190	439,633	873,142
Trade payables	—	503,713	51,213	5,562	560,488
Other payables and accurals	1,633,447	393,513	55,447	19,681	2,102,088

49. 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 22) as at 31 December 2017. The Group's listed investments are listed on NASDAQ and are valued at quoted market prices at the end of the reporting period.

The market equity indices for NASDAQ, at the close of business of the nearest trading day in the year to the end of the reporting period, and the respective highest and lowest points during the year were as follows:

	31 DECEMBER 2017	HIGH/LOW 2017	31 DECEMBER 2016	HIGH/LOW 2016
The United States — NASDAQ Index	**6,903.39**	**7,003.89/ 5,397.99**	5,383.12	5,512.37/ 4,209.76

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
2017		
Investments listed in:		
The United States — Available-for-sale	**1,252,500**	12,525

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2017 and 31 December 2016.

The Group monitors capital using the asset-liability ratio, which represents total liabilities divided by total assets.

	2017 RMB'000	2016 RMB'000
Total liabilities	**(5,209,419)**	(7,577,228)
Total assets	**17,762,390**	17,578,952
Asset-liability ratio	**29%**	43%

50. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities.

51. EVENTS AFTER THE REPORTING PERIOD

On 28 December 2017 and 29 January 2018, Kingsoft Cloud entered into share purchase agreements with certain investors, pursuant to which, Kingsoft Cloud agreed to issue, and these investors agree to subscribe for 244,601,207 series D preferred shares of Kingsoft Cloud at a total consideration of approximately US$210 million. On 27 February 2018, the subscriptions of the series D preferred shares of Kingsoft Cloud were approved by the shareholders of the Company. Upon completion of the transaction, the Company will continue to have control over Kingsoft Cloud.

On 15 January 2018, all outstanding 2013 Convertible Bonds as at 31 December 2017 had been fully converted into the Company's ordinary shares. As a result of the conversion, 60,753,330 ordinary shares of the Company were issued in accordance with the terms and conditions of the 2013 Convertible Bonds.

52. COMPARATIVE AMOUNTS

As further explained in note 13 to the financial statements, the comparative statement of profit or loss has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period. Certain comparative amounts have been reclassified to conform with the current year's presentation.

53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**2,033,777**	1,279,452
Property, plant and equipment	**26**	44
Investments in associates	**180,131**	—
Long term receivables	**—**	197
Total non-current assets	**2,213,934**	1,279,693
CURRENT ASSETS		
Prepayments, deposits and other receivables	**1,717**	5,908
Due from subsidiaries	**1,913,855**	2,270,047
Cash and bank deposits	**725,118**	2,863,937
Total current assets	**2,640,690**	5,139,892
CURRENT LIABILITIES		
Other payables and accruals	**13,771**	24,097
Interest-bearing bank loan	**326,710**	—
Income tax payable	**12,346**	15,035
Due to subsidiaries	**720,994**	265,188
Due to an associate	**16,299**	—
Liability component of convertible bonds	**832,876**	—
Total current liabilities	**1,922,996**	304,320
NET CURRENT ASSETS	**717,694**	4,835,572
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,931,628**	6,115,265
NON-CURRENT LIABILITIES		
Liability component of convertible bonds	**37,864**	2,911,354
Total non-current liabilities	**37,864**	2,911,354
Net assets	**2,893,764**	3,203,911
EQUITY		
Issued capital	**5,127**	5,097
Share premium account	**2,287,958**	2,369,129
Treasury shares	**(22,517)**	(25,477)
Equity component of convertible bonds	**7,564**	72,295
Other reserves	**615,632**	782,867
TOTAL EQUITY	**2,893,764**	3,203,911

Tao ZOU
Director

Yuk Keung NG
Director

53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

A summary of the Company's reserves is as follows:

	SHARE PREMIUM ACCOUNT RMB'000	TREASURY SHARES RMB'000	EQUITY COMPONENT OF CONVERTIBLE BONDS RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED PROFITS RMB'000	OTHER CAPITAL RESERVE RMB'000	TOTAL RMB'000
AT 1 JANUARY 2016	2,474,663	(34,766)	72,295	149,119	40,558	445,307	—	3,147,176
Total comprehensive income for the year	—	—	—	—	210,532	(64,511)	—	146,021
Approved and paid final dividend in respect of the previous year	(110,111)	—	—	—	—	—	—	(110,111)
Exercise of share options	4,577	—	—	(2,098)	—	—	—	2,479
Share-based compensation costs	—	—	—	13,249	—	—	—	13,249
Vested awarded shares transferred to employees	—	9,289	—	(9,289)	—	—	—	—
AT 31 DECEMBER 2016 AND 1 JANUARY 2017	**2,369,129**	**(25,477)**	**72,295**	**150,981#**	**251,090#**	**380,796#**	**—**	**3,198,814**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**(209,155)**	**(12,540)**	**—**	**(221,695)**
Approved and paid final dividend in respect of the previous year	**(112,678)**	**—**	**—**	**—**	**—**	**—**	**—**	**(112,678)**
Exercise of share options	**31,507**	**—**	**—**	**—**	**—**	**—**	**—**	**31,507**
Share-based compensation costs	**—**	**—**	**—**	**30,335**	**—**	**—**	**—**	**30,335**
Vested awarded shares transferred to employees	**—**	**2,960**	**—**	**(2,960)**	**—**	**—**	**—**	**—**
Redemption of convertible bonds	**—**	**—**	**(64,731)**	**—**	**—**	**—**	**27,085**	**(37,646)**
At 31 December 2017	**2,287,958**	**(22,517)**	**7,564**	**178,356#**	**41,935#**	**368,256#**	**27,085#**	**2,888,637**

These reserve accounts comprise the other reserves of RMB615,632,000 (2016: RMB782,867,000) in the statement of financial position of the Company.

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.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2018.

TERMS AND GLOSSARIES

"2007 Pre-IPO Share Option Scheme"	the share option scheme adopted by the Company on 22 January 2007 before its initial public offering
"2011 Share Option Scheme"	the share option scheme adopted by the Company on 9 December 2011
"2013 Convertible Bonds"	the five-year convertible bonds issued by the Company in the principal amount of HK$1,356,000,000 which bear interest at a rate of 3% per annum payable semi-annually on 23 July 2013
"2014 Convertible Bonds"	the five-year convertible bonds issued by the Company in the principal amount of HK$2,327,000,000 which bear interest at a rate of 1.25% per annum payable semi-annually on 11 April 2014
"ADPCU"	daily average peak concurrent users
"Antutu Technology"	Beijing Antutu Technology Co., Ltd.* (北京安兔兔科技有限公司)
"APA"	average paying accounts
"Articles of Association"	the articles of association of the Company
"Beijing Cheetah"	Beijing Cheetah Mobile Technology Co., Ltd.* (北京獵豹移動科技有限公司), formerly know as Beike Internet (Beijing) Security Technology Co., Ltd.* (貝殼網際 (北京) 安全技術有限公司)
"Beijing Cloud Network"	Beijing Kingsoft Cloud Network Technology Co., Ltd.* (北京金山雲網絡技術有限公司)
"Beijing Cloud Technology"	Beijing Kingsoft Cloud Technology Co., Ltd.* (北京金山雲科技有限公司)
"Beijing Digital Entertainment"	Beijing Kingsoft Digital Entertainment Technology Co., Ltd.* (北京金山數字娛樂科技有限公司)
"Beijing Network Technology"	Beijing Cheetah Network Technology Co., Ltd.* (北京獵豹網絡科技有限公司)
"Beijing Security Software"	Beijing Kingsoft Internet Security Software Co., Ltd.* (北京金山安全軟件有限公司)
"Board"	the board of directors of the Company
"Code"	the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules
"Cheetah Group"	Cheetah Mobile and its subsidiaries
"Cheetah Mobile"	Cheetah Mobile Inc, a non-wholly owned subsidiary of the company until 1 October 2017 and was listed on NYSE in May 2014
"Chengdu Digital Entertainment"	Chendu Kingsoft Digital Entertainment Technology Co., Ltd.* (成都金山數字娛樂科技有限公司)

"Chengdu Interactive Entertainment"	Chengdu Kingsoft Interactive Entertainment Co., Ltd.* (成都金山互動娛樂科技有限公司)
"Chengdu Seasun Shiyou"	Chengdu Seasun Shiyou Technology Co., Ltd.* (成都西山居世遊科技有限公司)
"Class A Cheetah Shares"	the class A ordinary shares of Cheetah Mobile, par value US$0.000025 per share
"Company" or "Kingsoft"	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its shares listed on the Stock Exchange (stock code: 03888)
"Conew Technology"	Beijing Conew Technology Development Co., Ltd.* (北京可牛科技發展有限公司)
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"Guangzhou Network"	Guangzhou Kingsoft Network Co., Ltd.* (廣州金山網絡科技有限公司)
"Guangzhou Seasun Shiyou"	Guangzhou Seasun Shiyou Technology Co., Ltd.* (廣州西山居世遊網絡科技有限公司)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IAS"	International Accounting Standard issued by the International Accounting Standards Board
"IFRSs"	International Financial Reporting Standards
"Kingsoft Cloud"	Kingsoft Cloud Holdings Limited, a subsidiary of the Company
"Kingsoft Cloud Group"	Kingsoft Cloud and its subsidiaries
"Kingsoft Cloud Series D Preferred Shares"	series D preferred convertible shares of Kingsoft Cloud with par value of US$0.001 per share
"Kingsoft Cloud Share Award Scheme"	the share award scheme approved and adopted by the directors of Kingsoft Cloud on 22 February 2013
"Kingsoft Cloud Share Option Scheme"	the share option scheme approved and adopted by the shareholders of the Company and Kingsoft Cloud on 27 February 2013
"Kingsoft Qijian"	Beijing Kingsoft Qijian Digital Technology Co., Ltd.* (北京金山奇劍數碼科技有限公司)

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MAU"	monthly active users
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"NASDAQ"	National Association of Securities Dealers Automated Quotations
"NYSE"	New York Stock Exchange
"PRC", "China" or "Mainland China"	the People's Republic of China excluding, for the purpose of this annual report only, Hong Kong, the Macau Special Administrative Region and Taiwan
"R&D"	research and development
"RMB" or "Renminbi"	the lawful currency of the PRC
"Seasun Holdings"	Seasun Holdings Limited, a subsidiary of the Company
"Seasun Holdings Share Award Schemes"	the share award schemes approved by the shareholders and directors of Seasun Holdings on 21 March 2017 including the general share award scheme, the special share award scheme (A) and the special share award scheme (B)
"Seasun Holdings Share Option Scheme"	the share option scheme approved by the shareholders of the Company and Seasun Holdings on 27 June 2013
"SFO"	the Securities and Future Ordinance, Chapter 571 of the Laws of Hong Kong
"Share Award Scheme"	the share award scheme of the Company adopted by the Board on 31 March 2008
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of the United States of America
"Xiaomi"	Xiaomi Corporation, a limited liability company organized under the laws of Cayman Islands
"Xiaomi Group"	Xiaomi and its subsidiaries
"Zhuhai Cloud Technology"	Zhuhai Kingsoft Cloud Technology Co., Ltd.* (珠海金山雲科技有限公司)
"Zhuhai Online Game"	Zhuhai Kingsoft Online Game Technology Co., Ltd.* (珠海金山網絡遊戲科技有限公司)
"Zhuhai Qiwen"	Zhuhai Qiwen Office Software Co., Ltd.* (珠海奇文辦公軟件有限公司)
"Zhuhai Seasun Shiyou"	Zhuhai Seasun Shiyou Technology Co., Ltd.* (珠海西山居世遊科技有限公司)

"Zhuhai Software"	Zhuhai Kingsoft Software Co., Ltd.* (珠海金山軟件有限公司)
"%"	per cent