KINGSOFT®

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

KINGSOFT CORPORATION LIMITED
2016 ANNUAL REPORT

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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

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

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No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

Registered Office

Clifton House

75 Fort Street

P.O. Box 1350 GT George Town

Grand Cayman KY1-1108

Cayman Islands

Executive Directors

Mr. 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

Appleby Trust (Cayman) Ltd.

Clifton House

75 Fort Street

P.O. Box 1350 GT George Town

Grand Cayman KY1-1108

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17/F, Hopewell Centre

183 Queen's Road East

Hong Kong

Auditors

Ernst & Young

Certified Public Accountants

22th Floor, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

Legal Advisers on Hong Kong law

Baker & Mckenzie

14th Floor, Hutchison House

10 Harcourt Road

Hong Kong

Principal Banks

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.

BNP Paribas (China) Limited

The Bank of East Asia (China) Limited

JP Morgan Chase Bank N.A.

China Minsheng Banking Corp., Ltd.

Citibank (China) Co., Ltd.

Investor and Media Relations

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FINANCIAL HIGHLIGHTS

Consolidated Statement of Profit or Loss

	Year ended 31 December				
	2012 RMB'000	**2013 RMB'000**	**2014 RMB'000**	**2015 RMB'000**	**2016 RMB'000**
Revenue:					
Online game	851,402	1,095,913	1,252,753	1,368,811	**2,545,671**
Cheetah Mobile	386,293	804,051	1,768,725	3,660,048	**4,448,591**
Cloud service, office software and others	173,466	273,305	328,655	647,247	**1,287,866**
	1,411,161	2,173,269	3,350,133	5,676,106	**8,282,128**
Cost of revenue	(186,939)	(297,104)	(589,655)	(1,319,399)	**(2,662,370)**
Gross profit	1,224,222	1,876,165	2,760,478	4,356,707	**5,619,758**
Research and development costs, net	(385,409)	(596,491)	(956,097)	(1,347,566)	**(1,839,603)**
Selling and distribution expenses	(234,115)	(382,848)	(797,416)	(1,755,727)	**(1,958,356)**
Administrative expenses	(147,954)	(192,245)	(297,412)	(442,577)	**(565,368)**
Share-based compensation costs	(48,472)	(61,387)	(201,922)	(356,012)	**(361,019)**
Other income	28,609	45,949	30,199	147,364	**153,843**
Other expenses	(22,380)	(7,287)	(29,873)	(59,150)	**(76,364)**
Operating profit	414,501	681,856	507,957	543,039	**972,891**
Other gains/(losses), net	15,419	37,121	305,367	(73,819)	**(1,189,774)**
Finance income	97,973	129,462	238,900	194,511	**173,718**
Finance costs	(8,702)	(24,466)	(75,944)	(78,067)	**(114,997)**
Share of profits and losses of:					
Joint ventures	9,532	4,827	(7,657)	(24,005)	**100,481**
Associates	(930)	(3,748)	(6,868)	(19,299)	**(66,747)**
Profit/(loss) before tax	527,793	825,052	961,755	542,360	**(124,428)**
Income tax expense	(61,359)	(71,178)	(95,188)	(200,656)	**(167,847)**
Profit/(loss) for the year	466,434	753,874	866,567	341,704	**(292,275)**
Attributable to:					
Owners of the parent	432,589	670,746	768,783	369,178	**(270,732)**
Non-controlling interests	33,845	83,128	97,784	(27,474)	**(21,543)**
	466,434	753,874	866,567	341,704	**(292,275)**
Proposed final dividends	102,132	109,387	119,438	107,895	**115,676**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**
Earnings per share attributable to ordinary equity holders of the parent					
Basic	0.38	0.58	0.66	0.29	**(0.21)**
Diluted	0.37	0.55	0.63	0.29	**(0.21)**

Consolidated Statement of Financial Position (Selected items)

	As at 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Cash and bank deposits	2,416,259	4,481,188	6,983,699	8,606,434	**9,825,494**
Pledged deposits	19,000	19,588	19,978	46,657	**69,370**
Restricted cash	—	—	—	130,187	**98,381**
Assets of a disposal group classified as held for sale	200,621	—	—	—	**—**
Total assets	3,641,269	5,804,333	10,381,604	15,484,877	**17,578,952**
Total equity	2,674,932	3,830,691	6,116,544	9,911,355	**10,001,724**

Consolidated Statement of Cash Flows (Selected Items)

	Year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Net cash flows from operating activities	555,946	938,124	952,264	1,435,334	**1,393,218**
Net cash flows used in investing activities	(1,063,120)	(44,019)	(3,367,589)	(471,910)	**(3,127,785)**
Net cash flows from financing activities	9,943	1,121,716	2,950,177	2,233,959	**600,815**
Net (decrease)/increase in cash and cash equivalents	(497,231)	2,015,821	534,852	3,197,383	**(1,133,752)**

CHAIRMAN'S STATEMENT

BUSINESS REVIEW AND PROSPECTS

Kingsoft has achieved an outstanding performance in 2016. We launched JX Online I mobile game which was one of the most successful mobile games in 2016. Its exceptional performance showed the great IP value of JX Online series and signified our breakthrough in the mobile game business. Kingsoft Cloud's customer base and revenue increased significantly, and its profit margin also improved continuously in 2016; and more importantly, it took the leading position in the rapidly growing video cloud market. The MAU of WPS Office Android exceeded 100 million for the first time in November 2016. The revenue contribution from WPS online marketing services has grown rapidly, especially from its mobile online marketing services. Cheetah Mobile's content strategy made significant progress, and its revenue and profit resumed sequential growths in the second half of 2016. In the future, we will remain fully committed to these key business sectors and strive to maintain the strong growth momentum.

2016 was another year of consistent and strong growth in terms of the Group's revenue. We achieved 46% annual revenue growth and our total revenue reached a new record high of RMB8,282.1 million. Though we have made impairment provisions on the carrying value of our investments in Xunlei and 21Vianet in 2016, this one-off factor was not supposed to prevail upon our outstanding business performance. We are glad to report an improved operating profit level, while we kept focused and invested heavily in our core businesses. The operating profit for 2016 increased 79% year-over-year to RMB972.9 million, and the operating profit margin increased by two percentage points year-over-year to 12%.

Driven by the steady and sustained revenue growth generated by its utility applications, total revenue, mobile revenue and overseas revenue of Cheetah Mobile all hit record highs in the fourth quarter of 2016. Cheetah Mobile implemented a number of strategic initiatives in 2016, particularly in its content strategy, to counter the headwinds its business faced early in the year. As the Cheetah Mobile's profit center, its mobile utility applications have continued to expand its profitability, which in turn supported its mobile content strategy. Product-wise, Cheetah Mobile remained the third largest publisher of non-game mobile applications in applications Google Play Worldwide in February 2017, according to App Annie. Two of its content-driven applications, Live.me and News Republic, demonstrated strong growth, particularly in the U.S. market. According to App Annie, Live.me has become the No.1 grossing social application in the U.S. on Google Play since August 2016, and remains one of the top-5 social applications on Apple App Store. In addition, News Republic has been the No. 1 news application in the U.S on Google Play since December 2016. While its overall utility applications segment enters into its mature growth stage, Cheetah Mobile's investments in content-driven products established a solid foundation for another round of strong growth in the coming quarters. Looking ahead, Cheetah Mobile will remain focused on connecting its over 600 million global Mobile MAU with more personalized and richer content by capitalizing on emerging artificial intelligence technologies to establish a sustainable and profitable business model for the long term.

In 2016, the Group achieved brilliant results in both PC games and mobile games. Its flagship PC game JX Online III marched into its seventh year with strong and sustainable growth as its revenue totalled RMB1,392.8 million, representing a year-over-year surge of 56%. JX Online I mobile game was launched in May 2016, delivered an outstanding performance, consistently ranked among the most popular mobile games on Apple App Store. The game was also introduced to Vietnam during the year and achieved great success in terms of both popularity and revenue contribution in that country. In 2017, we are to deeply develop the great IP value of JX Online series, introduce the third mobile game under the JX Online series and commence the pan-entertainment expansion of JX Online series. We will also cooperate with 70yx and NetDragon to launch the Genghis Khan and Eudemons Online mobile games, as well as join forces with iQiYi to initiate the film blockbuster and TV program IP adaption business. We are integrating our rich resources, enhancing the development of both PC and mobile games, and aiming to create more game classics in the future.

All business segments of Kingsoft Cloud reported impressive development in 2016 and sustained strong revenue growth of approximately 171% year-over-year, with improved profit margin level. Revenue from the game cloud business grew steadily in the fourth quarter and succeeded in bringing in key customers with major influence in the industry including Perfect World, Giant and Snail Games. On the customer service front, Kingsoft Cloud hosted the "the Game Ecosystem Annual Conference 2016" and secured the market recognition and trust from customers, enabling it to consolidate the brand awareness and reputation of Kingsoft Cloud and pave the way for future business development. In addition, Kingsoft Cloud continued to lead in the video cloud sector, and introduced a live streaming monitoring and assessment platform during the year, providing the market with a more comprehensive overall live streaming service. Kingsoft Cloud also actively expanded its government cloud and healthcare cloud businesses in the fourth quarter. Looking ahead, Kingsoft Cloud will step up promotion of the hybrid cloud business and position itself as an operation and maintenance solutions specialist in the game industry. Furthermore, it will continue to perfect its live video cloud streaming products, expand the government cloud and healthcare cloud markets, and pursue cooperation to expand the sales network, thereby attaining greater achievements for Kingsoft Cloud's development.

The revenue of Kingsoft WPS office software business recorded steady growth, within which the online market services business expanded rapidly. In November 2016, the global MAU of WPS Office Android exceeded 100 million for the first time in history. During the year, the revenue of enterprise software sales and the software utilization rate increased due to contribution from the new business model which leads to increasing user loyalty and better reputation. Within our software suite, the WPS Office mobile version was continuously recommended by Apple App Store and Google Play. Moving forward, Kingsoft WPS is striving to consolidate its user base to maintain the growth capability of its core products, improve retention rate and strengthen user connectivity to the cloud service to realize revenue growth and create better experiences for users.

As a first class internet company, continuous innovation and optimization of our resources are the foundation of our development and our business success. In the past, we have seen rapid development in our mobile transformation and cloud business investment and we were able to seize market opportunities and embrace changes, which has enabled us to achieve great success. We believe the new era will bring new opportunities while application of artificial intelligence is set to become a major global development trend. Going forward, while we keep focusing on our mobile and cloud businesses, maintaining strong revenue growth momentum, we shall also start to explore new opportunities in the artificial intelligence field and direct ourselves to open a new chapter of growth for the Group and deliver additional value to all of our shareholders.

Jun LEI
Chairman

Hong Kong, 21 March 2017

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	31 December 2016	30 September 2016	30 June 2016	31 March 2016	31 December 2015	30 September 2015	30 June 2015	31 March 2015
Online Games								
Daily Average Peak Concurrent Users ("ADPCU")	**1,018,826**	**982,914**	**909,591**	**543,836**	542,384	562,354	607,571	672,779
Monthly Average Paying Accounts ("APA")	**4,523,832**	**4,482,024**	**4,822,356**	**2,960,358**	2,919,683	3,301,297	3,438,493	3,069,052

	In December 2016	In September 2016	In June 2016	In March 2016	In December 2015	In September 2015	In June 2015	In March 2015
Cheetah Mobile								
Mobile Monthly Active Users ("MAU") (Million)	**623**	**612**	**623**	**651**	635	567	494	444
% of Mobile MAU from Overseas Markets	**81%**	**80%**	**79%**	**79%**	79%	74%	71%	71%
Mobile Users Installations (Million)	**3,810**	**3,464**	**3,099**	**2,762**	2,341	1,942	1,596	1,341

For the Year Ended 31 December 2016

The following table sets forth the comparative numbers for the years ended 31 December 2016 and 2015, respectively.

	Year ended 31 December	
	2016	**2015**
	RMB'000	**RMB'000**
Revenue		
Online game	**2,545,671**	1,368,811
Cheetah Mobile	**4,448,591**	3,660,048
Cloud services, office software and others	**1,287,866**	647,247
	8,282,128	5,676,106
Cost of revenue	**(2,662,370)**	(1,319,399)
Gross profit	**5,619,758**	4,356,707
Research and development costs, net	**(1,839,603)**	(1,347,566)
Selling and distribution expenses	**(1,958,356)**	(1,755,727)
Administrative expenses	**(565,368)**	(442,577)
Share-based compensation costs	**(361,019)**	(356,012)
Other income	**153,843**	147,364
Other expenses	**(76,364)**	(59,150)
Operating profit	**972,891**	543,039
Other losses, net	**(1,189,774)**	(73,819)
Finance income	**173,718**	194,511
Finance costs	**(114,997)**	(78,067)
Share of profits and losses of:		
Joint ventures	**100,481**	(24,005)
Associates	**(66,747)**	(19,299)
Profit/(loss) before tax	**(124,428)**	542,360
Income tax expense	**(167,847)**	(200,656)
Profit/(loss) for the year	**(292,275)**	341,704
Attributable to:		
Owners of the parent	**(270,732)**	369,178
Non-controlling interests	**(21,543)**	(27,474)
	(292,275)	341,704
Earnings per share attributable to ordinary equity holders of the parent	**RMB**	**RMB**
Basic	**(0.21)**	0.29
Diluted	**(0.21)**	0.29

Revenue

Revenue for the year of 2016 increased 46% year-over-year to RMB8,282.1 million. Approximately 31% of the revenue was generated from the online game business, 53% of the revenue was generated from Cheetah Mobile business and 16% of the revenue was generated from the cloud services, office software and others.

— *Online game*

Revenue from the online game business mainly consists of revenues from operations of proprietary PC-based online games, mobile games, and game licensing services, which are generated from the Group (other than Cheetah Mobile and its subsidiaries) through research, development and provision of online games across devices.

Revenue from the online game business for the year of 2016 increased 86% year-over-year to RMB2,545.7 million. The increase was mainly driven by the remarkable performance of the newly launched JX Online I mobile game and the constant and robust revenue growth of JX Online III, reflecting our commitment to developing high quality games.

— *Cheetah Mobile*

Revenue from Cheetah Mobile business mainly consists of revenues from online marketing services, internet value-added services, and internet security services and others, which are generated from Cheetah Mobile and its subsidiaries through research, development and operation of information security software, internet browser, mission critical mobile applications, and operation of games and provision of global content distribution channel for its business partners.

Revenue from Cheetah Mobile business for the year of 2016 increased 22% year-over-year to RMB4,448.6 million. The increase was mainly driven by the robust revenue growth of Cheetah Mobile's mobile advertising business, light casual games as well as the new content-driven applications.

— *Cloud services, office software and others*

Revenue from the cloud services, office software and others business consists of revenues from all the other businesses, including cloud storage and computation, office application software, dictionary services, etc.

Revenue from the cloud services, office software and others for the year of 2016 increased 99% year-over-year to RMB1,287.9 million. The year-over-year increase was primarily attributable to: i) the rapid expansion of cloud service in video and mobile game industries; and ii) the significant improvement in the monetization capabilities of WPS free user traffic.

Cost of Revenue and Gross Profit

Cost of revenue for the year of 2016 increased 102% year-over-year to RMB2,662.4 million. The increase in cost of revenue was mainly due to: 1) higher bandwidth and internet data center costs associated with increased user usage and traffic of cloud services and Cheetah Mobile; 2) increased traffic acquisition costs and content costs associated with Cheetah Mobile's utility and content-driven applications; and 3) greater sharing cost associated with JX Online I mobile game.

Gross profit for the year of 2016 increased 29% year-over-year to RMB5,619.8 million. The Group's gross profit margin decreased by nine percentage points year-over-year to 68%.

Research and Development Costs, net

R&D costs, net for the year of 2016 increased 37% year-over-year to RMB1,839.6 million. The year-over-year increase was primarily driven by an increase in personnel-related costs with increased investments in big data analytics and new product development, as well as an increase in the salaries.

Selling and Distribution Expenses

Selling and distribution expenses for the year of 2016 increased 12% year-over-year to RMB1,958.4 million. The year-over-year increase was primarily due to increased promotional activities for Cheetah Mobile's content-driven applications.

Administrative Expenses

Administrative expenses for the year of 2016 increased 28% year-over-year to RMB565.4 million. The year-over-year increase was mainly due to an increase in headcounts and staff-related costs and higher professional service fee.

Share-based Compensation Costs

Share-based compensation costs for the year of 2016 increased 1% year-over-year to RMB361.0 million.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the year of 2016 increased 48% year-over-year to RMB1,333.9 million as a result of the combination of above reasons. The margin of operating profit before share-based compensation costs kept flat year-over-year to 16%.

Other Losses, net

Net other losses of RMB1,189.8 million recorded for the year of 2016, as compared to a loss of RMB73.8 million for the year of 2015. 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.

Finance Income

Finance income for the year of 2016 decreased 11% year-over-year to RMB173.7 million.

Income Tax Expense

Income tax expenses for the year of 2016 decreased 16% year-over-year to RMB167.8 million. Excluding share-based compensation costs and the non-tax-deductible provision for the impairment loss of investments, our effective tax rate would have been 11% in the year of 2016.

Profit/(loss) attributable to Owners of the Parent

For the reasons described above, profit/(loss) attributable to owners of the parent was RMB(270.7) million and RMB369.2 million for the year 2016 and 2015, 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, being profit attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent, is a measure supplementary to the consolidated financial statements presented in accordance with IFRSs.

We believe that the profit attributable to owners of the parent before share-based compensation costs will enable the investor 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 was RMB(78.4) million and RMB552.3 million for the year 2016 and 2015, respectively.

The net profit/(loss) margin excluding the effect of share-based compensation costs was (1%) and 10% for the year 2016 and 2015, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 December 2016, the Group had major financial resources in the forms of cash and cash equivalent and time deposits with initial term of over three months amounting to RMB5,776.3 million and RMB4,049.2 million, respectively, which totally represented 56% of the Group's total assets.

As at 31 December 2016, the Group's gearing ratio, which represents total liabilities divided by total assets, was 43%, as compared to 36% as at 31 December 2015. As at 31 December 2016, the Group had debts of convertible bonds of HK$3,254.8 million (equivalent to RMB2,911.4 million) and bank loans of RMB319.5 million, US$64.5 million (equivalent to RMB447.4 million) and EUR7.0 million (equivalent to RMB51.0 million).

Foreign Currency Risk Management

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

As at 31 December 2016, RMB4,840.5 million of the Group's financials assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Net Cash Generated from Operating Activities

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

Net cash generated from operating activities was RMB1,393.2 million and RMB1,435.3 million for the years ended 31 December 2016 and 2015, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fixed assets and intangible assets. Cash used for capital expenditures was RMB1,023.4 million and RMB806.1 million for the years ended 31 December 2016 and 2015, respectively.

Impairment Losses under Other Losses, net

The Company recorded impairment losses for available-for-sale investments of approximately RMB1,239.2 million during the year ended 31 December 2016, the substantial part of which is from the provisions for impairment on the carrying value of the Group's investment in Xunlei and 21Vianet.

Xunlei is a leading cloud-based acceleration technology company in China, whose ordinary shares have been listed on The NASDAQ Global Select Market under the symbol "XNET" by way of ADSs since June 2014. In April 2014, the Group subscribed for 31,939,676 series E preferred shares of Xunlei for a total consideration of US$90.00 million (the "Xunlei Investment"). In September 2014, all the series E preferred shares held by the Group were converted into ordinary shares of Xunlei. As at 30 June 2016, the Company held 37,500,000 ordinary shares (equivalent to 7,500,000 ADSs) in Xunlei and the market price of Xunlei's ADS fell to US$5.24 per ADS, representing a 56% decline compared with the Group's investment cost of US$12 per ADS, which is a significant decline in the market value of the Xunlei Investment below the costs. As such, the Group made provision for impairment on the carrying value of the Xunlei Investment as at 30 June 2016. As Xunlei is a listed company, its fair value can be determined by the number of shares held multiplied by the market price as at the reporting date. Taking this into account, there was no independent valuer engaged to determine the fair value in relation to the Xunlei Investment. The impairment loss recognised is the difference between the market value as at 30 June 2016 and the investment cost. As such, the impairment loss in relation to the Xunlei Investment amounted to US$50.70 million as of 30 June 2016, being the result of US$39.30 million (the market value of the Xunlei Investment as at 30 June 2016) minus US$90.00 million (the total investment cost of the Xunlei Investment). As at 30 September 2016, the market price of the ADS of Xunlei was US$5.39 per ADS, representing a slight increase as compared with its market price of US$5.24 per ADS as at 30 June 2016. In accordance with IFRSs, such increase has been recognised in other comprehensive income, and the amount of the provision for the Xunlei Investment as at 30 September 2016 remained the same as that as at 30 June 2016. As at 31 December 2016, the market price of Xunlei's ADS was US$3.86 per ADS, representing a further decrease as compared with its market price of US$5.24 per ADS as at 30 June 2016. In accordance with IFRSs, any subsequent losses, including any portion attributable to foreign currency changes, are also recognised in profit or loss until the underlying asset is derecognised. As such, the Company made an additional provision for the Xunlei Investment of approximately US$10.35 million for the three months ended 31 December 2016. For the year ended 31 December 2016, the Company made provision for the Xunlei Investment of approximately US$61.05 million in total.

21Vianet is a leading carrier-neutral Internet data center services provider in China, whose ordinary shares had been listed on The NASDAQ Global Select Market under the symbol "VNET" by way of ADSs since April 2011. In November 2014, the Group subscribed for 39,087,125 class A ordinary shares and 18,250,268 class B ordinary shares of 21Vianet for a total consideration of approximately US$172.01 million (the "21Vianet Investment"). As of 30 June 2016, the Company held 39,087,125 class A ordinary shares (equivalent to

6,514,521 ADSs) and 18,250,268 class B ordinary shares (equivalent to 3,041,711 ADS) of 21Vianet. Considering that (1) as at 30 June 2016, the market price of 21Vianet fell to US$10.21 per ADS, representing a 43% decline compared with the investment cost of US$18 per ADS, which is a significant decline in the market value of the 21Vianet Investment below the costs; and (2) the proposed privatization of 21Vianet with a proposed privatization price of US$23 per ADS ceased in the second quarter of year 2016, the Group made provision for impairment on the carrying value of the 21Vianet Investment as at 30 June 2016. Similar to the Xunlei Investment, the impairment loss of the 21Vianet Investment recognised is the difference between the market value as of 30 June 2016 and the investment cost. As such, the impairment loss in relation to the 21Vianet Investment as at 30 June 2016 amounted to approximately US$74.44 million, being the result of US$97.57 million (the market value of the 21Vianet Investment as at 30 June 2016) minus US$172.01 million (the total investment cost of the 21Vianet Investment). As at 30 September 2016, the market price of 21Vianet's ADS was US$7.95 per ADS, representing a further decrease as compared with its market price of US$10.21 per ADS as at 30 June 2016. As at 31 December 2016, the market price of 21Vianet's ADS was US$7.01 per ADS, representing a further decrease as compared with its market price as at 30 September 2016. As such, the Company made additional provision for the 21Vianet Investment of approximately US$21.60 million and US$8.98 million for the three months ended 30 September and 31 December 2016, respectively. For the year ended 31 December 2016, the Company made provision for the 21Vianet Investment of approximately US$105.02 million in total.

For details, please refer to the announcements of the Company dated 3 July, 19 August, 19 September,10 October and 21 November 2016.

Significant Subsequent Event

On 12 February 2017, the Company entered into a voting proxy agreement with Mr. FU Sheng, 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. FU Sheng (as the representative of the management of Cheetah Mobile), subject to certain conditions. Upon completion of such delegation, Cheetah Mobile will cease to be accounted for as a subsidiary of the Company and its operating results will no longer be consolidated in the financial statements of the Company. As at the date of this report, the voting proxy agreement is subject to, among other things, the approval of the shareholders at the general meeting. For details, please refer to the announcements of the Company dated 12 and 13 February 2017.

We believe that such delegation will facilitate the operation and management of Cheetah Mobile, which in turn will, through our shareholding in Cheetah, bring long-term shareholder value to us and our shareholders. As such, we consider that the voting proxy agreement is in the interests of the Company and the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Tao ZOU, aged 41, is currently an executive director and the chief executive officer ("CEO") of the Company. Mr. ZOU is the CEO and director of Seasun Holdings, responsible for the overall management of Seasun Holdings Group, including the research and development of online games and also participates in major decision making of our Group's gaming business sector. Mr. ZOU is a director of 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 Tianjin Nankai University in 1997. Mr. ZOU joined us in 1998 and was responsible for the development of our Kingsoft PowerWord. Mr. ZOU has been responsible for our entertainment software business since 2004.

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

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

Yuk Keung NG, aged 52, is currently an executive Director and the chief financial officer ("CFO") of the Company. Mr. NG is also a director of Cheetah Mobile (NYSE: CMCM). 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 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 47, is a non-executive Director, the Chairman of the Board, a member of the Remuneration Committee of the Company, and co-founder of our Company. Mr. LEI has been employed by us since 1992 and has played a key role in developing the operation of our Group and expanding our business operations. He had been our CEO since 1998, and under his leadership, we further expanded application software businesses into utilities software, internet security software and online games. He also played a major role in transforming our Group from a traditional software company into an on demand software company which extensively utilizes the Internet. In December 2007, Mr. LEI relinquished his position as CEO, chief technology officer and president of the Company. In August 2008, Mr. LEI was re-designated from an executive Director to a non-executive Director. Mr. LEI was appointed as the Chairman of the Board of our Company on 5 July 2011. Mr. LEI is also a director of certain subsidiaries of the Company.

Mr. LEI co-founded Xiaomi Corporation with other partners in 2010, and has taken the position of chairman and CEO. Mr. LEI is also the chairman of Cheetah Mobile Inc. (NYSE: CMCM) which is a subsidiary of the Company. From April 2005 to August 2016, Mr. LEI was the chairman of YY Inc. (NSDAQ: YY). He also received the Third Capital Outstanding Talent Award during the year.

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

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

Pak Kwan KAU, aged 52, 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. From 1984 to 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 44, is a non-executive Director and a member of the Nomination Committee of the Company. He is also an executive director and president of Tencent Holdings Limited ("Tencent") (a company listed on the Stock Exchange, Stock Code: 700). He joined Tencent in 2005 as a chief strategy and investment officer and was responsible for corporate strategies, investments, merger and acquisitions and investor relations. In 2006, he was promoted as president of Tencent to manage the day-to-day operation of Tencent. In 2007, he was appointed as an executive director of Tencent. Prior to joining Tencent, he was an executive director at Goldman Sachs (Asia) L.L.C's investment banking division and a chief operating officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. On 10 March 2014, Mr. LAU was appointed as a director of JD.com, an online direct sales company listed on NASDAQ. On 31 March 2014, Mr. LAU was appointed as a director of Leju Holdings Limited, an online-to-offline real estate provider listed on the New York Stock Exchange.

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

Independent Non-executive Directors

Shun Tak WONG, aged 56, 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 multinational 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.

Wenjie WU, aged 42, 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 January 2017. Ms. WU is currently also a director of Xunlei Limited (NASDAQ: XNET). Prior to joining Baidu Capital, Ms. WU joined Ctrip.com 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.

David Yuen Kwan TANG, aged 62, 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.

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 39, is currently a senior vice president of the Company and the CEO of Cheetah Mobile who is responsible for the overall internet security business of the Group. Mr. FU joined the Company in November 2010. Mr. FU was the product manager of 3721 Internet Real Name and 3721 Internet Assistant, as well as the general manager of 360 Security Guard. He was the vice president of Matrix Partners China from November 2008, and CEO and chairman of Conew Network from September 2009. Mr. FU co-founded Purple Bull Startups with other partners in September 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 7 March 2011. Mr. FU graduated from the faculty of Information Management and Information System in Shandong Institute of Business and Technology in 1999.

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

Yulin WANG, aged 41, is currently a senior vice president of the Company, and the chief executive officer 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 40, 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 Seasun Holdings. 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 of the Board in 2016.

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

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, C.1.2 and E.1.2 of the Code.

The code provision A.6.7 of the Code is regarding the non-executive directors' attendance to general meetings. The code provision E.1.2 of the Code requires the chairman of the board to attend the annual general meeting. The Chairman of the Board and non-executive Director, Mr. Jun LEI and the non-executive Director, Mr. Chi Ping LAU, did not attend the annual general meeting of the Company held on 20 May 2016 due to pre-arranged engagements. Non-executive Directors, Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Chi Ping LAU, did not attend the extraordinary general meeting of the Company held on 26 December 2016 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 between the executive Directors, the management and the non-executive Directors (including the independent non-executive directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and will 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 2016:

(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 endeavor 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 2016 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 2016 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 in 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 2016.

THE BOARD

Responsibilities of the Board

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

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

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

The Board is responsible for the preparation of financial statements, so that such financial statements meet the requirements of laws and regulations and applicable accounting standards, and truly and fairly reflect the financial position, the operating results and cash flows of the Group for each reporting period. The Directors also ensures the timely publication of the Group's financial statements. In preparing the financial statements for the year ended 31 December 2016, the Directors adopted appropriate accounting policies and made fair and reasonable judgments and estimates, and the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue on a going concern basis. The external auditors' responsibilities to shareholders are set out in the Independent Auditors' Report in this annual report.

Composition of the Board

As at the date of this annual report, the Board 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 section of 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 2016, the Board comprises the following Directors:

Executive Directors:

Mr. HongJiang ZHANG (retired on 1 December 2016)

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.

On 13 September 2016, the Board considered and approved the retirement of Mr. HongJiang ZHANG as an executive Director, taking effect from 1 December 2016.

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 contributions to the Board remain informed and relevant.

During the year ended 31 December 2016, all Directors namely, the executive Directors Mr. HongJiang ZHANG (retired on 1 December 2016), Mr. Tao ZOU and Mr. 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 2016, 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 2016 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 five Board meetings and two general meetings held during the year ended 31 December 2016. The attendance records of each Director at the Board meetings and general meetings during the year of 2016 are set out below:

Name of Director	Attendance/ Number of Board meetings	Attendance/ Number of general meetings
Executive Directors		
Mr. HongJiang ZHANG (retired on 1 December 2016)	5/5	1/1
Mr. Tao ZOU	5/5	2/2
Mr. Yuk Keung NG	5/5	2/2
Non-executive Directors		
Mr. Jun LEI	5/5	0/2
Mr. Pak Kwan KAU	5/5	1/2
Mr. Chi Ping LAU	5/5	0/2
Independent Non-executive Directors		
Mr. Shun Tak WONG	5/5	2/2
Mr. David Yuen Kwan TANG	5/5	2/2
Ms. Wenjie WU	5/5	2/2

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 of the Board 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 2016:

Audit Committee

Membership and Responsibilities

During the year ended 31 December 2016, 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 Ms. Wenjie WU and Mr. Shun Tak WONG of the Audit Committee possess the appropriate professional qualifications on accounting or related financial management expertise. None of the Audit Committee members is a member of the previous or existing auditors of the Company.

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

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- approving the remuneration and terms of engagement of the external auditors, and resignation or dismissal of the auditors;
- reviewing and monitoring the external auditor's independence, the objectivity and the effectiveness of the audit process in accordance with applicable standard, and reviewing financial information of the Company;
- reviewing the effectiveness and adequacy of the Company's financial reporting system, 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 2016 includes reviewing and/or approving:

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

Meetings attendance

The Audit Committee held four meetings during the year ended 31 December 2016. 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; and 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 management 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 share 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 excellent performance and foster loyalty with the Group. The information regarding the remuneration of the Directors during the year ended 31 December 2016 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 2016:

- 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 2016. 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 of the Board 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 2016:

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

Meetings attendance

The Nomination Committee held one meeting during the year ended 31 December 2016. The attendance records of each member of the Nomination Committee are set out below:

Members	Attendance/ Number of meetings held
Mr. Shun Tak WONG (chairman)	1/1
Mr. Chi Ping LAU	1/1
Ms. Wenjie WU	1/1

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

Ernst & Young, Certified Public Accountants, Hong Kong, were engaged as the Company's external auditors for the year ended 31 December 2016. External auditors may provide certain non-audit services to the Group as long as these services do not involve any management or decision making functions for and on behalf of the Group; or performing any self-assessments; or acting in an advocacy role for the Group. Before any engagement with external auditor for non-audit services, external auditors must comply with the independence requirements under Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report of this annual report.

During the year ended 31 December 2016, the remunerations paid or payable to Ernst & Young regarding the audit and non-audit services (together with the comparative figures for 2015) are set out as follows:

	2016 RMB' Mil	2015 RMB' Mil
Audit services	**18.47**	15.76
Non-audit services*	**3.97**	3.77
Total	**22.44**	19.53

* 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 and risk management systems 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 auditors and the board of Directors. The Audit Committee reviews audit plan and receives at least quarterly updates on the progress. The IA also conducts subjective auditing projects in the operational areas which are material to the business or identified by the Audit Committee and/or senior management, results of which will be reported to the Audit Committee and senior management'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 auditors so that both parties are aware of the significant factors that may affect their respective scopes of work.

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 2016, 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 monitoring, reporting and disseminating inside information to the shareholders of the Company, investors, analysts and media in a timely manner. 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 2016, the Company's senior management presented its results in Hong Kong, Taipei, 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 principal place of business 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 principal place of business 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 2016.

On behalf of the Board
Jun LEI
Chairman

Hong Kong, 21 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As a leading software and Internet service company in China, the Company is dedicated to improving its impact on the environment and society, and promoting sustainable development. By implementing our "mobile Internet transition" strategy, the Company has succeeded in making a comprehensive business and management transition. the Company's new strategic layout has interactive entertainment, internet security and office software as the pillar businesses with cloud computing as the newest business segment. We have set up R&D centres in many cities across China including Beijing, Zhuhai, Chengdu, Dalian, Guangzhou and Hong Kong, with significant market shares in North America, Europe, Japan and Malaysia and other overseas markets.

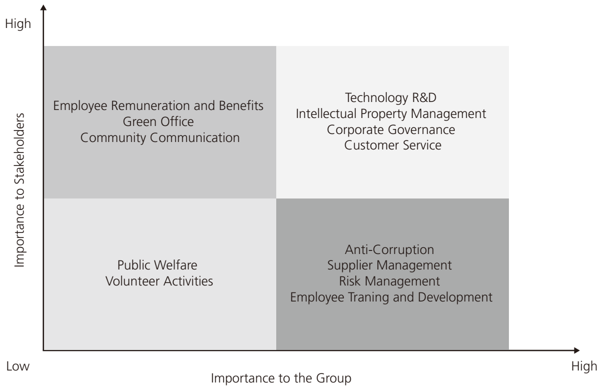
Taking our business mode and internal and external communications into account, we identify important stakeholders which have an impact on our operation and vice versa, and determine the key points that the Group shall adhere to in terms of environmental, social and governance through analysing the demands of these Stakeholders. The major Stakeholders of the Group include:

- Employees
- Shareholders
- Government
- Customers
- Communities
- Suppliers/contractors
- Other business partners

In order to further clarify key areas of our operation regarding environmental, social and governance as well as information disclosure, and to make our report more specific and responsive, the Group, following the requirements of *Environmental, Social and Governance Reporting Guide and the Sustainability Reporting Guidelines* (G4.0), has identified issues for sustainable development and conducted materiality analysis to ensure the information disclosed in this report covers all critical issues relating to our development and stakeholder concerns. The factors to consider mainly involve:

- Values, policies, strategies, operation and management systems, and long-term and short-term goals of the Group.
- Relevant laws, regulations, international agreements and voluntary compliance agreements
- Results of the materiality analyses made by industry peers and competitors on the disclosure of information on the environmental, social and governance.
- Demands and expectations explicitly expressed by stakeholders.
- Opinions of the Group's management and employees on social responsibility.

The Group has identified the environmental, social and governance issues that are most relevant to sustainable development and conducted materiality analysis. The results are given below:



After considering the characteristics of our industry, software and Internet services have a relatively limited impact on the environment and society. However, the Group has still collected and analysed information on the identified environmental, social and governance issues in order to follow the guidelines of the Stock Exchange. The Group will continue to improve our information management in the future to enrich the information that we collect on environmental, social and governance issues.

The policies and management methods of the four subsidiaries of the Company may differ. Part of the information in this report was released according to the specific company.

Environment

Given the national drive to save energy and reduce emissions and follow other relevant policies, we view our response to climate change as a strategic imperative in our operation. Although our operation has a limited impact on the environment, we are still active in formulating management approaches and taking corresponding measures to minimise energy and resource consumption and other impacts on the environment.

Green office

The Company strongly advocates a green office policy. We have formulated a set of rules, including the *Management Rules for Lighting, Computer, Air-Conditioning and Direct-fired Machines*, etc., which regulate the usage of energy resources, and supervise and urge employees to develop energy saving habits in their daily work. We have adopted the human body induction system in our offices, through which lights are switched on and off when people come in and leave and at fixed times every day. Air conditioners work at regular intervals, and non-emergency lighting and the power supplies for air conditional coils have timing cut-offs. The on-off timing for high-power equipment is controlled depending on site conditions, and energy-intensive equipment is upgraded in a timely manner to conserve energy. The abovementioned measures saved 108,800 kilowatt-hours at the Group's headquarters and Seasun Holdings' building in Beijing in 2016.

The energy consumption of the Group in 2016 is set as follows:

Consumption of Energy and Resources in 2016*

Energy	Gasoline	24 tons
	Electricity	12,810,000 kilowatt-hours
	Natural gas	184,085 cubic metres
Water resources	Water	92,037 tons

*Note: The amount of energy and resources consumed in the above table only includes that of the Company's buildings in Beijing and in Zhuhai, Seasun Holdings' office in Beijing and Cheetah Mobile's building in Beijing.

Management of emissions

The Group conducts standard management of emissions, which are disposed of in accordance with the laws and requirements to reduce their impact on the environment. Domestic waste and office garbage generated during the Group's daily operation are collected by a property management agency every day, and disposed of by city sanitation workers. In 2016, domestic waste and office garbage in the Group totalled 149 tons*. In accordance with the relevant laws and regulations, the Group implements strict management of hazardous waste. Discarded fluorescent tubes, bulbs, and batteries are placed at a fixed location and then sent to the Beijing Hazardous Waste Management Centre for disposal.

*Note: The data on domestic and office garbage only includes that from the Company's, Seasun Holdings' and Cheetah Mobile's buildings in Beijing.

Anti-corruption

The Company is focused on the construction of an incorruptible administration, and firmly opposes corruption in any form. To control the risk of corruption within the Group, we have released polices and adopted management approaches, including the *Regulations on and Management of Whistleblowing and Complaints for Kingsoft Punishments for Negligence and Pretermission for Leaders in Kingsoft Software, Regulations on Return of Commissions for Kingsoft Employee Behaviour Norms for Kingsoft* etc.

The Group has set up multiple channels for whistleblowing, and encourages departments or individuals to report any behaviour violating the rules and regulations to the internal audit department in public or privately. Whistle-blowers can report any behaviour harmful to the interests of the company, including violation of financial regulations, influence on the accuracy of financial reporting and violation of laws and regulations applicable to the company, by email, the reporting system, telephone, person to person, etc.

For important contracts, such as project bidding documents and real estate investment contracts, our group requires corruption governance contracts to be signed or a contract including articles on corruption governance. The contracting parties are required to establish systems for corruption governance, provide relevant education, set up billboards, provide a reporting hotline, monitor for illegal and undisciplined behaviour, and investigate and handle such cases seriously. During the business contact with other companies, our group as required will ask other business partners to sign relevant documents on anti-commercial bribery, such as a letter of commitment on anti-commercial bribery, to ensure cooperation between the two parties and prevention of commercial corruption.

In 2016, no corruption or embezzlement cases were reported in the Group.

Products and services

The Company is devoted to providing the best products and services our customers. As a leading company in software and Internet services in China, the Group is active in product innovation and R&D, and continuously endeavours to enhance the customer experience and protect customer information.

Intellectual property management

Several rules have been formulated, including the *Regulations on Software Intellectual Property Management, Regulations on Kingsoft Software Archive Management, Incentive System of Kingsoft Software for Technology Reform, Promotion and Introduction and Patent Filing*, to regulate our intellectual property management and guarantee the legal interests of employees and our group. The Group encourages employees to invent and innovate. We provide prizes for technical innovation and achievements, and have clarified the methods of assessment, awards and remuneration for patents. These approaches stimulate technical innovation, facilitate cross-department application of new technologies and create an atmosphere of common development.

The Group received 185 patents in 2016, and the accumulated number of patents is 1,108.

Customer services

The Group attaches importance to maintaining good relationships with customers, and effectively improves communication and interaction with them. The Group has set up multiple channels for customer complaints and services, including telephone, email, forum, microblog and feedback platform channels, to guarantee timely response by customer service staff. We ask customers to leave their telephone numbers and call them in a timely manner to follow up on their complaints. Customer complaints are treated by category, rank and validity. After being sorted and classified, products with valid complaints are submitted to the testing department for re-testing and then to the development department for modification. The revised product is then released and sent back to the customer. We summarise and analyse the customer complaints log on a weekly basis, and improve our products and services to alleviate customer concerns. For all complaints, the Group stipulates that the treatment results must be received by concerned customers within 24 hours.

In 2016, the Company received 253 complaints from customers, and the call centre had a customer satisfaction rate of 99.8%; Seasun Holdings received 1,625 complaints, and the satisfaction rate was 94.86%.

Employees

The Group values the legal interests of our employees. We sign formal employment contracts or labour service agreement with employed staff in strict accordance with the *Labour Law of the People's Republic of China, Labour Contract Law, Trade Union Law* and other relevant laws and regulations. Child or forced labour is strictly forbidden, and we do not support other companies who hire such labour.

In order to create a better working environment, build a healthy, progressive, harmonious and effective culture, improve the employee welfare system and achieve higher employee satisfaction and loyalty, the Group has formulated a series of management approaches related to employee compensation and benefits. We also pay endowment, unemployment, basic medical, maternity, supplementary medical and employment injury insurance, as well as other social insurance, for all contracted employees.

During the reporting period, there were 6,925 employees in the Group. The labour contract rate was 100%, and the social insurance coverage rate was 100%. Detailed information on our employees is provided below:

	Region				Gender		Age		
Employee distribution	**China**	**North America**	**Asia-Pacific (except China)**	**EMIA**	**Male**	**Female**	**≥50**	**30-50**	**≤30**
Number	6,667	73	112	73	4,565	2,360	23	3,432	3,470
Percentage	96.27%	1.05%	1.62%	1.05%	65.92%	34.08%	0.33%	49.56%	50.11%

The Group is active in 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 provides 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 has also released relevant policies and an appraisal mechanism to improve the training management system.

The Group actively organises recreational and sports activities to enrich our employees' daily life. We care about their physical and mental health, and take measures to promote the sound development of employees in line with the Group's growth.

Supply chain management

In accordance with the *Bidding Law of the People's Republic of China, 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 regulate our supplier procurement process, including the *Procurement, Supplier and Bidding Management Measures*. These rules stipulate the means of supplier selection in accordance with the procurement type and amount, and require examination of supplier qualifications to confirm their compliance with product quality, environmental protection, working environment, etc. Meanwhile, the Group reviews our cooperative arrangement with each supplier every year. Disqualified suppliers are eliminated from our supplier list.

Participation in the community

The Group views contributing to society as a key responsibility, and has been an active advocate of philanthropic activities by contributing to communities and serving society. Given the advantages presented by the Group's services, we focus on reconstruction of disaster-hit areas and student development. Since 2008, we have carried out many activities to assist vulnerable groups.

The Group funded the rebuilding of Rilong Town Central Primary School in Xiaojin County, Sichuan Province (renamed as "**Kingsoft Primary School**"). The project covered an area of 2,200 square metres with 4 storeys. We also built dormitories for students and teachers and sports fields and other facilities. After the reconstruction, the Group helped Kingsoft Primary School to improve its facilities in various ways, and continues to monitor the students' growth. Our employees are also passionate about philanthropic activities, and have assisted people in the disaster-hit areas through various activities.

On behalf of the Board
Jun LEI
Chairman

Hong Kong, 21 March 2017

The Board submits its report together with the audited financial statements of the Group for the year ended 31 December 2016.

Principal Business

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

Business Review and Prospects

For details of a fair review of the Group's business and an indication of likely development in the Group's business, please refer to the Chairman's Statement in this report.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income of this annual report.

The state of affairs of the Group as at 31 December 2016 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 2016 is set out in this annual report.

During the year ended 31 December 2016, a final dividend for year 2015 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 on 19 June 2016.

The Directors recommend the payment of a final dividend of HK$0.10 per ordinary share (2015: HK$0.10 per ordinary share) totalling approximately HK$129 million (2015: HK$129 million), which excluded the dividend related to the shares held under the Share Award Scheme, based on the number of total issued shares of 1,303,985,687 as at 31 December 2016 in respect of the year to shareholders whose names appear on the register of members of the Company on 5 June 2017. Such proposed dividends will be subject to approval of the shareholders at the forthcoming annual general meeting ("**AGM**") to be held on 24 May 2017. Such proposed dividends will be payable on 16 June 2017. This recommendation has been incorporated in note 13 to the financial statements.

For the year ended 31 December 2016, 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, 18 May 2017 to Wednesday, 24 May 2017, and Wednesday, 31 May 2017 to Monday, 5 June 2017, 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, 17 May 2017 and Monday, 29 May 2017, respectively.

Reserves

For the year ended 31 December 2016, the loss attributable to owners of the parent company amounted to RMB270.7 million. The Company's reserves available for distribution comprise share premium and retained earnings. Under the Companies Law of the Cayman Islands, the Company's share premium account may be applied by the Company in paying distributions or dividend to shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2016, the Company had distributable reserves amounting to RMB2,749.9 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 2016 are set out in the consolidated statement of changes in equity of this annual report, and in note 51 to the financial statements, respectively.

Donations

During the reporting period, the Group made charitable and other donations totalling RMB0.2 million (2015: RMB1.0 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 2016, the Group employed approximately 6,925 full-time employees (2015: 6,616) 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.

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 to employees 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 contribution.

The staff costs of the Group including Directors' and senior management's emoluments in 2016 and 2015 were approximately RMB2,600.1 million and RMB1,927.9 million, respectively.

Please refer to note 37 to the financial statements for the share options and awarded shares granted to certain Directors and employees of the Group, note 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 2016 are set out in note 1 to the financial statements.

Material Investment and Acquisition

Details of the material investment and acquisitions incurred during 2016 are set out in note 19, 20, 21 and 40 to the financial statement.

Financial Summary

A summary of the published results, assets, and liabilities of the Group for the last five financial years as extracted from the consolidated financial statements for the year ended 31 December 2012, 2013, 2014, 2015 and 2016, is set out as below. The summary does not form part of the audited financial statements.

	YEAR ENDED 31 DECEMBER				RMB'000
	2012	2013	2014	2015	2016
Profit/(loss) for the year	466,434	753,874	866,567	341,704	**(292,275)**

	AS AT 31 DECEMBER				
	2012	2013	2014	2015	2016
Total assets	3,641,269	5,804,333	10,381,604	15,484,877	**17,578,952**
Total liabilities	966,337	1,973,642	4,265,060	5,573,522	**7,577,228**

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 2016.

Bank Borrowings

Particulars of bank loans as at 31 December 2016 are set out in note 30 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 2016 are set out in note 15 to the financial statements. No assets of the Group are charged during the year ended 31 December 2016.

Future Plans for Material Investments or Capital Assets

Save as those disclosed in note 43 to the financial statements, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2016.

Principal Properties

During the reporting period, 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 2016.

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 paragraph 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 2016 are set out in note 36 to the financial statements.

Share Option Schemes

***Pre-IPO Share Option Schemes**:* The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme, which were approved by resolutions in writing of all the shareholders on 30 June 2004 and 22 January 2007, respectively, before its initial public offering.

2006–2007 Kingsoft Japan Share Option Scheme: On 2 November 2006 and 31 July 2007, the shareholders of Kingsoft Japan, approved and adopted the 2006–2007 Kingsoft Japan Share Option Scheme.

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.

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

Cheetah Mobile Equity Incentive Scheme: On 2 January 2014, the shareholders of the Company and Cheetah Mobile approved and adopted the Cheetah Mobile Equity Incentive Scheme, under which Cheetah Mobile is entitled to provide incentives through the granting of awards, including but not limited to, the options of Cheetah Mobile.

2014 Kingsoft Japan Share Option Scheme: On 2 January 2014, the shareholders of the Company approved the 2014 Kingsoft Japan Share Option Scheme. The 2014 Kingsoft Japan Share Option Scheme was approved and adopted by shareholders of Kingsoft Japan on 28 March 2014.

Details of the movements in share options of the Group for the year ended 31 December 2016 are set out in note 37 to the financial statements.

Summary of the Share Option Schemes

	Detail	2004 Pre-IPO Share Option Scheme	2007 Pre-IPO Share Option Scheme	2006-2007 Kingsoft Japan Share Option Scheme	2011 Share Option Scheme	Kingsoft Cloud Share Option Scheme	Seasun Holdings Share Option Scheme	Cheetah Mobile Equity Incentive Scheme	2014 Kingsoft Japan Share Option Scheme
1	Purposes	To retain the best available personnel, to provide additional incentive to employees, senior management and directors of the Group and to promote the success of the business of the Group.	Same as the 2004 Pre-IPO Share Option Scheme.	To enhance the operational efficiency of Kingsoft Japan and to provide additional incentive for its employees and other related persons.	To provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest.	To provide incentives or rewards to participants thereunder for their contribution to the Kingsoft Cloud Group and/or to enable the Kingsoft Cloud Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Kingsoft Cloud Group and any invested entity.	To provide incentives or rewards to participants thereunder for their contribution to Westhouse Group and/or to enable the Westhouse Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Westhouse Group and any invested entity.	To aid Cheetah Mobile and its affiliates in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of Cheetah Mobile and its affiliates by providing incentives through the granting of awards, including but not limited to, the options of Cheetah Mobile.	To provide incentives or rewards to Kingsoft Japan participants thereunder for their contribution to Kingsoft Japan and its subsidiaries and/or to enable Kingsoft Japan to recruit and retain high-calibre employees and attract human resources that are valuable to Kingsoft Japan, its subsidiaries and invested entities.
2	Qualified participants	Any employee (whether full time or part time), chief executive or director (including executive or non-executive or independent non-executive) of any member of the Group or any associated company, in which the Company directly or indirectly holds more than 20% of its issued share capital or the voting power at general meetings or in which any equity interest is held by the Company for long term purpose and a significant influence is exercised over its management, or such other person as may be determined by the Board from time to time.	Same as the 2004 Pre-IPO Share Option Scheme.	Not specified in the scheme.	Any employee (whether full time or part time), directors (including executive or non-executive or independent non-executive) of the Company, its subsidiaries or any entities in which the Group holds any equity interest.	Any employee(s) (whether full time or part time employee(s)) of Kingsoft Cloud, its subsidiaries or any invested entities.	Employee(s) (whether full time or part time employee(s)) of Westhouse Holdings, its subsidiaries or any invested entities.	Employee(s) (whether full time or part time employee(s)) of Cheetah Mobile and its affiliates.	Employee(s) (whether full time or part time employee(s)) of Kingsoft Japan, its subsidiaries and invested entities.

	Detail	2004 Pre-IPO Share Option Scheme	2007 Pre-IPO Share Option Scheme	2006-2007 Kingsoft Japan Share Option Scheme	2011 Share Option Scheme	Kingsoft Cloud Share Option Scheme	Seasun Holdings Share Option Scheme	Cheetah Mobile Equity Incentive Scheme	2014 Kingsoft Japan Share Option Scheme
3	Maximum number of shares	The maximum number of ordinary shares in respect of which options may be granted under the 2004 Pre-IPO Share Option Scheme shall not in aggregate exceed 10% of the total number of ordinary shares in issue. On August 12, 2005, the shareholders approved that the maximum number of ordinary shares in respect of which options may be granted shall not in aggregate exceed 18% of the total number of ordinary shares in issue of 35,410,000. Pursuant to a share subscription and purchase agreement dated July 21, 2006 ("Agreement Date"), the aggregation of all options issued from the Agreement Date to an initial public offering shall not constitute more than 15% of the issued capital of the Company.	The maximum number of ordinary shares in respect of which options may be granted under the 2007 Pre-IPO Share Option Scheme shall not in aggregate exceed 13% of the total number of issued Shares on the fully diluted basis of inclusion of all of the issued and outstanding shares of the Company, as well as 6,373,800 options under the 2004 Pre-IPO Share Option Scheme.	The maximum number of the shares which may be issued upon exercise of all issued and outstanding options shall be 1,000 ordinary shares of Kingsoft Japan in aggregate.	The maximum number of shares which may be issued upon exercise of all share options to be granted under the 2011 Share Option Scheme and other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 9 December 2011.	The maximum number of options available for exercise is 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 10% of the total number of shares in issue on the adoption date unless otherwise approved by the shareholders of the Company and Westhouse Holdings in general meeting.	The maximum number of the ordinary shares of Cheetah Mobile which may be issued under the scheme is 64,497,718, unless otherwise (i) approved by the shareholders of the Company and Cheetah Mobile, or (ii) in case Cheetah Mobile ceases being a subsidiary of the Company, approved by the shareholders of Cheetah Mobile.	The total number of shares which may be issued upon the exercise of all options to be granted under the scheme shall not in aggregate exceed 2,837 shares, unless otherwise approved by the shareholders of Kingsoft Japan and the Company in general meetings.
4	Maximum entitlement of each participant	Not specified in the scheme.	Not specified in the scheme.	Not specified in the scheme.	The maximum number of shares issuable under share options to each eligible participant in the 2011 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.	Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person in the 12-month period up to and including the date of such further grant representing in aggregate over 1% 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 Westhouse 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 Westhouse Holdings.	The total number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period must not exceed 1% of the total number of shares in issue, unless separately approved by the shareholders of the Company and Cheetah Mobile in general meeting. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) (where the shares are listed on the Stock Exchange), having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders of the Company and Cheetah Mobile.	The total number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period must not exceed 1% of the total number of shares in issue, unless separately approved by the shareholders of the Company and Kingsoft Japan in general meeting. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) (where the shares are listed on the Stock Exchange), having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders of the Company and Kingsoft Japan.

	Detail	2004 Pre-IPO Share Option Scheme	2007 Pre-IPO Share Option Scheme	2006-2007 Kingsoft Japan Share Option Scheme	2011 Share Option Scheme	Kingsoft Cloud Share Option Scheme	Seasun Holdings Share Option Scheme	Cheetah Mobile Equity Incentive Scheme	2014 Kingsoft Japan Share Option Scheme
5	Option period	The period set out in the relevant offer letter within which the option may be exercisable provided that such period must expire on the date falling on the tenth anniversary of the offer date.	Same as 2004 Pre-IPO Share Option Scheme	(1) the option period of options granted on 4 January 2007 is from 5 January 2009 to 1 November 2016 (2) the option period of options granted on 30 March 2007 is from 30 March 2007 to 30 March 2017 (3) the option period of options granted on 31 July 2007 is from 1 August 2009 to 1 November 2016.	The period set out in the relevant offer letter to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme and that the board may at its discretion determine the minimum period for which the option has to be held before the exercise of the subscription right attaching thereto.	Such period as the board of Kingsoft Cloud may in its absolute discretion determine and notify to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme.	Such period as the board of Westhouse 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.	As may be determined by the compensation committee of the board of Cheetah Mobile, but in no event shall an option be exercisable more than ten years after the date it is granted.	Such period as the board of Kingsoft Japan may in its absolute discretion determine and notify to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme.
6	Acceptance of offer	The offer of a grant of share options must be accepted within 28 business days from the date of offer, upon payment of a consideration of HK$1 in total by the grantee.	The offer of a grant of share options must be accepted within 28 business days from the date of offer.	Options shall be issued free.	Same as 2004 Pre-IPO Share Option Scheme.	As the board of Kingsoft Cloud may determine.	An offer of grant of an option may be accepted by a participant within a period of 28 days from the offer date provided that no offer shall be open for acceptance after the expiry of the scheme or after the scheme has been terminated.	As the compensation committee of the board of Cheetah Mobile may determine.	An offer of grant of an option may be accepted by a participant within a period of 28 days from the offer date provided that no offer shall be open for acceptance after the expiry of the scheme or after the scheme has been terminated.
7	Subscription price	The exercise price shall be determined and notified by the Board and shall be at least a price being the fair market value for each share as at the Offer Date as shall be determined by the Board from time to time.	The exercise price shall be determined and notified by the Board and shall be a price US$4.80 per share or a price being the fair market value for each share as at the Offer Date as shall be determined by the Board from time to time.	Note.	The exercise price shall be determined by the board, and shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.	The subscription price shall be such price as determined by the board of Kingsoft Cloud but in any case the subscription price of options granted after Kingsoft Cloud or the Company has resolved to seek a separate initial public offering and up to date of Kingsoft Cloud's initial public offering must not be lower than the new issue price (if any) in the Kingsoft Cloud's initial public offering. In particular, any options granted during the period commencing six months before the lodgment of Form A1 (or its equivalent) up to the date of Kingsoft Cloud's initial public offering are subject to this requirement. The subscription price of options granted during such period shall be subject to adjustment to a price not lower than the new issue price in Kingsoft Cloud's initial public offering.	The subscription price shall be such price as determined by the board of Westhouse Holdings but in any case the subscription price of options granted after Westhouse Holdings or the Company has resolved to seek a separate initial public offering and up to date of Westhouse Holdings' initial public offering must not be lower than the new issue price (if any) in the Westhouse 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 Westhouse 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 Westhouse Holdings' initial public offering.	The subscription price shall be such price as determined by the compensation committee of the board of Cheetah Mobile in its absolute discretion but in any case shall be in compliance with the Listing Rules from time to time unless Cheetah Mobile ceases to be a subsidiary of the Company. In the event that the Company resolves to seek a separate listing of Cheetah on the Stock Exchange or an overseas stock exchange, the subscription price of options granted after the Company resolves to seek such listing and up to the listing date of Cheetah Mobile must be adjusted to not lower than the new issue price of Cheetah Mobile upon such listing. In particular, any options of Cheetah Mobile granted during the period commencing six months before the lodgement of Form A1 (or its equivalent for listing on GEM or the overseas stock exchange) and up to the listing date of Cheetah Mobile are subject to the requirement. The grant of options during such period shall also comply with the then applicable Listing Rules (or GEM Listing Rules).	The subscription price in respect of any particular option shall be such price as determined by the board of Kingsoft Japan but in any case the subscription price of options granted after Kingsoft Japan or the Company has resolved to seek a separate initial public offering and up to date of the Kingsoft Japan's initial public offering must not be lower than the new issue price (if any) in the Kingsoft Japan's initial public offering. In particular, any options granted during the period commencing six months before the lodgment of Form A1 (or its equivalent) up to the date of the Kingsoft Japan's initial public offering are subject to this requirement. The subscription price of options granted during such period shall be subject to adjustment to a price not lower than the new issue price in the Kingsoft Japan's initial public offering. Such grant of Kingsoft Japan options during such period shall also comply with the then applicable Listing Rules (or GEM Listing Rules)
8	Remaining life of the Scheme	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It shall be effective as of 2 January 2014 and shall terminate ten years later, subject to earlier termination by Cheetah in general meeting pursuant to the scheme.	It shall be valid and effective for a period of ten (10) years.

Note:

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

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

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

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

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

Pre-IPO Share Option Schemes

The following share options were outstanding under 2004 Pre-IPO Share Option Scheme and 2007 Pre-IPO Share Option Scheme as of 31 December 2016:

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS AT 1 JAN 2016	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT 31 DEC 2016	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
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		

* The option were granted under the 2007 Pre-IPO Share Option Scheme.

2011 Share Option Scheme

The following share options were outstanding under the 2011 Share Option Schemes as of 31 December 2016:

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS AT 1 JAN 2016	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	CANCELLED DURING THE PERIOD	AT 31 DEC 2016	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE
Executive Directors							
*HongJiang ZHANG	3,500,000	—	—	—	3,500,000	20 December 2011	2.89
Yuk Keung NG	2,400,000	—	—	—	2,400,000	20 July 2012	3.28
	5,900,000	—	—	—	5,900,000		

* Mr. HongJiang ZHANG retired as the executive director on 1 December 2016.

Share Award Scheme

Share Award Scheme

The Share Award Scheme was adopted by the Board on 31 March 2008. Unless terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of five years commencing on 31 March 2008. On 25 November 2010, the Board approved to extend the term of the Share Award Scheme until 30 March 2017, for which the Company released an announcement on 1 December 2010. On 19 November 2016, the Board approved to extend the term of the Share Award Scheme until 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 37 to the financial statements.

2011 Cheetah Mobile Share Award Scheme

On 26 May 2011, the directors of Cheetah Mobile, approved and adopted the 2011 Cheetah Mobile Share Award Scheme.

Unless early terminated by the directors of Cheetah Mobile, the 2011 Cheetah Mobile Share Award Scheme shall be valid and effective for a term of ten years commencing on 26 May 2011.

The purpose of the 2011 Cheetah Mobile Share Award Scheme is to recognize the contributions by certain employees and to give incentives thereto in order to retain them for the continual operation and development of the Cheetah Group and to attract suitable personnel for further development of Cheetah Group.

Pursuant to the terms of directors of the 2011 Cheetah Mobile Share Award Scheme, the board of Cheetah Mobile may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the board of Cheetah Mobile from time to time) select an employee for participation in the 2011 Cheetah Mobile Share Award Scheme and determine the number of the awarded shares of Cheetah Mobile. The directors of Cheetah Mobile will not grant any award of shares which would result in the total number of shares granted under the 2011 Cheetah Mobile Share Award Scheme (but not counting any of which have lapsed or have been forfeited) being greater than 100,000,000 shares as at the date of such grant.

More details regarding the 2011 Cheetah Mobile Share Award Scheme are set out in note 37 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 awarded 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 awarded 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.

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

2014 Cheetah Mobile Share Award Scheme

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

More details regarding the 2014 Cheetah Mobile Share Award Scheme are set out in note 37 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. The names of Directors are as follows:

	APPOINTMENT DATE	RESIGNATION DATE	RE-DESIGNATION DATE
EXECUTIVE DIRECTORS			
Mr. HongJiang ZHANG (張宏江)*	14 December 2011	1 December 2016	N/A
Mr. Tao ZOU (鄒濤)	25 August 2009	N/A	N/A
Mr. Yuk Keung NG (吳育強)	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

* Mr. HongJiang ZHANG retired as the executive Director on 1 December 2016.

In accordance with Article 108 of the Articles of Association, Mr. Jun LEI, Mr. Pak Kwan KAU, and Mr. Shun Tak WONG will retire at the forthcoming AGM 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 and the senior management of the Group are set out on pages 14 to 17 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 2016.

As at 31 December 2016, 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	16.11	Long position
	Other	142,714,003 (total: 352,830,251 (Note 2))	10.95 (total: 27.06)	Long position
Pak Kwan KAU	Interest of controlled corporation	108,032,566 (Note 3)	8.28	Long position
Yuk Keung NG	Beneficial owner	2,600,000	0.20	Long position
Tao ZOU	Beneficial owner	409,307	0.03	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 2016, which was 1,303,985,687.

2. Among these 352,830,251 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a BVI company owned as to 100% by Mr. Jun LEI; (ii) 35,298,057 Shares are 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 will vote in the same way as Mr. Jun LEI with these shares.

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

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

Cheetah 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	4.30	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. Cheetah Mobile is a non-wholly owned subsidiary of the Company 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 2016, which was 410,608,263.

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 controlled 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 2016.

Substantial Shareholders

As at 31 December 2016, 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	13.41	Long position
Topclick Holdings Limited (Note 3)	Beneficial owner	108,032,566	8.28	Long position
Tencent Holdings Limited (Note 4)	Interest of controlled corporation	106,784,515	8.19	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 2016, which was 1,303,985,687.

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 BVI 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

For the year ended 31 December 2016, 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 2016, 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$468.0 million had been used for strategic investments in Kingsoft Cloud.

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. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each 2013 Convertible Bond at its principal amount together with accrued and unpaid interest thereon on 23 July 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. Assuming full conversion of the 2013 Convertible Bonds at the initial conversion price of HK$16.9363 per share and no further issue of shares, the 2013 Convertible Bonds will be convertible into approximately 80,064,713 shares of the Company (with an aggregate nominal value of approximately US$40,032). The net price for each conversion share was approximately HK$16.5741, and the initial conversion price was HK$16.9363, which represented a premium of approximately 25.27% over the closing price of HK$13.52 per share as quoted on the Stock Exchange on 2 July 2013, being the last trading day prior to the announcement of the issue of the 2013 Convertible Bonds. The 2013 Convertible Bonds were offered and sold to no less than six independent placees (who were independent individual, corporate and/or institutional investors). The 2013 Convertible Bonds has been listed on the Singapore Exchange Securities Trading Limited since 24 July 2013. The interest is 3.00% per annum of the principal amount of the 2013 Convertible Bonds, payable semi-annually in arrear in equal instalments of HK$15,000 per calculation amount (i.e. interest in respect of any 2013 Convertible Bond shall be calculated per HK$1,000,000 in principal amount of the 2013 Convertible Bonds) on 23 January and 23 July in each year, subject to adjustment for non-business days. The net proceeds raised from the issue of 2013 Convertible Bonds have been used up as of 31 December 2014. 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.

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 has 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. The net proceeds raised from the issue of 2014 Convertible Bonds have been used up as of 31 December 2015. 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.

In accordance with the respective terms and conditions of the 2013 Convertible Bonds and 2014 Convertible Bonds, the payment of the 2014 final dividend and the 2013 final dividend, together with the distribution in specie of ADS of Cheetah Mobile in May 2014, resulted in an adjustment (the "**Adjustment I**") to the respective conversion prices of each of the 2013 Convertible Bonds and 2014 Convertible Bonds. The Adjustment I has become effective on 2 June 2015, being the day after the record date in respect of the 2014 final dividend. Following the Adjustment I, the conversion prices of the 2013 Convertible Bonds and the 2014 Convertible Bonds were adjusted to HK$16.70 per share and HK$43.29 per share, respectively. During the year ended 31 December 2015, an aggregate of 21,044,154 ordinary shares were allotted and issued by the Company for the conversion of 2013 Convertible Bonds by holders of the 2013 Convertible Bonds. As at 31 December 2015, the aggregate principal amount under the 2013 Convertible Bonds that remains outstanding was HK$1,000 million. There was no conversion or redemption of the 2014 Convertible Bonds during the year ended 31 December 2015 and as at 31 December 2015, the aggregate principal amount under the 2014 Convertible Bonds that remains outstanding was HK$2,327 million. Pursuant to the general mandate granted to the Directors by the shareholders at the annual general meeting of the Company held on 23 May 2013, up to 235,084,986 shares (representing 20% of the issued shares of the Company on the date on which such general mandate was granted) can be issued for the conversion of the 2013 Convertible Bonds and 2014 Convertible Bonds. Such general mandate was sufficient after the Adjustment I to the respective conversion prices of the 2013 Convertible Bonds and 2014 Convertible Bonds.

In accordance with the respective terms and conditions of the 2013 Convertible Bonds and 2014 Convertible Bonds, the issue of 100,000,000 additional shares on 11 June 2015, together with the payment of the 2015 final dividend, resulted in an adjustment (the "**Adjustment II**") to the respective conversion prices of each of the 2013 Convertible Bonds and 2014 Convertible Bonds. The Adjustment II has become effective on 2 June 2016, being the day after the record date in respect of the 2015 final dividend. Following the Adjustment II, the conversion prices of the 2013 Convertible Bonds and the 2014 Convertible Bonds were adjusted to HK$16.46 per share and HK$42.67 per share, respectively. There was no conversion or redemption of the 2013 Convertible Bonds and the 2014 Convertible Bonds during the year ended 31 December 2016 and as at 31 December 2016, the aggregate principal amount under the 2013 Convertible Bonds and the 2014 Convertible Bonds that remains outstanding was HK$1,000 million and HK$2,327 million respectively. Pursuant to the general mandate granted to the Directors by the shareholders at the annual general meeting of the Company held on 23 May 2013, up to 235,084,986 shares (representing 20% of the issued shares of the Company on the date on which such general mandate was granted) can be issued for the conversion of the 2013 Convertible Bonds and 2014 Convertible Bonds. Such general mandate was sufficient after the Adjustment II to the respective conversion prices of the 2013 Convertible Bonds and 2014 Convertible Bonds.

Issue of Convertible Preferred Shares by Subsidiaries of the Company

On 5 February 2016, the Company, ChinaAMC Special Investment Limited ("**AMC Investor**"), Celestial Power Limited ("**IDG Investor**"), Kingsoft Cloud Group and other parties entered into a share purchase agreement, pursuant to which, among others, Kingsoft Cloud agreed to issue and the Company, AMC Investor and IDG Investor agreed to subscribe for 53,016,833, 44,851,680 and 4,423,784 Kingsoft Cloud Series C Preferred Shares, respectively, for a consideration of approximately US$31.10 million, US$26.31 million and US$2.59 million, respectively. 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 issue under the ESOP (including the share award scheme, the share option scheme and other employee stock incentive plans as adopted by Kingsoft Cloud from time to time) are issued, upon completion of the issue and subscription of the Kingsoft Cloud Series C Preferred Shares under the share purchase agreement, Kingsoft Cloud will be owned as to approximately 51.83% by the Company, 2.48% by AMC Investor and 4.32% by IDG Investor. Thus the shareholding of the Company and IDG Investor in Kingsoft Cloud will remain the same, respectively.

The holder of each Kingsoft Cloud Series C Preferred Share shall be entitled to such number of votes as equals the whole number of Kingsoft Cloud Shares into which such holder's total Kingsoft Cloud Series C 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 C Preferred Shares shall vote together with the holders of Kingsoft Cloud Shares as a single class, on an as-converted basis, on all matters submitted to the shareholders. Each Kingsoft Cloud Series C Preferred Share may be converted at any time at the option of the holder thereof into such number of the Kingsoft Cloud Share as may be obtained by dividing the issue price by the then applicable conversion price. The new Kingsoft Cloud Share to be issued upon conversion of the Kingsoft Cloud Series C Preferred Shares shall rank pari passu in all respects with the existing Kingsoft Cloud Share. 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 C Preferred Share convertible into one Kingsoft Cloud Share).

Kingsoft Cloud is a subsidiary of the Company. 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 issue of 53,016,833 Series C Preferred Shares by Kingsoft Cloud to the Company constitutes a connected transaction of the Company under the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the issue of 53,016,833 Series C Preferred Shares by Kingsoft Cloud to the Company exceeds 0.1% but is less than 5%, such transaction is subject to the announcement requirement, but exempted from the independent shareholders' approval under Chapter 14A of the Listing Rules.

For details of the above issue, please refer to the announcement of the Company dated 5 February 2016.

On 6 May 2016, the Company, Buddies Team Limited ("**CM Investor**"), Kingsoft Cloud Group, certain shareholders and key employees of Kingsoft Cloud entered into a share purchase agreement, pursuant to which, among others, Kingsoft Cloud agreed to issue and the Company and CM Investor agreed to subscribe for 49,275,463 and 34,097,432 Series C Preferred Shares, respectively, for a consideration of approximately US$28.90 million and US$20.00 million, respectively. 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; and (ii) all shares under the share option scheme and all shares already reserved for issue under the ESOP (including the share award scheme, the share option scheme and other employee stock incentive plans as adopted by Kingsoft Cloud from time to time) are issued, upon completion of the issue and subscription of the Kingsoft Cloud Series C Preferred Shares under the share purchase agreement, Kingsoft Cloud will be owned as to approximately 52.15% by the Company and 1.80% by CM and the shareholding of the Company in Kingsoft Cloud will increase from 51.83% to 52.15%.

The holder of each Kingsoft Cloud Series C Preferred Share shall be entitled to such number of votes as equals the whole number of Kingsoft Cloud Shares into which such holder's total Kingsoft Cloud Series C 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 C Preferred Shares shall vote together with the holders of Kingsoft Cloud Shares as a single class, on an as-converted basis, on all matters submitted to the shareholders. Each Kingsoft Cloud Series C Preferred Share may be converted at any time at the option of the holder thereof into such number of the Kingsoft Cloud Share as may be obtained by dividing the issue price by the then applicable conversion price. The new Kingsoft Cloud Share to be issued upon conversion of the Kingsoft Cloud Series C Preferred Shares shall rank pari passu in all respects with the existing Kingsoft Cloud Share. 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 C Preferred Share convertible into one Kingsoft Cloud Share).

Kingsoft Cloud is a subsidiary of the Company. 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 issue of 49,275,463 Series C Preferred Shares by Kingsoft Cloud to the Company constitutes a connected transaction of the Company under the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the issue of 49,275,463 Series C Preferred Shares by Kingsoft Cloud to the Company exceeds 0.1% but is less than 5%, such transaction is subject to the announcement requirement, but exempted from the independent shareholders' approval under Chapter 14A of the Listing Rules.

For details of the above issue, please refer to the announcement of the Company dated 6 May 2016.

Major Customers and Suppliers

For the year ended 31 December 2016, the 5 largest customers of the Group accounted for 28% of the total revenue, while the largest customer accounted for 11% of the total revenue. For the year ended 31 December 2016, the 5 largest suppliers of the Group accounted for 15% of the total purchases, while the largest supplier accounted for 9% 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 includes 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's 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 2016, 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 2016, all Directors 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 C 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 48 and 49 of this annual report.

Disposal of Shares in Zhigu to Xiaomi

On 26 February 2016, the Company entered into the share purchase agreement with Xiaomi and other shareholders of Zhigu Holdings Limited ("**Zhigu**"), pursuant to which, among other things, the Company agreed to sell and Xiaomi agreed to purchase 199,600,000 shares held by the Company in Zhigu (representing 23.08% of the equity interest of Zhigu as at 26 February 2016) at an aggregate consideration of US$7,485,000 ("**Disposal**"). Following the closing of the disposal, the Company will cease to hold any equity interest in Zhigu.

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 share purchase agreement between the Company and Xiaomi and the Disposal contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

For details of the disposal, please refer to the announcement of the Company dated 26 February 2016.

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 2016 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.

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 2016 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 2016; 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 2016; 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 Software has executed a financial support undertaking letter addressed to Beijing Cheetah, pursuant to which Beijing Security Software 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 Software 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 Software or its designated representative(s), and (ii) the date on which Beijing Security Software 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 2016; 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 2016; 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 2016; 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 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 2016; 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 the 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 2016 are set out as follows:

	Annual Cap for 2016 RMB million	Actual Amount for 2016 RMB million
fees payable by Xiaomi Group		
provision of comprehensive services by the Group, including:	1500	220.57
(i) Provision of cloud services	1400	219.07
(ii) Provision of promotion services by the Group	100	1.50
Joint operation of games provided by Group	80	52.76
fees payable by the Group		
Provision of services by Xiaomi Group	100	64.36
Joint operation of games provided by Xiaomi Group	12	0.06
Purchase of Xiaomi's products	50	10.98

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 borrowing agreement between Kingsoft Cloud and the Company dated 15 March 2013, Kingsoft Cloud, as the lender, shall provide the loan in an amount of US$2,100,000 to the Company for supplementing its daily operation funding with an annual interest rate of 3% for a term of three years commencing from the borrowing remittance date. For the year ended 31 December 2016, the actual amount of the interest under this transaction was US$0.018 million.

(ii) Pursuant to the facility rental contract and supplemental agreement thereto between Beijing Cloud Network and Kingsoft Japan dated 1 January 2013, Kingsoft Japan shall lease the server facility from Beijing Cloud Network for its self-operated business in the PRC for a term from 1 January 2013 to 30 June 2016. For the year ended 31 December 2016, the transactions under the agreement were subject to a framework agreement between the Company and Kingsoft Cloud, details of which are set out below in this section.

(iii) 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 2016, the transactions under the agreement were subject to a framework agreement between the Company and Kingsoft Cloud, details of which are set out below in this section.

(iv) 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 2016, the transactions under the agreement were subject to a framework agreement between the Company and Kingsoft Cloud, details of which are set out below in this section.

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.

As stated above, Kingsoft Cloud is a connected subsidiary of the Company. Therefore, the entering into the framework agreement between the Company and Kingsoft Cloud and the transactions contemplated thereunder constitute continuing connected transactions of the Company. For details of the continuing connected transactions, please refer to the announcements of the Company dated 30 December 2014.

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 2016 are set out as follows:

	Annual Cap for 2016 RMB million	**Actual Amount for 2016 RMB million**
fees payable by Kingsoft Cloud Group		
provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group):	20	15.21
fees payable by the Group (excluding Kingsoft Cloud Group)		
provision of cloud services by Kingsoft Cloud Group	45	39.21

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 Holdings Limited ("**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, a subsidiary of the Company. Tencent Shenzhen is a subsidiary of Tencent. Therefore, Tencent Shenzhen is a connected person of the Company at the subsidiary level. As such, the strategic cooperation agreement entered into between Tencent Shenzhen and Cheetah and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For details of the continuing connected transactions, 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.

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 2016 are set out as follows:

	Annual Cap for 2016 RMB million	**Actual Amount for 2016 RMB million**
fees payable by Tencent Group		
provision of promotion services:	495	156.63
fees payable by Cheetah Group		
provision of promotion services:	47.5	35.30

Continuing Connected Transactions in Relation to Joint Operation of Games with Huaduo

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

On 30 December 2014 the Company and Guangzhou Huaduo Internet Technology Limited ("**Huaduo**", 廣州華多網絡科技有限公司) entered into a joint operation framework agreement for games. Pursuant to which, The Group and Huaduo Group will jointly operate the games developed and owned by the Group or the games licensed to be operated by the Group.

Huaduo and Huaduo Zhuhai are associates of Mr. Jun LEI, a Director and substantial shareholder of the Company, and accordingly, Huaduo is a connected person of the Company pursuant to the Listing Rules. Therefore, the transactions contemplated under the joint operation framework agreement and the joint operation framework agreement for games constitute continuing connected transactions of the Company under the Listing Rules.

For details of the continuing connected transactions, please refer to the announcements of the Company dated 23 May 2014 and 30 December 2014.

The annual caps for the continuing connected transactions hereunder as compared with the actual transactions amounts incurred or received by the Group for the year ended 31 December 2016 are set out as follows:

	Annual Cap for 2016 RMB million	Actual Amount for 2016 RMB million
Annual revenues of the Group	65	0.03

Continuing Connected Transactions in Relation to Game 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, a subsidiary of the Company. Tencent Shenzhen is a subsidiary of Tencent. Therefore, Tencent Shenzhen is a connected person of the Company at the subsidiary level. As such, the game operation agreement entered into between Seasun Holdings and Tencent Shenzhen and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For details of the continuing connected transactions, please refer to the announcements of the Company dated 19 February 2016 and 25 October 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 2016 are set out as follows:

	Annual Cap for 2016 RMB million	**Actual Amount for 2016 RMB million**
Annual revenues of the Group	750	597.52

The Group has established the internal control procedures in respect of continuing connected transactions. The sales (purchasing) department of the Group is responsible for the initial determination of pricing of the continuing connected transactions. Subject to the final review by the chief executive officer and/or the chief sales (purchasing) officer of the relevant subsidiary of the Group who are independent from the connected persons, the price proposal will be submitted to the connected persons for consideration and negotiation. The relevant departments of the Company will review the continuing connected transactions and the related internal control procedures, and present the findings to the independent directors. While, the independent directors will review the fairness of the material connected transactions and the implementation of such internal control procedures to prevent the risks associated with connected transactions.

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 auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' 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 44 to the financial statements. Certain related party transactions disclosed in note 44 to the financial statements also constitute connected transactions or continuing connected transactions as disclosed above. 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 2016, 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, C1.2 and E.1.2. Please also refer to the Corporate Governance Report in this annual report for full details.

Auditors

The consolidated financial statements of the Company for the year ended 31 December 2016 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 47 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

Proposed Delegation of Voting Rights in Cheetah

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. Pursuant to this agreement, the Company will delegate the voting rights of Cheetah Mobile 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 Mobile), subject to certain conditions. Upon completion of such delegation, Cheetah Mobile will cease to be accounted for as a subsidiary of the Company and its operating results will no longer be consolidated in the financial statements of the Company. As at the date of this report, the voting proxy agreement is subject to, among other things, the approval of the shareholders at the general meeting. For details, please refer to the announcements of the Company dated 12 and 13 February 2017.

By order of the Board
Jun LEI
Chairman
Hong Kong, 21 March 2017

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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 75 to 216, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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 goodwill	
Under IFRSs, the Group is required to test goodwill for impairment annually. This annual impairment test was significant to our audit because the balance of goodwill amounting to RMB954,656,000 as of 31 December 2016 was material to the financial statements. In addition, management's assessment process was complex and highly judgemental and was based on assumptions. Disclosures about significant accounting judgements and estimates and goodwill are included in Note 3 and Note 17 to the consolidated financial statements.	Our audit procedures included an analysis of the determination of the cash-generating units ("CGU") and the allocation of goodwill to CGU. We also reviewed management's impairment assessments. For the CGU without available market value, whose recoverable amount was determined based on its value in use, we assessed the reasonableness of the methodologies and main assumptions used. For the CGU with available market value, which was a listed company, we assessed the market value and costs of disposal. We also focused on the Group's disclosure about the impairment test of goodwill.
Impairment of available-for-sale investments	
Under IFRSs, when there is objective evidence that the available-for-sale investment is impaired, the cumulative loss that has been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment, and subsequent impairment shall be charged to profit or loss directly. The Group recognised an impairment loss of RMB1,239,160,000 for available-for-sale investments for the year ended 31 December 2016. The provision of impairment loss involved significant judgment on whether impairment evidence existed and estimation of the fair value for available-for-sale investments. Disclosures about significant accounting judgements and estimates and available-for-sale investments are included in 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 an available-for-sale investment was 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 2016 was RMB361,019,000. The determination of fair values of share options and awarded shares required significant management judgements and estimates and was based on assumptions. Disclosures about significant accounting judgements and estimates and share-based payment are included in Note 3 and Note 37 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 scepticism 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 Man Kit.

Ernst & Young
Certified Public Accountants
Hong Kong

21 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
REVENUE	5	**8,282,128**	5,676,106
Cost of revenue		**(2,662,370)**	(1,319,399)
Gross profit		**5,619,758**	4,356,707
Research and development costs, net		**(1,839,603)**	(1,347,566)
Selling and distribution expenses		**(1,958,356)**	(1,755,727)
Administrative expenses		**(565,368)**	(442,577)
Share-based compensation costs	37	**(361,019)**	(356,012)
Other income	5	**153,843**	147,364
Other expenses		**(76,364)**	(59,150)
Other losses, net	6	**(1,189,774)**	(73,819)
Finance income	8	**173,718**	194,511
Finance costs	9	**(114,997)**	(78,067)
Share of profits and losses of:			
Joint ventures	19	**100,481**	(24,005)
Associates	20	**(66,747)**	(19,299)
PROFIT/(LOSS) BEFORE TAX	7	**(124,428)**	542,360
Income tax expense	12	**(167,847)**	(200,656)
PROFIT/(LOSS) FOR THE YEAR		**(292,275)**	341,704
Attributable to:			
Owners of the parent		**(270,732)**	369,178
Non-controlling interests		**(21,543)**	(27,474)
		(292,275)	341,704
		RMB	**RMB**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		**(0.21)**	0.29
Diluted		**(0.21)**	0.29

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	NOTE	2016 RMB'000	2015 RMB'000
PROFIT/(LOSS) FOR THE YEAR		**(292,275)**	341,704
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**(853,550)**	186,632
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss			
— gain on disposal		**(24,338)**	(940)
— impairment losses		**914,541**	25,891
Income tax effects		**(9,500)**	—
Exchange differences on translation of foreign operations		**265,284**	278,776
Share of other comprehensive income of an associate		**—**	559
Disposal of an associate		**129**	—
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**292,566**	490,918
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**292,566**	490,918
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**291**	832,622
Attributable to:			
Owners of the parent		**(42,750)**	774,513
Non-controlling interests		**43,041**	58,109
		291	832,622

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,097,766**	966,079
Prepaid land lease payments	16	**268,046**	272,386
Goodwill	17	**954,656**	619,037
Other intangible assets	18	**295,751**	246,839
Investments in joint ventures	19	**165,512**	74,291
Investments in associates	20	**406,773**	250,009
Available-for-sale investments	21	**1,050,654**	2,226,302
Other financial assets	22	**71,091**	26,294
Deferred tax assets	35	**119,868**	55,304
Other non-current assets	23	**43,459**	106,289
Total non-current assets		**4,473,576**	4,842,830
CURRENT ASSETS			
Inventories	24	**11,098**	5,371
Trade receivables	25	**1,774,156**	966,000
Prepayments, deposits and other receivables	26	**1,122,028**	837,398
Available-for-sale investments	21	**204,849**	50,000
Restricted cash	27	**98,381**	130,187
Pledged deposits	27	**69,370**	46,657
Cash and bank deposits	27	**9,825,494**	8,606,434
Total current assets		**13,105,376**	10,642,047
CURRENT LIABILITIES			
Trade payables	28	**560,488**	185,417
Other payables and accruals	29	**2,123,794**	1,808,689
Interest-bearing bank loans	30	**379,544**	147,029
Deferred revenue	31	**547,462**	425,964
Income tax payable		**119,931**	137,416
Total current liabilities		**3,731,219**	2,704,515
NET CURRENT ASSETS		**9,374,157**	7,937,532
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,847,733**	12,780,362

	NOTES	2016 RMB'000	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,847,733**	12,780,362
NON-CURRENT LIABILITIES			
Other liabilities	29	**39,508**	72,105
Deferred revenue	31	**37,609**	24,141
Deferred tax liabilities	35	**122,201**	62,540
Interest-bearing bank loans	30	**438,330**	10,523
Liability component of convertible bonds	32	**2,911,354**	2,699,698
Liability component of redeemable convertible preferred shares	33	**297,007**	—
Total non-current liabilities		**3,846,009**	2,869,007
Net assets		**10,001,724**	9,911,355
EQUITY			
Equity attributable to owners of the parent			
Issued capital	36	**5,097**	5,092
Share premium account	36	**2,369,129**	2,474,663
Treasury shares	36	**(25,477)**	(34,766)
Equity component of convertible bonds	32	**72,295**	72,295
Other reserves	38	**5,466,163**	5,353,356
		7,887,207	7,870,640
Non-controlling interests		**2,114,517**	2,040,715
Total equity		**10,001,724**	9,911,355

Tao ZOU
Director

Yuk Keung NG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	ISSUED CAPITAL (NOTE 36) RMB'000	SHARE PREMIUM ACCOUNT (NOTE 36) RMB'000	TREASURY SHARES (NOTE 36) RMB'000	EQUITY COMPONENT OF CONVERTIBLE BONDS (NOTE 32) RMB'000	STATUTORY RESERVES (NOTE 38) RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	OTHER CAPITAL RESERVE (NOTE 38) 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 2015	4,730	219,207	(83,964)	74,505	185,513	231,360	1,192,967	(211,898)	(94,797)	3,043,752	4,561,375	1,555,169	6,116,544
Profit for the year	—	—	—	—	—	—	—	—	—	369,178	369,178	(27,474)	341,704
Other comprehensive income for the year:													
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	204,387	—	—	204,387	7,196	211,583
Exchange differences related to foreign operations	—	—	—	—	—	—	—	—	200,389	—	200,389	78,387	278,776
Share of comprehensive income of an associate	—	—	—	—	—	—	—	—	559	—	559	—	559
Total comprehensive income for the year	—	—	—	—	—	—	—	204,387	200,948	369,178	774,513	58,109	832,622
Approved and paid final dividend in respect of the previous year	—	(121,521)	—	—	—	—	—	—	—	—	(121,521)	—	(121,521)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(18,860)	(18,860)
Issue of new shares	308	2,145,716	—	—	—	—	—	—	—	—	2,146,024	—	2,146,024
Acquisition of subsidiaries (note 40)	—	—	—	—	—	—	—	—	—	—	—	62,223	62,223
Share-based compensation costs	—	—	—	—	—	183,129	—	—	—	—	183,129	172,911	356,040
Exercise of share options	2	2,079	—	—	—	(989)	—	—	—	—	1,092	—	1,092
Vested awarded shares transferred to employees	—	—	4,035	—	—	(38,260)	38,178	—	—	—	3,953	—	3,953
Shares of reserves of an associate	—	—	—	—	—	—	281	—	—	—	281	296	577
Conversion of convertible bonds (note 32)	65	279,679	—	(2,210)	—	—	—	—	—	—	277,534	—	277,534
Share repurchased for cancellation	(13)	(50,497)	45,163	—	—	—	—	—	—	—	(5,347)	—	(5,347)
Profit appropriation	—	—	—	—	12,368	—	—	—	—	(12,368)	—	—	—
Subsidiaries' business combination under common control	—	—	—	—	—	—	—	—	—	4,546	4,546	(4,546)	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	45,061	—	—	—	45,061	215,413	260,474
At 31 December 2015	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

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	ISSUED CAPITAL (NOTE 36) RMB'000	SHARE PREMIUM ACCOUNT (NOTE 36) RMB'000	TREASURY SHARES (NOTE 36) RMB'000	EQUITY COMPONENT OF CONVERTIBLE BONDS (NOTE 32) RMB'000	STATUTORY RESERVES (NOTE 38) RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	OTHER CAPITAL RESERVE (NOTE 38) 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 an subsidiary (note 41)	—	—	—	—	—	—	—	—	—	—	—	**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**
Shares 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 RMB5,466,163,000 (2015: RMB5,353,356,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(124,428)**	542,360
Adjustments for:			
Loss on disposal of items of property, plant and equipment	6	**28,179**	990
Loss on disposal of items of other intangible assets	7	**829**	3,590
Depreciation	7	**313,296**	187,764
Impairment of other intangible assets	7	**2,889**	25,250
Impairment of property, plant and equipment	6	**20,750**	—
Amortisation of prepaid land lease payments	7	**4,340**	4,340
Amortisation of other intangible assets	7	**133,117**	134,119
Finance costs	9	**114,997**	78,067
Finance income	8	**(173,718)**	(194,511)
Fair value (gain)/loss on financial instruments at fair value through profit or loss	6	**(22,377)**	41,260
Gain on disposal of associates	6	**(46,148)**	(626)
Gain on deemed disposal of associates	6	**(31,669)**	(16,373)
Gain on partial disposal of an associate	6	**(9,646)**	(13,000)
Gain on deemed disposal of a joint venture	6	**—**	(527)
Gain on previously held equity investment remeasured at acquisition date fair value	6	**—**	(15,030)
Share-based compensation costs		**361,019**	356,012
Impairment of trade and other receivables	7	**54,975**	10,347
Share of profits and losses of joint ventures	19	**(100,481)**	24,005
Share of losses of associates	20	**66,747**	19,299
Foreign exchange loss	6	**30,405**	26,721
Impairment losses of available-for-sale investments	6	**1,239,160**	33,565
Impairment loss of investments in associates	6	**1,739**	1,380
Impairment loss of investments in joint ventures	6	**18,010**	1,425
Gain on disposal of available-for-sale investments	6	**(25,058)**	(5,092)
Gain on extinguishing a financial liability	6	**—**	(9,757)
Dividend income from an available-for-sale investment	6	**—**	(700)
Gain on disposal of a subsidiary and a business	6	**(13,571)**	(676)
Loss on disposal of other financial assets	6	**—**	6,513
Impairment loss of goodwill	6	**—**	23,746
		1,843,356	1,264,461
Increase in trade receivables		**(857,009)**	(526,859)
(Increase)/decrease in prepayments, deposits and other receivables		**(222,996)**	261,687
(Increase)/decrease in inventories		**(5,254)**	1,562
Increase in other non-current assets		**(4,600)**	(17,912)
Increase in restricted cash		**(3,644)**	—
Increase in trade payables		**348,107**	64,059
Increase in deferred revenue		**141,154**	125,587
Increase in other payables and accruals		**292,290**	331,499
Decrease in contingent considerations		**(8,573)**	(9,759)
Cash generated from operations		**1,522,831**	1,494,325
Interest received		**67,402**	48,370
Income tax paid		**(197,015)**	(107,361)
Net cash flows from operating activities		**1,393,218**	1,435,334

	NOTES	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**83,535**	148,781
Purchases of items of property, plant and equipment		**(613,230)**	(629,337)
Purchases of other intangible assets		**(69,519)**	(50,796)
(Increase)/decrease in time deposits with original maturity of over three months when acquired	27	**(2,071,999)**	1,812,606
Purchase of other financial assets		**(28,829)**	(53,303)
Disposal of an other financial asset, net of interest received		**—**	65,726
Disposal of property, plant and equipment		**1,649**	—
Acquisition of businesses, net of cash acquired	40	**(381,507)**	(126,014)
Dividend income from an available-for-sale investment		**—**	700
Investments in joint ventures		**(8,500)**	(49,500)
Investments in associates		**(200,033)**	(149,808)
Settlement of contingent considerations		**(21,667)**	(27,127)
Purchase of available-for-sale investments		**(116,009)**	(1,390,504)
Decrease/(increase) in other loans		**(7,184)**	6,038
Proceeds from disposal of a subsidiary and a business, net of cash disposed of	41	**(6,316)**	687
Proceeds from disposal of available-for-sale investments		**82,307**	42,828
Proceeds from disposal of an investment in a joint venture classified as available for sale		**123,543**	36,305
Release of restricted cash for an acquisition of a business		**73,725**	—
Restricted cash for acquisitions of business		**(32,895)**	(122,192)
Proceeds from disposal of associates		**65,144**	13,000
Net cash flows used in investing activities		**(3,127,785)**	(471,910)

	NOTES	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares		**—**	2,146,024
Proceeds from issuance of redeemable convertible preferred shares		**318,920**	—
Investments from non-controlling interests		**6,367**	241,873
Purchase of shares of subsidiaries from non-controlling interests		**(194,751)**	(77,259)
Exercise of share options		**2,484**	1,092
Vested awarded shares transferred to employees		**22,041**	3,953
Dividends paid to owners of the parent	13	**(110,111)**	(121,521)
Dividends paid to non-controlling interests		**—**	(11,606)
Drawdown of a bank loan, net of pledged deposits	30	**604,527**	102,048
Repurchase of shares for cancellation		**—**	(5,347)
Interest paid		**(59,063)**	(53,032)
Payment of financial lease		**(11,881)**	—
Release of a pledged deposit		**20,812**	—
Proceeds from issuance of restricted shares of subsidiaries		**1,470**	7,734
Net cash flows from financing activities		**600,815**	2,233,959
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(1,133,752)**	3,197,383
Cash and cash equivalents at beginning of year		**6,629,275**	3,193,934
Effect of foreign exchange rate changes, net		**280,813**	237,958
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,776,336**	6,629,275
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**1,718,341**	1,553,088
Deposits with original maturity of less than three months when acquired	27	**4,057,995**	5,076,187
Cash and cash equivalents as stated in the statement of cash flows	27	**5,776,336**	6,629,275

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

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

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
Cheetah Mobile Inc. ("Cheetah Mobile")(v)	Cayman Islands	US$35,501	49.66	—	Investment holding
Kingsoft Application Software Holdings Limited ("KAS Holdings")(iv)	Cayman Islands	HK$1	100	—	Investment holding
Kingsoft Office Software Holdings Limited ("KOS Holdings")(iv)	Cayman Islands	HK$15,210,000	100	—	Investment holding
Kingsoft Cloud Holdings Limited ("Kingsoft Cloud")(iv)	Cayman Islands	US$872,955	62.17	—	Investment holding
Seasun Holdings Limited ("Seasun Holdings")(iv)	Cayman Islands	HK$27,060,297	—	76.21	Investment holding
Jingcai Online Games Holdings Limited (iv)	Cayman Islands	US$157,500	—	76.21	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
Cheetah Technology Corporation Limited(iii)	Hong Kong	HK$1	—	49.66	Investment holding and operations of online marketing

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries and structured entities (continued)

Particulars of the 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	—	73.12	Investment holding
Seasun Games Corporation Limited	Hong Kong	HK$18,600,000	—	76.21	Investment holding and provision of game services
Kingsoft Jingcai Online Game Corporation Limited	Hong Kong	HK$850,000	—	76.21	Investment holding
Kingsoft Cloud Corporation Limited	Hong Kong	HK$2,000,000	—	62.17	Investment holding
Kingsoft (M) SDN.BHD ("Kingsoft Malaysia")(iv)	Malaysia	MYR1,000,000	—	76.21	Development and distribution of games
Kingsoft Japan Inc. ("Kingsoft Japan")(iii)	Japan	JPY447,875,000	10.82	37.28	Development and sale of the security software and office application software
Beijing Kingsoft Software Co., Ltd.(i)(iv)	Mainland China	RMB10,000,000	—	100	Marketing and distribution of application software
Beijing Cheetah Network Technology Co., Ltd. ("Beijing Network Technology")(i)(iii)(iv)(vi)	Mainland China	RMB10,000,000	—	49.66	Provision of internet value-added services
Beijing Kingsoft Cloud Technology Co., Ltd. ("Beijing Cloud Technology")(i)(ii)(iii)(iv)	Mainland China	RMB60,000,000	—	62.17	Investment holding, research and development of application technology
Zhuhai Kingsoft Cloud Technology Co., Ltd. ("Zhuhai Cloud Technology")(i)(iv)(vi)	Mainland China	RMB11,080,000	—	62.17	Investment holding
Beijing Kingsoft Qijian Digital Technology Co., Ltd. ("Beijing Qijian Technology")(i)(iv)(vi)	Mainland China	RMB1,500,000	—	100	Marketing and operation of SMS and wireless service of online games and application software
Beijing Kingsoft Internet Security Software Co., Ltd. ("Beijing Security Software")(i)(iii)(iv)	Mainland China	RMB8,000,000	—	49.66	Sale and operation of internet security software
Beijing Kingsoft Office Software Co., Ltd. ("Beijing Kingsoft Office")(i)(iv)	Mainland China	RMB360,000,000	—	73.12	Sale and operation of office application software
Beijing Cheetah Mobile Technology Co., Ltd. ("Beijing Cheetah")(i)(iii)(iv)(vi)	Mainland China	RMB10,000,000	—	49.66	Provision of internet security service
Jingcai Online Technology (Dalian) Co., Ltd.(i)(ii)(iv)	Mainland China	RMB1,000,000	—	76.21	Research and development of games
Chengdu Kingsoft Interactive Entertainment Co., Ltd. ("Chengdu Interactive Entertainment")(i)(ii)(iv)	Mainland China	RMB100,000,000	—	100	Research and development of games

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries and structured entities (continued)

Particulars of the 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
Chengdu Kingsoft Digital Entertainment Co., Ltd. ("Chengdu Digital Entertainment")(i)(iv)(vi)	Mainland China	RMB10,000,000	—	100	Marketing and operation of entertainment software products
Beijing Conew Technology Development Co., Ltd. ("Conew Technology") (i)(iii)(iv)(vi)	Mainland China	RMB300,000	—	49.66	Dormant
Chengdu Westhouse Interactive Entertainment Co., Ltd. ("Chengdu Westhouse")(i)(ii)(iv)	Mainland China	RMB15,000,000	—	76.21	Research and development of games
Zhuhai Kingsoft Software Co., Ltd. ("Zhuhai Software")(i)(iv)	Mainland China	RMB215,500,000	—	100	Research, development and distribution of consumer application software
Zhuhai Seasun Shiyou Technology Co., Ltd. ("Zhuhai Westhouse Shiyou") (i)(iv)(vi)	Mainland China	RMB10,000,000	—	76.21	Marketing and operation of entertainment software products
Zhuhai Kingsoft Online Game Technology Co., Ltd. ("Zhuhai Online Game")(i)(iv)	Mainland China	RMB10,000,000	—	76.21	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) Cheetah Mobile is accounted for as a subsidiary of the Group because the Group owns 62.87% voting rights over it.

(vi) 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 certain derivative financial instruments, which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amount and fair value less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. 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.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

The Company 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 trusts or entities are included in consolidated statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	*Amendments to a number of IFRSs*

Other than as explained below regarding the impact of amendments to IAS 1, amendments to IAS 16 and IAS 38 and certain amendments included in the *Annual Improvements 2012–2014 Cycle*, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to IFRSs 2012–2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

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*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[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*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

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

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

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

4 No mandatory effective date yet determined but available for adoption

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

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 the 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. The Group expects to 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 expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

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 application now.

IFRS 15 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. 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 expects to adopt IFRS 15 on 1 January 2018. During the year ended 31 December 2016, the Group performed a preliminary assessment on the impact of the adoption of IFRS 15.

The Group is mainly in the business of providing software and services. The software and services are sold both on its own in separate identified contracts with customers and together as a bundled package of goods and/or services. The expected impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

(a) Sale of goods

Contracts with customers in which software sale is the only performance obligation are not expected to have any impact on the Group. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. In applying IFRS 15, the Group considered the following:

Variable consideration

The Group provides a right of return, trade discounts or volume rebates for some of the sales contracts of software with customers. Currently, the Group recognises revenue from the sale of goods measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, revenue recognition is deferred until the uncertainty is resolved. Under IFRS 15, a transaction price is considered variable if a customer is provided with a right of return, trade discounts or volume rebates. The Group is required to estimate the amount of consideration to which it will be entitled in the sales of its software and the estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group expects that the constraint on recognition of variable consideration may result in more revenue being deferred.

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

(b) Rendering of services

The Group provides variable services, which are sold either on their own in contracts with the customers while others may be bundled together with the sale of software to a customer. The Group has preliminarily assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, the Group does not expect any significant impact to arise from these service contracts.

IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases — Incentives* and SIC-Int 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 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. 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. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 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. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

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 may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the 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 derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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 term 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 term

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Non-current assets and disposal groups held for sale

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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

Purchased software, user base and 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

The carrying amount of the asset is reduced through 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, interest-bearing bank loans and the liability component of convertible bonds.

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

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 have 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) *Internet value-added services*

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

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

(d) *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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(e) *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.

(f) *Rental income*

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

(g) *Interest income*

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

(h) *Dividend income*

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

Deferred revenue

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

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 37 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 date.

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 RMB2,618,610,000 (2015: RMB2,013,399,000) for the year ended 31 December 2016. At 31 December 2016, total assets and total liabilities of these entities amounted to approximately RMB5,842,241,000 (2015: RMB3,036,569,000) and RMB3,607,394,000 (2015: RMB1,336,603,000), respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 RMB38,621,000 as at 31 December 2016 (2015: RMB12,073,000). Further details are included in note 22 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 2016 was RMB61,385,000 (2015: RMB11,270,000). The amount of unrecognised tax losses at 31 December 2016 was RMB1,393,680,000 (2015: RMB1,049,640,000). Future details are contained in note 35 to the financial statements.

(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 2016 was approximately RMB954,656,000 (2015: RMB619,037,000). Further details are given in note 17 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. At 31 December 2016, impairment losses of RMB1,239,160,000 have been recognised for available-for-sale investments (2015: RMB33,565,000). The carrying amount of available-for-sale investments was RMB1,255,503,000 (2015: RMB2,276,302,000). Future details are contained in note 21 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(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.

(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 2016 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 2016 was approximately RMB474,317,000 (2015: RMB682,931,000). The share-based compensation costs recognised during the year ended 31 December 2016 was RMB361,019,000 (2015: RMB356,012,000).

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

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

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

On 19 January 2016, Cheetah Mobile purchased 4.63% equity interest in Kingsoft Japan from third-parties, and thereafter have been holding in aggregate 46.1% equity interest of Kingsoft Japan. On 29 January 2016, Cheetah Mobile entered into an agreement with the Company, pursuant to which, the Company delegated 5% voting rights in Kingsoft Japan to Cheetah Mobile. As a result, Cheetah Mobile controls Kingsoft Japan by virtue of its power to have major voting rights in the shareholders meeting of Kingsoft Japan. Accordingly, the directors of the Company decided to reclassify the results of Kingsoft Japan from cloud services, office software and others segment to information security and internet services segment. Segment information of the comparative period has been restated to conform to the current period's presentation to facilitate comparison in accordance with IFRS 8 *Operating Segments*.

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2016	ENTERTAINMENT SOFTWARE RMB'000	INFORMATION SECURITY AND INTERNET SERVICES RMB'000	CLOUD SERVICES, OFFICE SOFTWARE AND OTHERS RMB'000	TOTAL RMB'000
SEGMENT REVENUE:				
Sales to external customers	2,545,671	4,448,591	1,287,866	8,282,128
Intersegments sales	4,616	90	90,813	95,519
	2,550,287	4,448,681	1,378,679	8,377,647
Reconciliation:				
Elimination of intersegments sales				(95,519)
Revenue				8,282,128
SEGMENT RESULTS	1,279,532	627,708	(77,254)	1,829,986
Reconciliation:				
Elimination of intersegments results				(8,187)
Administrative expenses				(565,368)
Share-based compensation costs				(361,019)
Other income				153,843
Other expenses				(76,364)
Other losses, net				(1,189,774)
Finance income				173,718
Finance costs				(114,997)
Share of profits and losses of:				
Joint ventures				100,481
Associates				(66,747)
LOSS BEFORE TAX				(124,428)
OTHER SEGMENT INFORMATION:				
Impairment loss	(8,296)	(199,110)	(1,130,117)	(1,337,523)
Depreciation and amortisation	(35,001)	(162,504)	(253,248)	(450,753)
Capital expenditure*	(74,120)	(156,555)	(441,426)	(672,101)
Share of profits and losses of joint ventures and associates	94,608	(60,874)	—	33,734

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2015 (RESTATED)	ENTERTAINMENT SOFTWARE RMB'000	INFORMATION SECURITY AND INTERNET SERVICES RMB'000	CLOUD SERVICES, OFFICE SOFTWARE AND OTHERS RMB'000	TOTAL RMB'000
SEGMENT REVENUE:				
Sales to external customers	1,368,811	3,660,048	647,247	5,676,106
Intersegments sales	11,207	—	67,864	79,071
	1,380,018	3,660,048	715,111	5,755,177
Reconciliation:				
Elimination of intersegments sales				(79,071)
Revenue				5,676,106
SEGMENT RESULTS	514,911	777,456	(36,963)	1,255,404
Reconciliation:				
Elimination of intersegments results				(1,990)
Administrative expenses				(442,577)
Share-based compensation costs				(356,012)
Other income				147,364
Other expenses				(59,150)
Other losses, net				(73,819)
Finance income				194,511
Finance costs				(78,067)
Share of losses of:				
Joint ventures				(24,005)
Associates				(19,299)
PROFIT BEFORE TAX				542,360
OTHER SEGMENT INFORMATION:				
Impairment loss	—	(95,542)	(171)	(95,713)
Depreciation and amortisation	(27,565)	(147,366)	(151,292)	(326,223)
Capital expenditure*	(31,685)	(279,275)	(450,258)	(761,218)
Share of losses of joint ventures and associates	(17,892)	(21,408)	(4,004)	(43,304)

* 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 from external customers:*

	2016 RMB'000	2015 RMB'000
Mainland China	**5,484,931**	3,671,641
Hong Kong	**1,533,757**	1,683,637
Singapore	**956,145**	—
Other countries	**307,295**	320,828
Total	**8,282,128**	5,676,106

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

(b) *Non-current assets:*

	2016 RMB'000	2015 RMB'000
China	**2,276,874**	1,858,088
France	**664,317**	—
Other countries	**260,153**	575,372
Total	**3,201,344**	2,433,460

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

Information about major customers

For the year ended 31 December 2016, revenue amounted to RMB900,109,000 was derived from online marketing services by the information security and internet services 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:

	2016 RMB'000	2015 RMB'000
Revenue		
Game services	**2,012,154**	1,473,256
Online marketing services	**4,121,414**	3,328,101
Internet value-added services	**353,603**	207,712
Cloud services and software	**1,123,553**	602,255
Royalties	**666,016**	58,830
Others	**5,388**	5,952
	8,282,128	5,676,106

	2016 RMB'000	2015 RMB'000
Other income		
Government grants	**137,800**	139,480
Others	**16,043**	7,884
	153,843	147,364

6. OTHER LOSSES, NET

	NOTES	2016 RMB'000	2015 RMB'000
Gain on previously held equity investment remeasured at acquisition date fair value	40	—	15,030
Gain on deemed disposal of associates		**31,669**	16,373
Gain on partial disposal of an associate		**9,646**	13,000
Gain on disposal of associates		**46,148**	626
Gain on deemed disposal of a joint venture		—	527
Gain on disposal of a subsidiary and business	41	**13,571**	676
Gain on disposal of available-for-sale investments		**25,058**	5,092
Gain on extinguishing a financial liability		—	9,757
Dividend income from an available-for-sale investment		—	700
Loss on disposal of other financial assets		—	(6,513)
Impairment loss of goodwill	17	—	(23,746)
Impairment loss of investments in joint ventures	19	**(18,010)**	(1,425)
Impairment loss of investments in associates	20	**(1,739)**	(1,380)
Impairment loss of available-for-sale investments	21	**(1,239,160)**	(33,565)
Impairment loss of property, plant and equipment		**(20,750)**	—
Loss on disposal of items of property, plant and equipment		**(28,179)**	(990)
Foreign exchange loss		**(30,405)**	(26,721)
Fair value gain/(loss) on financial instruments at fair value through profit or loss		**22,377**	(41,260)
		(1,189,774)	(73,819)

7. PROFIT/(LOSS) BEFORE TAX

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

	NOTES	2016 RMB'000	2015 RMB'000
Employee benefit expenses (including directors' remuneration (note 10)):			
Wages and salaries		**1,756,293**	1,208,021
Social insurance costs and staff welfare		**316,648**	246,664
Share-based compensation costs		**361,019**	356,012
Pension plan contributions		**166,147**	117,182
		2,600,107	1,927,879
Minimum lease payments under operating leases		**986,233**	477,209
Cost of inventories sold		**7,440**	33,256
Cost of services provided		**1,247,579**	465,120
Depreciation	(a),15	**313,296**	187,764
Amortisation of prepaid land lease payments	(a),16	**4,340**	4,340
Amortisation of other intangible assets	(a),18	**133,117**	134,119
Loss on disposal of items of intangible assets*		**829**	3,590
Impairment of other intangible assets*	18	**2,889**	25,250
Impairment of trade and other receivables*		**54,975**	10,347
Donation*		**160**	1,000
Auditor's remuneration		**18,474**	15,760

* 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

	2016 RMB'000	2015 RMB'000
Included in:		
Cost of revenue	**379,785**	258,451
Research and development costs	**35,910**	42,705
Selling and distribution expenses	**3,823**	1,904
Administrative expenses	**31,235**	23,163
	450,753	326,223

8. FINANCE INCOME

An analysis of finance income is as follows:

	NOTE	2016 RMB'000	2015 RMB'000
Bank interest income		**167,539**	191,991
Interest income from loans to related parties	44(a)	**3,282**	2,482
Others		**2,897**	38
		173,718	194,511

9. FINANCE COSTS

An analysis of finance costs is as follows:

	NOTES	2016 RMB'000	2015 RMB'000
Interest on convertible bonds	32	**78,238**	76,211
Interest on redeemable convertible preferred shares	33	**23,137**	—
Interest on bank loans		**12,177**	1,069
Interest on finance leases		**1,445**	787
		114,997	78,067

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:

	2016 RMB'000	2015 RMB'000
Fees	**902**	845
Other emoluments:		
Salaries, allowances and benefits in kind	**4,386**	5,314
Discretionary bonuses	**100**	—
Pension scheme contributions	**92**	87
Share-based compensation	**(3,079)**	3,785
	2,401	10,031

During the years ended 31 December 2016 and 2015, certain directors were granted share options and awarded shares, in respect of their services to the Group, under the share option scheme and share award scheme of the Group, further details of which are set out in note 37 to the financial statements. 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 and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

	2016 RMB'000	2015 RMB'000
Shun Tak Wong	**277**	260
David Yuen Kwan Tang	**277**	260
Wenjie Wu	**348**	325
	902	845

There were no other emoluments payable to the independent non-executive directors during the year (2015: nil).

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

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

	2016					
	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION SCHEME CONTRIBUTIONS RMB'000	SHARE-BASED COMPENSATION RMB'000	TOTAL RMB'000
Executive directors:						
HongJiang Zhang[1]	—	1,060	—	43	(3,891)	(2,788)
Yuk Keung Ng	—	2,129	100	—	714	2,943
Tao Zou	—	659	—	25	98	782
Non-executive directors:						
Pak Kwan Kau	—	277	—	—	—	277
Jun Lei	—	261	—	24	—	285
Chi Ping Lau[2]	—	—	—	—	—	—
	—	4,386	100	92	(3,079)	1,499

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.

	2015					
	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION SCHEME CONTRIBUTIONS RMB'000	SHARE-BASED COMPENSATION RMB'000	TOTAL RMB'000
Executive directors:						
HongJiang Zhang	—	1,901	—	44	2,353	4,298
Yuk Keung Ng	—	2,117	—	—	1,211	3,328
Tao Zou	—	776	—	21	221	1,018
Non-executive directors:	—					
Pak Kwan Kau	—	260	—	—	—	260
Jun Lei	—	260	—	22	—	282
Chi Ping Lau[1]	—	—	—	—	—	—
	—	5,314	—	87	3,785	9,186

1 Mr. Chi Ping Lau agreed to waive his remuneration for the year ended 31 December 2015.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no director (2015: nil), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the five (2015: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**8,179**	4,126
Discretionary bonuses	**1,931**	2,575
Pension scheme contributions	**550**	455
Share-based compensation	**103,399**	128,883
	114,059	136,039

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 2016	2015
RMB11,500,001 to RMB12,000,000	**1**	—
RMB12,500,001 to RMB13,000,000	**—**	1
RMB13,000,001 to RMB13,500,000	**—**	1
RMB17,000,001 to RMB17,500,000	**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**	—
RMB30,500,001 to RMB31,000,000	**—**	1
RMB38,000,001 to RMB38,500,000	**1**	—
RMB60,500,001 to RMB61,000,000	**—**	1
	5	5

During the year and in the prior year, 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 37 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 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% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2016.

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

	NOTE	2016 RMB'000	2015 RMB'000
Current — Mainland China		**135,166**	149,720
Current — Hong Kong		**19,443**	20,830
Current — Elsewhere		**24,343**	16,795
Deferred	35	**(11,105)**	13,311
Total tax charge for the year		**167,847**	200,656

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:

	2016 RMB'000	%	2015 RMB'000	%
Profit/(loss) before tax	**(124,428)**		542,360	
Tax at the statutory tax rate of Mainland China	**(31,107)**	**25.0**	135,590	25.0
Lower tax rates for specific provinces or enacted by local authority	**(172,568)**	**138.7**	(36,462)	(6.7)
Effect of different tax rates in different jurisdictions	**262,597**	**(211.0)**	(132)	—
Effect on opening deferred tax of change in rates	**4,459**	**(3.6)**	(2,582)	(0.5)
Income not subject to tax	**(6,811)**	**5.5**	(1,594)	(0.3)
Expenses not deductible for tax	**77,713**	**(62.5)**	53,963	9.9
Research and development super deduction	**(66,200)**	**53.2**	(43,742)	(8.1)
Effect of withholding tax on the gain of disposal of investment	**3,341**	**(2.7)**	—	—
Profit and losses attributable to joint ventures and associates	**(4,118)**	**3.3**	6,057	1.1
Tax losses and temporary differences not recognised	**81,121**	**(65.2)**	89,780	16.6
Tax losses and other deductible temporary differences utilised from previous periods	**(13,661)**	**11.0**	(9,967)	(1.8)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**29,938**	**(24.1)**	10,972	2.0
Adjustments in respect of current tax of previous periods	**3,143**	**(2.5)**	(1,227)	(0.2)
Tax charge at the Group's effective rate	**167,847**	**(134.9)**	200,656	37.0

The share of tax credit attributable to associates and joint ventures amounting to RMB914,000 (2015: RMB755,000) and RMB4,000 (2015: RMB303,000), respectively, is included in "Share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

13. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final dividend (notes (a) and (b)):		
HK$0.10 (2015: HK$0.10) per share based on issued share capital as at year end	**116,643**	109,122
Less: Dividend for shares held for share award scheme as at year end	**(967)**	(1,227)
	115,676	107,895

Notes:

(a) The actual amount of the 2015 dividend finally paid was RMB110,111,000, after eliminating the amount of RMB1,222,000 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.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,290,193,487 (2015: 1,271,480,719) in issue during the year.

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

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

	2016 RMB'000	2015 RMB'000
EARNINGS		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**(270,732)**	369,178
Decrease in earnings adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries	**—**	(2,524)
	(270,732)	366,654

	NUMBER OF SHARES 2016	 2015
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	**1,290,193,487**	1,271,480,719
Effect of dilution — weighted average number of ordinary shares:		
Share options	**—**	9,554,323
Awarded shares	**—**	5,267,400
	1,290,193,487	1,286,302,442

For the year ended 31 December 2015, both the convertible bonds issued in 2014 and 2013 had anti-dilutive effect on the basic earnings per share and were ignored in the calculation of diluted earnings per share. Therefore, no impact of the convertible bonds issued in 2014 and 2013 was adjusted on the calculation of the diluted earnings per share during the year ended 31 December 2015.

For the year ended 31 December 2016, both the convertible bonds issued in 2014 and 2013, share option schemes and the share award schemes adopted by the Company and subsidiaries had anti-dilutive effect on the basic earnings per share and were ignored in the calculation of diluted earnings per share. Therefore, no impact of the convertible bonds issued in 2014 and 2013, share option schemes and the share award schemes adopted by the Company and subsidiaries was adjusted on the calculation of the diluted earnings per share during the year ended 31 December 2016.

15. 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 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 40)	**—**	**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 41)	**—**	**(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**
31 DECEMBER 2015							
At 1 January 2015:							
Cost	256,539	502,680	129,109	4,901	20,433	59,341	973,003
Accumulated depreciation	(23,705)	(232,614)	(117,565)	(2,473)	(13,009)	—	(389,366)
Net carrying amount	232,834	270,066	11,544	2,428	7,424	59,341	583,637
At 1 January 2015, net of accumulated depreciation	232,834	270,066	11,544	2,428	7,424	59,341	583,637
Additions	—	406,261	22,066	1,860	54,588	83,045	567,820
Acquisition from business combination (note 40)	—	3,477	—	—	—	—	3,477
Disposals	—	(691)	(1,012)	(206)	(254)	—	(2,163)
Depreciation provided during the year	(4,682)	(172,402)	(5,331)	(1,380)	(3,969)	—	(187,764)
Exchange realignment	—	874	140	42	16	—	1,072
At 31 December 2015, net of accumulated depreciation	228,152	507,585	27,407	2,744	57,805	142,386	966,079
At 31 December 2015:							
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

15. 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 2016 was RMB2,100,000 (2015: RMB26,634,000).

During the year ended 31 December 2016, the Group recognised an impairment loss of RMB20,750,000 (2015: nil) for certain property, plant and equipment of the Group. These property, plant and equipment belong to the cloud services, office software and others segment.

16. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**276,726**	281,066
Amortisation during the year	**(4,340)**	(4,340)
Carrying amount at 31 December	**272,386**	276,726
Current portion included in prepayments, deposits and other receivables	**(4,340)**	(4,340)
Non-current portion	**268,046**	272,386

17. GOODWILL

	NOTES	RMB'000
At 1 January 2015:		
Cost		267,288
Accumulated impairment		—
Net carrying amount		267,288
Cost at 1 January 2015, net of accumulated impairment		267,288
Acquisition of subsidiaries	40	349,108
Impairment during the year		(23,746)
Exchange realignment		26,387
Cost and net carrying amount at 31 December 2015		619,037
At 31 December 2015:		
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	40	**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**

17. GOODWILL (continued)

Impairment testing of goodwill

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

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

2016

	INFORMATION SECURITY AND INTERNET SERVICES CASH GENERATING UNIT RMB'000	CLOUD SERVICES CASH GENERATING UNIT RMB'000	TOTAL RMB'000
Carrying amount of goodwill	**945,097**	**9,559**	**954,656**

2015

	INFORMATION SECURITY AND INTERNET SERVICES CASH GENERATING UNIT RMB'000	TOTAL RMB'000
Carrying amount of goodwill	619,037	619,037

Information security and internet services cash generating unit

Management identified Cheetah Mobile as one cash-generating unit to test impairment of goodwill. As disclosed in note 4, Cheetah Mobile controls Kingsoft Japan by virtue of its power to have major voting rights in the shareholders meeting of Kingsoft Japan from 29 January 2016, goodwill generated from Kingsoft Japan belongs to information security and internet services cash-generating unit accordingly, the comparative period has been restated to conform to the current period's presentation to facilitate comparison.

The recoverable amount of the information security and internet services cash-generating unit has been determined based on a fair value less cost of disposal, which is based on the market price of Cheetah Mobile which is a NYSE listed company less the estimated cost of disposal. Considering the high market price of Cheetah Mobile, for the year ended 31 December 2016 no impairment (2015: nil) was provided for the goodwill of the information security and internet services cash-generating unit.

17. GOODWILL (continued)

Impairment testing of goodwill (continued)

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 21%, which is determined by reference to the average rates 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 2016 (2015: nil).

18. 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 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 40)	**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**
31 DECEMBER 2015						
At 1 January 2015						
Cost	137,713	67,668	27,229	93,534	16,737	342,881
Accumulated amortisation and impairment	(68,570)	(23,467)	(23,082)	(27,733)	(2,604)	(145,456)
Net carrying amount	69,143	44,201	4,147	65,801	14,133	197,425
Cost at 1 January 2015, net of accumulated amortisation and impairment	69,143	44,201	4,147	65,801	14,133	197,425
Additions	55,550	17,556	—	—	1,260	74,366
Acquisition from business combination (note 40)	94,845	—	—	14,710	6,000	115,555
Amortisation provided during the year	(74,806)	(19,452)	(4,147)	(33,080)	(2,634)	(134,119)
Impairment during the year	(213)	(24,248)	—	—	(789)	(25,250)
Disposals	(1,348)	(2,084)	—	—	(158)	(3,590)
Exchange realignment	17,849	1,423	—	3,176	4	22,452
At 31 December 2015	161,020	17,396	—	50,607	17,816	246,839
At 31 December 2015:						
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

During the year ended 31 December 2016, the Group recognised an impairment loss of RMB2,889,000 (2015: RMB25,250,000) for certain other intangible assets of the Group. These intangible assets belong to the information security and internet services segment.

19. INVESTMENTS IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Share of net assets	**147,144**	42,238
Goodwill on acquisition	**37,803**	33,478
	184,947	75,716
Provision for impairment	**(19,435)**	(1,425)
	165,512	74,291

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 center 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 financial statements:

19. INVESTMENTS IN JOINT VENTURES (continued)

	2016 RMB'000	2015 RMB'000
Cash and bank balance	**12,940**	2,865
Other current assets	**312,046**	4
Current assets	**324,986**	2,869
Non-current assets	**4,817**	33
Current liabilities	**53,496**	508
Net assets	**276,307**	2,394
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	**110,523**	958
Carrying amount of the investment	**116,520**	6,955
Revenue	**276,732**	—
Interest income	**8**	75
Depreciation and amortisation	**(16)**	(2)
Profit/(loss) and total comprehensive income/(loss) for the year	**273,913**	(7,616)

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

	2016 RMB'000	2015 RMB'000
Share of the joint ventures' loss for the year	**(9,084)**	(20,959)
Share of the joint ventures' total comprehensive loss	**(9,084)**	(20,959)
Aggregate carrying amount of the Group's investments in the joint ventures	**48,992**	67,336

(i) The Group has discontinued the recognition of its share of losses of three 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 losses of these joint ventures for the current year and cumulatively were RMB2,099,000 (2015: RMB1,683,000) and RMB9,120,000 (2015: RMB7,021,000), 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 2016, the Group recognised an impairment loss of RMB18,010,000 (2015: RMB1,425,000) for investments in joint ventures.

(iv) The Group's loans to joint ventures are disclosed in note 44(b) to the financial statement.

20. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	**254,305**	220,327
Goodwill on acquisition	**156,059**	31,534
	410,364	251,861
Provision for impairment	**(3,591)**	(1,852)
	406,773	250,009

The Group's shareholdings in the associates all comprise equity share held by the Company's subsidiaries.

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

	2016 RMB'000	2015 RMB'000
Share of the associates' losses for the year	**(66,747)**	(19,299)
Share of the associates' other comprehensive income	**—**	559
Share of the associates' total comprehensive loss	**(66,747)**	(18,740)
Aggregate carrying amount of the Group's investments in the associates	**406,773**	250,009

(i) The Group has discontinued the recognition of its share of losses of four associates because the share of losses of the associates exceeded the Group's interest in these associates and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of these associates for the current year and cumulatively were nil (2015: 790,000) and RMB1,268,000 (2015: RMB1,268,000), respectively.

(ii) 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.

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

(iv) During the year ended 31 December 2016, the Group recognised an impairment loss of RMB1,739,000 (2015: RMB1,380,000) for investments in associates.

(v) The Group's loans to associates are disclosed in note 44(b) to the financial statements.

21. AVAILABLE-FOR-SALE INVESTMENTS

	NOTES	2016 RMB'000	2015 RMB'000
Listed equity investments in United States, at fair value	(i)	**665,530**	1,726,438
Unlisted equity investments, at fair value	(i)	**131,803**	—
Unlisted equity investments, at cost	(ii)	**458,170**	549,864
		1,255,503	2,276,302
Current portion		**(204,849)**	(50,000)
Non-current portion		**1,050,654**	2,226,302

During the year, the gross loss in respect of the Group's available-for-sale investments at fair value recognised in other comprehensive loss amounted to RMB853,550,000 (2015: gross gain of RMB186,632,000), of which loss of RMB890,203,000 (2015: loss RMB24,951,000) was reclassified from other comprehensive loss 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 2016, 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 RMB1,235,250,000 (2015: RMB27,534,000), which included a reclassification from other comprehensive income of RMB914,541,000 (2015: RMB25,891,000), were recognised in 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 RMB566,477,000.

(ii) During the year ended 31 December 2016, certain of the Group's available-for-sale investments measured at cost were individually determined to be impaired, impairment losses of RMB3,910,000 (2015: RMB6,031,000) were recognised in the statement of profit or loss for the year.

As at 31 December 2016, the unlisted equity investments with a carrying amount of RMB458,170,000 (2015: RMB549,864,000) 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 them in the near future.

22. OTHER FINANCIAL ASSETS

	NOTES	2016 RMB'000	2015 RMB'000
Ordinary share subscription option	(i)	**38,621**	12,073
Others		**32,470**	14,221
		71,091	26,294

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 ("VNG"), 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.

23. OTHER NON-CURRENT ASSETS

	NOTE	2016 RMB'000	2015 RMB'000
Long term prepayments, deposits and other receivables	(i)	**34,502**	93,318
Loans to related parties	44(b)	**—**	668
Others		**8,957**	12,303
		43,459	106,289

Notes:

(i) Long term receivables were mainly related to the disposal of investment in Sky Profit Limited ("Sky Profit") on 25 February 2014. Upon completion of the disposal of its equity interest in Sky Profit, the Group recognised a gain on disposal of RMB117 million. According to the share purchase agreement, the consideration for the disposal was to be settled within 4 years, and the current and non-current portions of the consideration of RMB51 million and RMB68 million were recorded in other receivables and other non-current assets as at 31 December 2015, respectively. In February 2016, all of the remaining consideration was settled in advance.

24. INVENTORIES

	2016 RMB'000	2015 RMB'000
Packaging materials	**366**	299
Trading stocks	**10,732**	5,072
	11,098	5,371

25. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**1,860,277**	986,117
Impairment	**(86,121)**	(20,117)
	1,774,156	966,000

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

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

	2016 RMB'000	2015 RMB'000
0 to 30 days	**908,394**	618,235
31 to 60 days	**191,128**	114,974
61 to 90 days	**456,060**	71,687
91 to 365 days	**144,024**	116,429
Over one year	**74,550**	44,675
	1,774,156	966,000

25. TRADE RECEIVABLES (continued)

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

	2016 RMB'000	2015 RMB'000
At 1 January	**20,117**	8,362
Impairment losses recognised	**50,754**	16,711
Business combination	**9,340**	—
Impairment losses reversed	**(1,085)**	(5,880)
Amount written off as uncollectible	**(828)**	(112)
Exchange realignment	**7,823**	1,036
	86,121	20,117

Included in the above provision for impairment of trade receivables is a provision for individual impaired trade receivables of RMB86,121,000 (2015: RMB20,117,000) with a carrying amount before provision of RMB88,844,000 (2015: RMB20,117,000).

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**1,325,195**	624,733
0 to 30 days past due	**157,269**	114,974
31 to 60 days past due	**91,034**	71,687
61 to 90 days past due	**129,101**	114,131
91 to 365 days past due	**57,899**	21,569
Over 1 year past due	**10,935**	18,906
	1,771,433	966,000

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 RMB643,202,000 (2015: RMB33,398,000) due from a company whose parent has a significant influence on the Company, and an amount of RMB132,188,000 (2015: RMB45,711,000) 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.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	NOTE	2016 RMB'000	2015 RMB'000
Prepayments		**121,599**	99,077
Deposits		**16,368**	9,167
Due from related parties	44(b)	**141,233**	129,725
Other receivables		**856,105**	609,511
		1,135,305	847,480
Impairment		**(13,277)**	(10,082)
		1,122,028	837,398

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

	2016 RMB'000	2015 RMB'000
At 1 January	**10,082**	10,533
Impairment losses recognised	**6,212**	4,516
Impairment losses reversed	**(906)**	(5,000)
Amount written off as uncollectible	**(2,611)**	—
Exchange realignment	**500**	33
	13,277	10,082

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

	NOTES	2016 RMB'000	2015 RMB'000
Cash and bank balances		**1,718,341**	1,553,088
Non-pledged time deposits with original maturity of less than three months when acquired		**3,018,595**	4,317,593
Principal protected structure deposits with original maturity of less than three months when acquired		**1,039,400**	758,594
		5,776,336	6,629,275
Non-pledged time deposits with original maturity of over three months when acquired		**1,229,887**	356,939
Principal protected structure deposits with original maturity of over three months when acquired		**2,819,271**	1,620,220
		4,049,158	1,977,159
Cash and bank deposits		**9,825,494**	8,606,434
Pledged time deposits for bank loans	30	**69,370**	46,657
Restricted cash	(iii)	**98,381**	130,187
		9,993,245	8,783,278

27. 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 2016, restricted cash of RMB98,381,000 (2015: RMB130,187,000) was not a part of cash and cash equivalents, which was not available for the Group's use. The restricted cash mainly represents the escrow amounts and its related interest income held in an escrow accounts by the Group, which shall be available for the payment of the consideration payables to the sellers in accordance with the terms of the share purchase agreements to acquire MobPartner S.A.S ("MobPartner") and News Republic SAS ("News Republic"). In April 2016, restricted cash of US$11,415,000 (equivalent to RMB73,725,000) in respect of acquisition of MobPartner was released and paid to the original shareholders of MobPartner in accordance with the terms of the share purchase agreement.

28. TRADE PAYABLES

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

	2016 RMB'000	**2015 RMB'000**
0 to 30 days	**331,638**	138,561
31 to 60 days	**60,214**	10,806
61 to 90 days	**111,861**	4,968
91 to 365 days	**51,213**	22,779
Over 1 year	**5,562**	8,303
	560,488	185,417

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 RMB15,469,000 (2015: RMB23,461,000), RMB26,223,000 (2015: RMB16,272,000) and RMB285,485,000 (2015:nil), 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.

29. OTHER PAYABLES AND ACCRUALS

	NOTES	2016 RMB'000	2015 RMB'000
Deposits received from customers		**11,390**	70,997
Redeemable convertible preferred shares	33	**41,387**	—
Other payables		**1,030,182**	738,722
Accruals		**846,575**	769,715
Other taxes payable		**87,183**	115,461
Consideration for acquiring businesses		**129,081**	154,526
Finance lease payables	34	**17,203**	27,639
Due to related parties	44(b)	**301**	3,734
		2,163,302	1,880,794
Non-current portion			
Consideration for acquiring businesses		**(13,893)**	(55,665)
Other payables		**(19,827)**	—
Finance lease payables	34	**(5,788)**	(16,440)
		(39,508)	(72,105)
Current portion		**2,123,794**	1,808,689

Other payables are non-interest-bearing.

30. INTEREST-BEARING BANK LOANS

	NOTE	EFFECTIVE INTEREST RATE	MATURITY	RMB'000
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		**0.00%–3.02% PER ANNUM**	**2017**	**32,694**
				379,544
Non-current				
Bank loans — unsecured		**0.00%–4.28% PER ANNUM**	**2018–2021**	**438,330**
				817,874
At 31 December 2015				
Current				
Bank loan — secured	(ii)	0.94%–2.07% per annum	2016	146,628
Current portion of long term bank loans — unsecured		1.98%–2.92% per annum	2016	401
				147,029
Non-current				
Bank loans — unsecured		1.98%–2.92% per annum	2017–2021	10,523
				157,552

30. INTEREST-BEARING BANK LOANS (continued)

	2016 RMB'000	2015 RMB'000
Analysed into:		
Within one year or on demand	**379,544**	147,029
In the second year	**96,045**	2,273
In the third to fifth years, inclusive	**342,285**	6,558
Beyond five year	**—**	1,692
	817,874	157,552

Notes:

(i) The Group has overdraft facilities amounting to US$110,000,000, RMB400,000,000 and nil, respectively (2015: US$50,000,000, nil and HK$100,000,000, respectively), of which US$69,767,000, RMB319,532,000 and nil, respectively (2015: US$20,000,000, nil and HK$20,000,000, respectively) had been utilised as at the end of reporting period.

(ii) Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB69,370,000 (2015: RMB46,657,000).

(iii) As at 31 December 2016, interest-bearing bank loans of the Group amounting to nil, RMB447,437,000, RMB50,905,000 and RMB319,532,000 were denominated in HK$, US$, Euro and RMB, respectively (2015: RMB16,756,000, RMB129,872,000, RMB10,924,000 and nil, respectively).

31. DEFERRED REVENUE

	2016 RMB'000	2015 RMB'000
Entertainment software	**490,536**	342,773
Information security software	**43,839**	63,619
Other application software	**16,323**	11,505
Government grants	**34,373**	32,208
	585,071	450,105
Less: Current portion	**(547,462)**	(425,964)
Non-current portion	**37,609**	24,141

32. CONVERTIBLE BONDS

		2016 RMB'000	2015 RMB'000
Liability component			
2013 Convertible bonds	(a)	**885,984**	824,881
2014 Convertible bonds	(b)	**2,025,370**	1,874,817
		2,911,354	2,699,698
Equity component			
2013 Convertible bonds	(a)	**6,290**	6,290
2014 Convertible bonds	(b)	**66,005**	66,005
		72,295	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 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, the distribution in specie of ADS of Cheetah Mobile in May 2014, the payment of a final dividend of HK$0.12 per share for the financial year of 2013 and the payment of the 2014 final dividend resulted in an adjustment to the conversion prices of each of the 2013 Convertible Bonds. Considering the 2014 final dividend has been approved by the shareholders at the annual general meeting, the adjustment became effective on 2 June 2015, and the conversion price of the 2013 Convertible Bonds was adjusted to HK$16.70 per share.

In accordance with the respective terms and conditions of the 2013 Convertible Bonds, the issue of 100,000,000 additional shares in June 2015 and the payment of the 2015 final dividend resulted in a further adjustment to the conversion prices of each of the 2013 Convertible Bonds. Considering the 2015 final dividend has been approved by the shareholders at the annual general meeting, the adjustment became effective on 2 June 2016, and the conversion price of the 2013 Convertible Bonds was adjusted to HK$16.46 per share.

32. CONVERTIBLE BONDS (CONTINUED)

(a) (continued)

Certain holders of the bonds have exercised their rights to convert the 2013 Conversion Bonds into shares at the conversion price of HK$16.9363 (adjusted price of HK$16.70 after 2 June 2015) per share during the year ended 31 December 2015. Upon such conversions of the 2013 Convertible Bonds, 21,044,154 shares were allotted and issued by the Company to the relevant holders of the bonds. The aggregate principal amount of the 2013 Convertible Bonds remaining outstanding following the conversion of the 2013 Convertible Bonds is HK$1,000 million.

There was no conversion or redemption of the 2013 Convertible Bonds during the year ended 31 December 2016.

The movements of the liability component and the equity component of the 2013 Convertible Bonds for the years ended 31 December 2016 and 2015 are set out below:

	LIABILITY COMPONENT RMB'000	EQUITY COMPONENT RMB'000
At 1 January 2015	1,047,132	8,500
Conversion to ordinary shares	(275,370)	(2,210)
Exchange realignment	47,972	—
Interest expenses	5,147	—
At 31 December 2015	824,881	6,290
Exchange realignment	**55,986**	**—**
Interest expenses	**5,117**	**—**
At 31 December 2016	**885,984**	**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 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.

32. 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, 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 on 2 June 2016.

There was no conversion or redemption of the 2014 Convertible Bonds during the years ended 31 December 2016 and 2015.

The movements of the liability component and the equity component of the 2014 Convertible Bonds for the years ended 31 December 2016 and 2015 are set out below:

	LIABILITY COMPONENT RMB'000	EQUITY COMPONENT RMB'000
At 1 January 2015	1,745,190	66,005
Exchange realignment	108,529	—
Interest expenses	21,098	—
At 31 December 2015	1,874,817	66,005
Exchange realignment	**127,640**	**—**
Interest expenses	**22,913**	**—**
At 31 December 2016	**2,025,370**	**66,005**

33. REDEEMABLE CONVERTIBLE PREFERRED SHARES ISSUED BY A SUBSIDIARY

On 5 February and 6 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$108.90 million (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.

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) financial liability measured at fair value with changes through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity. During the year ended 31 December 2016, a loss of RMB731,000 resulting from the changes in fair value of conversion rights was recognised though profit or loss. The movements of the series C redeemable convertible preferred shares for the year ended 31 December 2016 are set out below:

	LIABILITY COMPONENTS RMB'000	EQUITY COMPONENT RMB'000
Upon issuance	**313,482**	**5,438**
Fair value changes	**731**	
Exchange realignment	**20,182**	**—**
Interest expenses	**3,999**	**—**
At 31 December 2016	**338,394**	**5,438**

As at 31 December 2016, the current portion of liability components of series C redeemable convertible preferred shares amounting to RMB41,387,000 was recorded in other payables and accruals.

34. 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 ranging from two to three years.

At 31 December 2016, the total future minimum lease payments under finance leases and their present values were as follows:

	MINIMUM LEASE PAYMENTS 2016 RMB'000	MINIMUM LEASE PAYMENTS 2015 RMB'000	PRESENT VALUE OF MINIMUM LEASE PAYMENTS 2016 RMB'000	PRESENT VALUE OF MINIMUM LEASE PAYMENTS 2015 RMB'000
Amounts payable:				
Within one year	**12,312**	12,644	**11,415**	11,199
After one year but not more than three years	**6,107**	17,656	**5,788**	16,440
Total minimum finance lease payments	**18,419**	30,300	**17,203**	27,639
Future finance charges	**(1,216)**	(2,661)		
Total net finance lease payables	**17,203**	27,639		
Current portion	**(11,415)**	(11,199)		
Non-current portion	**5,788**	16,440		

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

35. DEFERRED TAX

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

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 SALES 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 40)	—	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 40)	—	—	—	—	—	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

35. DEFERRED TAX (CONTINUED)

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

Deferred tax liabilities

2015	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	OTHERS RMB'000	TOTAL RMB'000
At 1 January 2015	3,468	16,978	20,162	975	41,583
Acquisition of subsidiaries (note 40)	—	31,210	—	—	31,210
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12)	(1,224)	(8,408)	—	259	(9,373)
Exchange realignment	—	(880)	—	—	(880)
Gross deferred tax liabilities at 31 December 2015	2,244	38,900	20,162	1,234	62,540

Deferred tax assets

2015	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 2015	35,881	17,930	510	2,064	18,629	—	2,974	77,988
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 12)	(32,327)	(8,325)	760	2,224	1,458	11,270	2,256	(22,684)
Gross deferred tax assets at 31 December 2015	3,554	9,605	1,270	4,288	20,087	11,270	5,230	55,304

* The share of deferred tax liability arising from acquisition of subsidiaries amounting to RMB28,520,000 (2015: RMB31,210,000) was not charged to the statement of profit or loss.

35. DEFERRED TAX (continued)

The Group has tax losses arising in Mainland China of RMB1,235,187,000 as at 31 December 2016 (2015: RMB894,641,000) 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 2016 and 2015 are listed below:

	2016 RMB'000	2015 RMB'000
Expiration date		
31 December 2016	—	6,398
31 December 2017	**51,032**	37,463
31 December 2018	**85,225**	87,761
31 December 2019	**182,559**	201,641
31 December 2020	**442,591**	561,378
31 December 2021	**473,780**	—

The Group also has tax losses arising in Hong Kong of RMB126,872,000 (2015: RMB123,448,000) 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:

	2016 RMB'000	2015 RMB'000
Tax losses	**1,393,680**	1,049,640
Deductible temporary differences	**39,193**	325,793
	1,432,873	1,375,433

35. 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 RMB4,064 million at 31 December 2016 (2015: RMB2,992 million). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

36. SHARE CAPITAL

Shares

	2016 RMB'000	2015 RMB'000
Authorised:		
2,400,000,000 (2015: 2,400,000,000) ordinary shares of US$0.0005 each	**9,260**	9,260
Issued and fully paid:		
1,303,985,687 (2015: 1,302,479,287) ordinary shares of US$0.0005 each	**5,097**	5,092

36. 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 2015		1,164,641,188*	4,730	219,207	(83,964)	139,973
Approved and paid final dividend in respect of the previous year		—	—	(121,521)	—	(121,521)
Issuance of new shares	(i)	100,000,000	308	2,145,716	—	2,146,024
Exercise of share options	37	743,640	2	2,079	—	2,081
Vested awarded shares transferred to employees	37	1,720,467	—	—	4,035	4,035
Conversion of convertible bonds	32	21,044,154	65	279,679	—	279,744
Shares repurchased for cancellation		(349,000)	(13)	(50,497)	45,163	(5,347)
At 31 December 2015 and 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	13	**—**	**—**	**(110,111)**	**—**	**(110,111)**
Exercise of share options	37	**1,506,400**	**5**	**4,577**	**—**	**4,582**
Vested awarded shares transferred to employees	37	**3,865,000**	**—**	**—**	**9,289**	**9,289**
At 31 December 2016		**1,293,171,849**	**5,097**	**2,369,129**	**(25,477)**	**2,348,749**

* Excluding 10,813,838 (2015: 14,678,838) shares held by the Share Award Scheme Trust as at 31 December 2016.

(i) On 4 June 2015, the Company issued 100,000,000 ordinary shares at the price of HK$27.40 per share, with the net proceeds of RMB2,146,024,000.

(ii) The subscription rights attaching to 1,506,400 share options (2015: 743,640) were exercised at the subscription price from US$0.24 per share (2015: US$0.2118 to US$0.4616), resulting in the issue of 1,506,400 shares (2015: 743,640) for a total cash consideration, before expenses, of RMB2,484,000 (2015: RMB1,092,000). An amount of RMB2,098,000 (2015: RMB989,000) 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 2016, 3,865,000 awarded shares (2015: 1,720,467) were vested and transferred to employees. An amount of RMB9,289,000 (2015: RMB4,035,000) was transferred from the share-based compensation reserve to treasury shares upon the transfer of the shares.

36. SHARE CAPITAL (continued)

Share options

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

37. SHARE-BASED COMPENSATION COSTS

Share Option Schemes

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

The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme (collectively, the "Pre-IPO Share Option Schemes") in June 2004 ("2004 Scheme") and January 2007 ("2007 Scheme") respectively. The Pre-IPO Share Option Schemes were terminated on 3 September 2007. No share options have been granted under these two schemes since then.

The following shows share options outstanding under the 2004 Scheme and 2007 Scheme during the years ended 31 December 2016 and 2015, and their weighted average exercise prices ("WAEP"):

	2016 NUMBER OF SHARE OPTIONS	2016 WAEP US$ PER SHARE	2015 NUMBER OF SHARE OPTIONS	2015 WAEP US$ PER SHARE
2004 SCHEME				
Outstanding at 1 January	**—**	**—**	53,240	0.0506
Exercised during the year	**—**	**—**	(53,240)	0.0506
Outstanding at 31 December	**—**	**—**	—	—
Exercisable at 31 December	**—**	**—**	—	—
2007 SCHEME				
Outstanding at 1 January	**4,622,100**	**0.2412**	5,312,500	0.2412
Forfeited during the year	**(26,000)**	**0.4616**	—	—
Exercised during the year	**(1,506,400)**	**0.2400**	(690,400)	0.2406
Outstanding at 31 December	**3,089,700**	**0.2400**	4,622,100	0.2412
Exercisable at 31 December	**3,089,700**	**0.2400**	4,622,100	0.2412

The weighted average share price at the date of exercise for the options exercised during the year was HK$16.08 per share (2015: HK$23.60 per share).

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

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

The date of grant and exercise price of the share options under the 2004 Scheme and the 2007 Scheme outstanding as at 31 December 2016 and 2015 are as follows:

	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**		

	NUMBER OF SHARE OPTIONS				
	AT 1 JANUARY 2015	EXERCISED DURING THE YEAR	AT 31 DECEMBER 2015	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
Name or category of participant					
OTHER EMPLOYEES					
In aggregate					
	53,240	(53,240)	—	1 August 2005	0.2118
	5,274,500	(678,400)	4,596,100	1 February 2007*	0.2400
	10,000	(10,000)	—	8 May 2007*	0.2400
	28,000	(2,000)	26,000	1 August 2007*	0.4616
	5,365,740	(743,640)	4,622,100		

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

No option was outstanding under the 2004 Scheme as at 31 December 2016 (2015: nil).

The weighted average remaining contractual life for the Company's share options outstanding under the 2007 Scheme as at 31 December 2016 was 0.08 years (2015: 1.08 years).

37. 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 Company's directors, including independent non-executive directors, 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.

37. 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 2016 and 2015:

	2016 NUMBER OF SHARE OPTIONS	2016 WAEP HK$ PER SHARE	2015 NUMBER OF SHARE OPTIONS	2015 WAEP HK$ PER SHARE
Outstanding at 1 January	**5,900,000**	**2.99**	8,900,000	2.95
Forfeited during the year	**—**	**—**	(3,000,000)	2.89
Outstanding at 31 December	**5,900,000**	**2.99**	5,900,000	2.99
Exercisable at 31 December	**5,300,000**	**3.02**	4,700,000	3.05

There was no exercise of the options under 2011 Share Option Scheme during the year ended 31 December 2016 (2015: nil).

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

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

The date of grant and exercise price of the share options under the 2011 Share Option Scheme outstanding as at 31 December 2016 and 2015 are as follows:

	NUMBER OF SHARE OPTIONS				
	AT 1 JANUARY 2016	FORFEITED 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					
HongJiang Zhang*	**3,500,000**	**—**	**3,500,000**	**20 DECEMBER 2011**	**2.89**
Yuk Keung Ng	**2,400,000**	**—**	**2,400,000**	**20 JULY 2012**	**3.28**
	5,900,000	**—**	**5,900,000**		

	NUMBER OF SHARE OPTIONS				
	AT 1 JANUARY 2015	FORFEITED DURING THE YEAR	AT 31 DECEMBER 2015	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE
Name or category of participant					
EXECUTIVE DIRECTORS					
HongJiang Zhang*	6,500,000	(3,000,000)	3,500,000	20 December 2011	2.89
Yuk Keung Ng	2,400,000	—	2,400,000	20 July 2012	3.28
	8,900,000	(3,000,000)	5,900,000		

* 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.

The weighted average remaining contractual life for the Company's share options outstanding under the 2011 Share Option Scheme as at 31 December 2016 was 5.20 years (2015: 6.20 years).

No new share option was granted during the years ended 31 December 2016 and 2015.

37. 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 2016 was minus RMB2,230,000 (2015: RMB1,014,000).

The 1,506,400 share options exercised during the year resulted in the issue of 1,506,400 ordinary shares of the Company and share capital of RMB5,000 and share premium of RMB2,479,000 (before issue expenses), as further detailed in note 36 to the financial statements.

At the end of the reporting period, the Company had 8,989,700 share options outstanding under the 2004 Scheme, 2007 Scheme and 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 8,989,700 additional ordinary shares of the Company and additional share capital of RMB31,000 and share premium of RMB21,265,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 8,989,700 share options outstanding under the above three schemes, which represented approximately 0.69% of the Company's shares in issue as at that date.

(c) 2006–2007 Kingsoft Japan Share Option Scheme

On 2 November 2006 and 31 July 2007, the shareholders of Kingsoft Japan approved to grant share options to employees in exchange for Kingsoft Japan's ordinary shares. The maximum number of Kingsoft Japan's ordinary shares in respect of which options may be granted is 1,710 in aggregate. Options are exercisable conditional upon a successful initial public offering of Kingsoft Japan. Options granted will expire in ten years. On 17 July 2014, directors of Kingsoft Japan approved to split all outstanding shares of Kingsoft Japan in the proportion of 1:100. As such, the number of shares subject to the options under the 2006-2007 Kingsoft Japan Share Option Scheme was adjusted in the proportion of 1:100.

The following share options were outstanding under the 2006–2007 Kingsoft Japan Share Option Scheme during the years ended 31 December 2016 and 2015:

	2016 NUMBER OF SHARE OPTIONS	2016 WAEP JPY PER SHARE	2015 NUMBER OF SHARE OPTIONS	2015 WAEP JPY PER SHARE
Outstanding at 1 January	**55,000**	**383.64**	55,000	383.64
Expired during the year	**(35,000)**	**545.71**	—	—
Outstanding at 31 December	**20,000**	**100.00**	55,000	383.64
Exercisable at 31 December	**—**	**—**	—	—

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(c) 2006–2007 Kingsoft Japan Share Option Scheme (continued)

The weighted average remaining contractual life for the share options outstanding under the 2006-2007 Kingsoft Japan Option Scheme as at 31 December 2016 was 9.83 years (2015: 0.83 years). 35,000 share options were expired during the year ended 31 December 2016, and the remaining 20,000 share options were extended for 10 years. The exercise price is JPY100 per share.

The total expense in respect of the share options granted under 2006–2007 Kingsoft Japan Share Option Scheme for the year ended 31 December 2016 was nil (2015: nil).

(d) 2014 Kingsoft Japan Share Option Scheme

On 2 January 2014, the shareholders of the Company approved the 2014 Kingsoft Japan Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, which was approved and adopted by the shareholders of Kingsoft Japan on 28 March 2014. The maximum number of ordinary shares under the 2014 Kingsoft Japan Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 2,837 shares (representing 7.85% of the shares in issue at the adoption date). The 2014 Kingsoft Japan Share Option Scheme shall be valid and effective for a term of ten years from 28 March 2014. On 17 July 2014, directors of Kingsoft Japan approved to split all outstanding shares of Kingsoft Japan in the proportion of 1:100. As such, the number of shares subject to the options under the 2014 Kingsoft Japan Share Option Scheme was adjusted in the proportion of 1:100.

The following share options were outstanding under the 2014 Kingsoft Japan Share Option Scheme during the years ended 31 December 2016 and 2015:

	2016 NUMBER OF SHARE OPTIONS	2016 WAEP JPY PER SHARE	2015 NUMBER OF SHARE OPTIONS	2015 WAEP JPY PER SHARE
Outstanding at 1 January	**98,000**	**850**	110,400	850
Forfeited during the year	**(7,400)**	**850**	(12,400)	850
Outstanding at 31 December	**90,600**	**850**	98,000	850
Exercisable at 31 December	**—**		—	

The weighted average remaining contractual life for the share options outstanding under the 2014 Kingsoft Japan Option Scheme as at 31 December 2016 was 7.83 years (2015: 8.83 years). The exercise price is JPY850 per share.

The total expense in respect of the share options granted under the 2014 Kingsoft Japan Share Option Scheme for the year ended 31 December 2016 was nil (2015: nil).

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(e) *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 2016 and 2015:

	2016 NUMBER OF SHARE OPTIONS	2016 WAEP US$ PER SHARE	2015 NUMBER OF SHARE OPTIONS	2015 WAEP US$ PER SHARE
Outstanding at 1 January	**95,850,000**	**0.05**	75,250,000	0.04
Granted during the year	**78,450,000**	**0.07**	49,950,000	0.07
Forfeited during the year	**(26,970,000)**	**0.07**	(29,350,000)	0.06
Outstanding at 31 December	**147,330,000**	**0.06**	95,850,000	0.05
Exercisable at 31 December	**30,790,000**	**0.05**	—	—

The fair value of the share options of Kingsoft Cloud granted during the year ended 31 December 2016 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:

	2016	2015
Dividend yield (%)	**—**	—
Expected volatility (%)	**51.7% – 51.8%**	50.37%
Risk-free interest rate (%)	**0.9% – 1.0%**	2.530%
Expected forfeiture rate (%)	**14%**	—
Weighted average share price (HK$ per share)	**1.7064**	1.3260

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.

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(e) *Kingsoft Cloud Share Option Scheme (continued)*

147,330,000 share options of Kingsoft Cloud were outstanding as at 31 December 2016 with the weighted average remaining contractual life of 7.98 years (2015: 8.40), among which, 30,790,000 is exercisable.

The total expense in respect of the share options granted under the Kingsoft Cloud Share Option Scheme for the year ended 31 December 2016 was RMB26,283,000 (2015: RMB4,324,000).

(f) *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). 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 2016 and 2015:

	2016 NUMBER OF SHARE OPTIONS	2016 WAEP RMB PER SHARE	2015 NUMBER OF SHARE OPTIONS	2015 WAEP RMB PER SHARE
Outstanding at 1 January	**15,665,000**	**1.43**	7,255,000	1.00
Granted during the year	**2,250,000**	**2.44**	9,765,000	2.29
Forfeited during the year	**(2,475,000)**	**1.85**	(1,355,000)	2.09
Outstanding at 31 December	**15,440,000**	**1.62**	15,665,000	1.43
Exercisable at 31 December	**—**	**—**	—	—

The fair value of the share options of Seasun Holdings granted during the year ended 31 December 2016 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:

	2016	2015
Dividend yield (%)	**—**	—
Expected volatility (%)	**57.00%**	57.00%
Risk-free interest rate (%)	**1.79%**	1.79%
Expected forfeiture rate (%)	**9.70%**	9.70%
Weighted average share price (US$ per share)	**0.23**	0.23

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(f) Seasun Holdings Share Option Scheme (continued)

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.

15,440,000 share options of Seasun Holdings were outstanding as at 31 December 2016 with the weighted average remaining contractual life of 7.66 years (2015: 8.14 years), among which, none is exercisable.

The total expense in respect of the share options granted under the Seasun Holdings Share Option Scheme for the year ended 31 December 2016 was RMB4,406,000 (2015: RMB1,883,000).

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

37. 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 2016 and 2015:

	2016 NUMBER OF AWARDED SHARES	2015 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**6,109,601**	11,597,068
Granted during the year	**30,000**	285,000
Forfeited during the year	**(668,300)**	(4,052,000)
Vested and transferred during the year	**(3,865,000)**	(1,720,467)
Outstanding as at 31 December	**1,606,301**	6,109,601
Exercisable as at 31 December	**50,500**	31,000

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	EXERCISED 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**	

37. 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	EXERCISED 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 awarded shares under the Share Award Scheme outstanding as at 31 December 2015 are as follows:

	NUMBER OF AWARDED SHARES			
	AT 1 JANUARY 2015	FORFEITED DURING THE YEAR	AT 31 DECEMBER 2015	GRANT DATE
Name or category of participant				
EXECUTIVE DIRECTORS				
HongJiang Zhang	2,600,000	(2,600,000)	—	29 November 2011
Yuk Keung Ng	200,000	—	200,000	29 November 2013
Tao Zou	300,000	—	300,000	1 June 2012
	3,100,000	(2,600,000)	500,000	

37. 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 2015	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	EXERCISED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2015	GRANT DATE
Name or category of participant						
OTHER EMPLOYEES						
In aggregate						
	31,000	—	—	—	31,000	26 June 2008
	2	—	—	—	2	26 May 2010
	447,500	—	—	(447,500)	—	8 June 2011
	135,066	—	(14,000)	(89,467)	31,599	4 April 2012
	2,874,000	—	(152,000)	(812,000)	1,910,000	1 June 2012
	40,000	—	(24,000)	(16,000)	—	19 June 2012
	150,000	—	—	(50,000)	100,000	3 December 2012
	360,000	—	—	(120,000)	240,000	17 December 2012
	200,000	—	(6,000)	(50,000)	144,000	20 March 2013
	120,000	—	(60,000)	(30,000)	30,000	1 June 2013
	40,000	—	—	(10,000)	30,000	26 August 2013
	40,000	—	—	(10,000)	30,000	9 September 2013
	64,000	—	—	(10,000)	54,000	13 November 2013
	292,500	—	(141,000)	(57,500)	94,000	19 March 2014
	90,000	—	(48,000)	(18,000)	24,000	29 May 2014
	3,453,000	—	(950,000)	—	2,503,000	6 July 2014
	160,000	—	—	—	160,000	2 December 2014
	—	75,000	—	—	75,000	8 January 2015
	—	210,000	(57,000)	—	153,000	31 March 2015
	8,497,068	285,000	(1,452,000)	(1,720,467)	5,609,601	
	11,597,068	285,000	(4,052,000)	(1,720,467)	6,109,601	

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 2016 was RMB12.60 per share (2015: RMB16.64 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 2016, the Share Award Scheme Trust did not acquire shares (2015: nil) of the Company through purchases from the open market.

As at 31 December 2016, 9,207,537 (2015: 8,569,237) forfeited or unawarded shares were held by the Share Award Scheme Trust and would be granted in future.

37. 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 1,606,301 awarded shares outstanding under the Share Award Scheme, which represented approximately 0.12% of the Company's shares in issue as at that date.

The weighted average remaining contractual life for the Company's awarded shares outstanding under the Company's Share Award Scheme as at 31 December 2016 was 1.09 years (2015: 2.58 years).

The total expense recognised in respect of the Awarded Shares for the year ended 31 December 2016 was RMB15,270,000 (2015: RMB27,231,000).

(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 2016 and 2015:

	2016 NUMBER OF AWARDED SHARES	2015 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**41,582,000**	25,000,000
Granted during the year	**4,060,976**	31,582,000
Forfeited during the year	**—**	(15,000,000)
Outstanding as at 31 December	**45,642,976**	41,582,000
Exercisable as at 31 December	**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 2016, 24,282,500 (2015: 8,418,000) forfeited or unawarded shares were held by the Kingsoft Cloud Share Award Scheme Trust, which represented approximately 1.45% of Kingsoft Cloud's shares in issue as at that date.

The weighted average remaining contractual life for the awarded shares outstanding under the Kingsoft Cloud Share Award Scheme as at 31 December 2016 was 1.68 years (2015: 2.91 years).

37. 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 2016 was RMB5,127,000 (2015: RMB3,691,000).

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

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

In November 2015, pursuant to the shareholders resolution, board resolution 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.

Equity Incentive Schemes Adopted by Cheetah Mobile

(a) *2011 Cheetah Mobile Share Award Scheme*

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

The following awarded shares were outstanding under the 2011 Cheetah Mobile Share Award Scheme during the years ended 31 December 2016 and 2015:

	2016 NUMBER OF AWARDED SHARES	**2015 NUMBER OF AWARDED SHARES**
Outstanding as at 1 January	**22,202,973**	38,398,753
Granted during the year	**1,374,000**	6,380,530
Vested and transferred during the year	**(11,675,334)**	(20,192,560)
Forfeited during the year	**(4,893,968)**	(2,383,750)
Outstanding as at 31 December	**7,007,671**	22,202,973
Exercisable as at 31 December	**—**	—

37. SHARE-BASED COMPENSATION COSTS (continued)

Equity Incentive Schemes Adopted by Cheetah Mobile (continued)

(a) 2011 Cheetah Mobile Share Award Scheme (continued)

The fair value of the Cheetah Mobile Awarded Shares was determined based on the market value of the shares of Cheetah Mobile at the grant date. The weighted average fair value of the Cheetah Mobile Awarded Shares granted during the year ended 31 December 2016 was US$1.61 (2015: US$1.91) each.

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

As at 31 December 2016, 4,793,808 (2015: 1,273,840) forfeited or unawarded shares were held by the Cheetah Mobile Share Award Scheme Trust, which represented approximately 0.34% of Cheetah Mobile's shares in issue as at that date.

The weighted average remaining contractual life for the awarded shares outstanding under the 2011 Cheetah Mobile Share Award Scheme as at 31 December 2016 was 4.43 years (2015: 5.43 years).

The total expense recognised in respect of the Cheetah Mobile Awarded Shares for the year ended 31 December 2016 was RMB32,554,000 (2015: RMB72,535,000).

(b) 2014 Cheetah Mobile Share Award Scheme

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

The following awarded shares were outstanding under the 2014 Cheetah Mobile Share Award Scheme during the years ended 31 December 2016 and 2015.

	2016 NUMBER OF RESTRICTED SHARES	2016 WAEP US$ PER SHARE	2015 NUMBER OF RESTRICTED SHARES	2015 WAEP US$ PER SHARE
Outstanding at 1 January	**19,797,900**	**0.30**	—	—
Granted during the year	**40,904,390**	**0.31**	20,808,900	0.30
Forfeited during the year	**(6,770,890)**	**0.32**	(811,000)	0.34
Exercised during the year	**(3,065,470)**	**0.20**	(200,000)	—
Outstanding at 31 December	**50,865,930**	**0.31**	19,797,900	0.30
Exercisable at 31 December	**1,864,530**	**0.21**	584,000	—

The weighted average share price at the date of exercise for the restricted shares with an option feature exercised during the year was US$1.07 per share (2015: US$1.56).

37. SHARE-BASED COMPENSATION COSTS (continued)

Equity Incentive Schemes Adopted by Cheetah Mobile (continued)

(b) 2014 Cheetah Mobile Share Award Scheme (continued)

The fair value of the restricted shares with an option feature of the Cheetah Mobile granted during the year ended 31 December 2016 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:

	2016	**2015**
Dividend yield (%)	**—**	—
Expected volatility (%)	**44.6%–53%**	53.1%–63.3%
Risk-free interest rate (%)	**1.99%–2.98%**	2.68%–2.97%
Expected forfeiture rate (%)	**8%–14%**	5.5%–7%
Weighted average share price (US$ per share)	**0.95–1.63**	1.60–2.58

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other feature of the options granted was incorporated into the measurement of fair value.

The weighted average remaining contractual life for the awarded shares outstanding under the 2014 Cheetah Mobile Share Award Scheme as at 31 December 2016 was 7.31 years (2015: 8.31 years).

The total expense recognised in respect of the Cheetah Mobile Awarded Shares for the year ended 31 December 2016 was RMB170,238,000 (2015: RMB71,772,000).

(c) Cheetah Mobile Equity Incentive Scheme

On 2 January 2014, Cheetah Mobile adopted an equity incentive scheme (the "Cheetah Mobile Equity Incentive Scheme") for the purpose of providing incentive and award to eligible participants. The Cheetah Mobile Equity Incentive Scheme provides for the grant of ordinary shares, restricted shares, share options and share appreciation rights to the employees, directors or non-employee consultants of Cheetah Mobile. The maximum number of the Cheetah Mobile's ordinary shares which may be issued under the Cheetah Mobile Equity Incentive Scheme is 64,497,718. The Cheetah Mobile Equity Incentive Scheme is valid and effective for a term of ten years commencing from its adoption. Except for service conditions, there were no other vesting conditions for all the awards under Cheetah Mobile Equity Incentive Scheme.

37. SHARE-BASED COMPENSATION COSTS (continued)

Equity Incentive Schemes Adopted by Cheetah Mobile (continued)

(c) *Cheetah Mobile Equity Incentive Scheme (continued)*

The following restricted shares with an option feature outstanding under the Cheetah Mobile Equity Incentive Scheme during the year ended 31 December 2016:

	2016 NUMBER OF RESTRICTED SHARES	2016 WAEP US$ PER SHARE	2015 NUMBER OF RESTRICTED SHARES	2015 WAEP US$ PER SHARE
Outstanding at 1 January	**61,320,331**	**0.33**	55,292,131	0.34
Granted during the year	**—**	**—**	11,005,000	0.31
Forfeited during the year	**(4,261,000)**	**0.34**	(3,087,000)	0.34
Exercised during the year	**(8,092,280)**	**0.33**	(1,889,800)	0.34
Outstanding at 31 December	**48,967,051**	**0.33**	61,320,331	0.33
Exercisable at 31 December	**14,181,172**	**0.33**	10,023,493	0.33

The weighted average share price at the date of exercise for the restricted shares with an option feature exercised during the year was US$1.39 per share (2015: US$2.51 per share).

The fair value of the restricted shares with an option feature of the Cheetah Mobile granted during the year ended 31 December 2016 was estimated by an external valuer on the grant date, using a binomial model, taking into account the terms and conditions upon which the restricted shares were granted. The following table lists the inputs to the model used:

	2016	2015
Dividend yield (%)	**—**	—
Expected volatility (%)	**44.6%–50.7%**	52.6%–63.8%
Risk-free interest rate (%)	**1.99%–2.92%**	2.40%–2.99%
Expected forfeiture rate (%)	**8%–14%**	5.5%–7%
Weighted average share price (US$ per share)	**0.95–1.63**	1.45–2.87

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.

48,967,051 restricted shares with an option feature of Cheetah Mobile were outstanding as at 31 December 2016 with the weighted average remaining contractual life of 7.01 years (2015: 7.70 years), among which 14,181,172 (2015: 10,023,493) restricted shares with an option feature are exercisable.

The total expense in respect of the restricted shares with an option feature granted under the Cheetah Mobile Equity Incentive Scheme for the year ended 31 December 2016 was RMB92,231,000 (2015: RMB139,422,000).

37. SHARE-BASED COMPENSATION COSTS (continued)

Other Restricted Share Schemes

During the years ended 31 December 2016 and 2015, 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 Cheetah Mobile*

The following restricted shares granted by Cheetah Mobile were outstanding during the years ended 31 December 2016 and 2015:

	2016 NUMBER OF AWARDED SHARES	2015 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**3,690,667**	—
Granted during the year	**105,000**	4,627,940
Vested and transferred during the year	**(1,348,667)**	(926,023)
Forfeited during the year	**(454,350)**	(11,250)
Outstanding as at 31 December	**1,992,650**	3,690,667
Exercisable as at 31 December	**—**	—

The total expense recognised in the statement of profit or loss in respect of these restricted shares granted by Cheetah Mobile for the year ended 31 December 2016 was RMB7,534,000 (2015: RMB24,926,000).

(b) *restricted shares granted by Beijing Kingsoft Office*

The following restricted shares granted by Beijing Kingsoft Office were outstanding during the years ended 31 December 2016 and 2015:

	2016 NUMBER OF AWARDED SHARES	2015 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**17,051,988**	—
Granted during the year	**12,345,000**	17,051,988
Forfeited during the year	**(5,310,000)**	—
Outstanding as at 31 December	**24,086,988**	17,051,988
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 2016 was RMB6,622,000 (2015: RMB3,781,000).

37. SHARE-BASED COMPENSATION COSTS (continued)

Other Restricted Share Schemes (continued)

(c) *restricted shares granted by Kingsoft Cloud*

The following restricted shares granted by Kingsoft Cloud were outstanding during the years ended 31 December 2016 and 2015:

	2016 NUMBER OF AWARDED SHARES	2015 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**41,437,500**	—
Granted during the year	**—**	55,037,500
Vested and transferred during the year	**(18,430,000)**	(10,000,000)
Forfeited during the year	**(12,007,500)**	(3,600,000)
Outstanding as at 31 December	**11,000,000**	41,437,500
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 2016 was RMB1,449,000 (2015: RMB2,480,000).

(d) *restricted shares granted by Moxiu Technology*

Moxiu Technology, which was acquired in 2015, also granted its equity incentive awards to its employees. The total expense recognised in the statement of profit or loss in respect of these restricted shares granted by Moxiu Technology for the year ended 31 December 2016 was nil (2015: RMB1,227,000).

38. 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 79.

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 79.

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

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

Cheetah Mobile

As at 31 December 2016, the percentage of equity interests held by non-controlling interests of Cheetah Mobile was 50.34% (2015: 51.31%), and the accumulated balance of non-controlling interest of Cheetah Mobile was RMB1,511,535,000 (2015: RMB1,507,855,000). During the year ended 31 December 2016, the loss attributable to and dividends paid to non-controlling interest of Cheetah Mobile was RMB59,969,000 (2015: profit of RMB60,025,000) and nil (2015: nil), respectively.

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

	2016 RMB'000	2015 RMB'000
Revenue	**4,448,681**	3,575,623
Total expenses	**(4,562,436)**	(3,446,198)
Profit/(loss) for the year	**(113,755)**	129,425
Total comprehensive income/(loss) for the year	**(10,800)**	258,924
Current assets	**3,289,063**	3,037,633
Non-current assets	**2,169,139**	1,855,797
Current liabilities	**(2,075,003)**	(1,712,342)
Non-current liabilities	**(193,105)**	(107,211)
Net cash flows from operating activities	**412,138**	974,905
Net cash flows used in investing activities	**(1,007,624)**	(340,595)
Net cash flows from financing activities	**116,552**	81,693
Net (decrease)/increase in cash and cash equivalents	**(478,934)**	716,003

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

KOS Holdings

As at 31 December 2016, the percentage of equity interests held by non-controlling interests of KOS Holdings was 26.88% (2015: 26.47%), and the accumulated balance of non-controlling interest of KOS Holdings was RMB216,495,000 (2015: RMB166,284,000). During the year ended 31 December 2016, profit attributable to and dividends paid to the non-controlling interest of KOS Holdings were RMB45,893,000 (2015: RMB11,429,000) and nil (2015: nil), respectively.

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

	2016 RMB'000	2015 RMB'000
Revenue	**579,414**	407,731
Total expenses	**(453,817)**	(366,601)
Profit for the year	**125,597**	41,130
Total comprehensive income for the year	**117,172**	77,972
Current assets	**931,657**	826,349
Non-current assets	**69,850**	73,365
Current liabilities	**(172,775)**	(236,823)
Non-current liabilities	**(14,402)**	(15,847)
Net cash flows from operating activities	**74,067**	104,332
Net cash flows used in investing activities	**(351,709)**	(34,180)
Net cash flows (used in)/from financing activities	**(3,363)**	4,872
Net (decrease)/increase in cash and cash equivalents	**(281,005)**	75,024

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

Seasun Holdings

As at 31 December 2016, the percentage of equity interests held by non-controlling interests of Seasun Holdings was 23.79% (2015: 23.79%), and the accumulated balance of non-controlling interest of Seasun Holdings was RMB216,497,000 (2015: RMB57,957,000). During the year ended 31 December 2016, the profit attributable to and dividends paid to non-controlling interest of Seasun Holdings were RMB156,386,000 (2015: RMB379,000) and nil (2015: RMB18,860,000), respectively.

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

	2016 RMB'000	2015 RMB'000
Revenue	**2,504,775**	1,273,735
Total expenses	**(1,847,389)**	(1,272,142)
Profit for the year	**657,386**	1,593
Total comprehensive income for the year	**655,978**	6,275
Current assets	**5,764,831**	1,563,504
Non-current assets	**301,340**	145,503
Current liabilities	**(5,089,710)**	(1,452,353)
Non-current liabilities	**(64,847)**	(12,401)
Net cash flows from operating activities	**719,936**	429,074
Net cash flows used in investing activities	**(729,019)**	(93,800)
Net cash flows used in financing activities	**(3,469)**	(74,456)
Net (decrease)/increase in cash and cash equivalents	**(12,552)**	260,818

KCS Holdings

As at 31 December 2016, the percentage of equity interests held by non-controlling interests of KCS Holdings was 37.83% (2015: 37.05%). During the year ended 31 December 2016, no dividends were paid to non-controlling interest of KCS Holdings (2015: nil).

	2016 RMB'000	2015 RMB'000
Revenue	**776,406**	279,505
Assets	**2,032,770**	1,220,055
Liabilities	**(1,296,830)**	(801,169)
Convertible redeemable preferred shares	**(765,570)**	—
Net increase in cash and cash equivalents	**109,925**	416,541

40. BUSINESS COMBINATIONS

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.

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.

40. 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.

Had the combination taken place at the beginning of the period, the revenue of the Group and the loss of the Group for the year ended 31 December 2016 would have been RMB8,282,128,000 and RMB292,472,000, respectively.

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.

40. 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.

40. 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)

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 Group paid nil of the contingent consideration and the fair value of the remaining contingent consideration liability was recognised as US$4,376,000 (equivalent to RMB30,358,000). A loss of RMB3,884,000 resulting from the change in fair value of the contingent consideration liability was recognised in the consolidated statement of profit or loss for the year ended 31 December 2016.

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

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year ended 31 December 2016 would have been RMB8,287,706,000 and RMB315,830,000, respectively.

40. 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.

40. BUSINESS COMBINATIONS (continued)

MobPartner

On 25 March 2015, the Group entered into a share purchase agreement with the original shareholders of MobPartner to acquire 100% equity interests in MobPartner, a global mobile advertising company, at a total consideration of US$51,150,000 (equivalent to RMB314,237,000). The total consideration consists of (i) cash of US$44,556,000 (equivalent to RMB273,726,000); (ii)Cheetah Mobile's ordinary shares of US$3,794,000 (equivalent to RMB23,309,000) representing 2,173,039 class A ordinary shares; and (iii) cash contingent consideration to be paid over a two-year period upon the fulfillment of certain performance-based requirements by MobPartner, which was estimated and recognised as a financial liability at fair value of US$2,800,000 (equivalent to RMB17,202,000) at the acquisition date.

The acquisition was accounted for as a business combination and the acquisition date was 1 April 2015.

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Trademark	13,515
Software	67,579
User base	6,266
Property, plant and equipment	1,207
Other non-current assets	465
Cash and cash equivalents	60,150
Accounts receivable	37,308
Prepayments and other current assets	1,091
Deferred tax liabilities	(29,117)
Accounts payable	(41,774)
Accrued expenses and other current liabilities	(7,007)
Income tax payable	(626)
Interest-bearing bank loans	(10,028)
Total identified net assets at fair value	99,029
Goodwill arising on acquisition	215,208
	314,237
Satisfied by:	
Cash	150,128
Other current and non-current payables	123,598
Contingent consideration	17,202
Cheetah Mobile's ordinary shares	23,309
Total consideration	314,237

40. BUSINESS COMBINATIONS (continued)

MobPartner (continued)

The fair value of the account receivables as at the date of acquisition amounted to RMB37,308,000. The gross contractual amount of account receivables was RMB37,308,000.

The Group incurred transaction costs of RMB7,022,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

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

	RMB'000
Cash consideration	(150,128)
Cash and cash equivalents	60,150
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(89,978)

Pursuant to the share purchase agreement, contingent consideration is payable according to the performance of MobPartner. In November 2015, the Group entered into an agreement with the original shareholders of MobPartner, pursuant to which the contingent consideration liability was extinguished by a fixed payable amounting to US$1,500,000 (equivalent to RMB9,740,000).

Since the acquisition, MobPartner contributed RMB155,053,000 to the Group's turnover and RMB40,305,000 loss to the consolidated profit for the year ended 31 December 2015.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 31 December 2015 would have been RMB5,737,919,000 and RMB341,278,000, respectively.

Moxiu Technology

As at 31 December 2014, the Group held a total of 50.5% equity interest in Moxiu Technology, which was accounted for as an investment in a joint venture.

On 25 May 2015, the Group entered into a capital contribution agreement with Moxiu Technology and its other existing shareholders, pursuant to which, Moxiu Technology increased its registered capital by RMB67,344 and Beijing Cheetah subscribed for all such additional registered capital at a consideration of RMB25,000,000 in cash, representing a premium of RMB24,932,656. Upon completion of the capital injection, the Group holds 52.1% of the equity interest in Moxiu Technology. The total consideration for all the investments in Moxiu Technology consists of (i) cash of RMB25,000,000; and (ii) the fair value of the equity interest in Moxiu Technology previously held by the Group immediately before the acquisition of RMB63,488,000. As a result of the remeasurement of the equity interest in Moxiu Technology from its carrying amount immediately before the acquisition of RMB48,458,000 to its fair value of RMB63,488,000, a gain of RMB15,030,000 was recognised in the consolidated statement of profit or loss during the year ended 31 December 2015.

The acquisition was accounted for as a business combination achieved in stages and the acquisition date was 28 May 2015.

The Group has elected to measure the non-controlling interest in Moxiu Technology at the fair value at the acquisition date.

40. BUSINESS COMBINATIONS (continued)

Moxiu Technology (continued)

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Trademark	6,000
Software	10,620
User base	430
Property, plant and equipment	2,270
Other non-current assets	645
Cash and cash equivalents	26,732
Accounts receivable	1,043
Prepayment and other current assets	766
Deferred tax liabilities	(1,895)
Accounts payable	(259)
Accrued expenses and other current liabilities	(7,361)
Total identified net assets at fair value	38,991
Goodwill arising on acquisition	111,720
Non-controlling interests	(62,223)
	88,488
Satisfied by:	
Cash	25,000
Previously held equity interests remeasured at acquisition date fair value	63,488
Total consideration	88,488

No material transaction costs were incurred in this acquisition.

The fair value of the account receivables as at the date of acquisition amounted to RMB1,043,000. The gross contractual amount of account receivables was RMB1,043,000.

40. BUSINESS COMBINATIONS (continued)

Moxiu Technology (continued)

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

	RMB'000
Cash consideration	(25,000)
Cash and cash equivalents	26,732
Net inflow of cash and cash equivalents included in cash flows used in investing activities	1,732

Since the acquisition, Moxiu Technology contributed RMB15,378,000 to the Group's turnover and RMB4,582,000 to the consolidated profit for the year ended 31 December 2015.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 31 December 2015 would have been RMB5,680,891,000 and RMB335,823,000, respectively.

TSF Launcher Business

On 29 July 2015, the Group signed a purchase agreement with a third party to acquire a mobile game application ("TSF Business") at a total consideration of RMB18,000,000, of which RMB5,400,000 was cash consideration and RMB12,600,000 was the employee's compensation for their future services over a four-year period.

The acquisition was accounted for as a business combination and the acquisition date was 17 September 2015.

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Software	1,000
User base	360
Deferred tax liabilities	(198)
Total identified net assets at fair value	1,162
Goodwill arising on acquisition	4,238
	5,400
Satisfied by:	
Cash	5,400
Total consideration	5,400

No material transaction costs were incurred in this acquisition.

40. BUSINESS COMBINATIONS (continued)

TSF Launcher Business (continued)

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

	RMB'000
Cash consideration	(5,400)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(5,400)

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 TSF business from the Group. Therefore, it is impractical to disclose the revenue and profit or loss of the TSF 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 ended 31 December 2015.

QuickPic Business

On 22 September 2015, the Group signed a purchase agreement with a third party to acquire a mobile phone application ("QuickPic Business") at a total consideration of US$7,600,000 (equivalent to RMB48,346,000). The total consideration consists of (i) cash consideration of US$4,080,000 (equivalent to RMB25,954,000); (ii) cash compensation of US$2,720,000 (equivalent to RMB17,303,000), which is payable over a three-year period for employee's future services; and (iii) Cheetah Mobile's ordinary shares of US$800,000 (equivalent to RMB5,089,000), which is subject to a four-year vesting schedule. As of 31 December 2016, 375,780 Cheetah Mobile's ordinary shares have been granted to the employees.

The acquisition was accounted for as a business combination and the acquisition date was 22 September 2015.

40. BUSINESS COMBINATIONS (continued)

TSF Launcher Business (continued)

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Software	1,272
User base	7,634
Total identified net assets at fair value	8,906
Goodwill arising on acquisition	17,048
	25,954
Satisfied by:	
Cash	25,954
Total consideration	25,954

No material transaction costs were incurred in this acquisition.

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

	RMB'000
Cash consideration	(25,954)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(25,954)

40. BUSINESS COMBINATIONS (continued)

QuickPic Business (continued)

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 QuickPic business from the Group. Therefore, it is impractical to disclose the revenue and profit or loss of the QuickPic 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 ended 31 December 2015.

SmartShowTM Business

On 4 December 2015, the Group entered into an intellectual property licence agreement with a third party to acquire a series of intangible assets (including patents, technology) (collectively known as "SmartShowTM Business"). Pursuant to the agreement, the Group was entitled to: (i) an unexclusive right to use SmartShowTM Business at a consideration of US$1,000,000 in cash (equivalent to RMB6,414,000); (ii) an option to accept six employees from the seller; and (iii) a call option to obtain future proceeds generated from existing contracts signed by the seller at a consideration of US$2,000,000 (equivalent to RMB12,828,000) in cash. The call option remained effective before 4 February 2016 and was not exercised as at 31 December 2015. Management exercised the call option in February 2016.

The acquisition was accounted for as a business combination and the acquisition date was 8 December 2015.

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

	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets:	
Technology	5,300
Other current assets	220
Total identified net assets at fair value	5,520
Goodwill arising on acquisition	894
	6,414
Satisfied by:	
Cash	6,414
Total consideration	6,414

40. BUSINESS COMBINATIONS (continued)

SmartShowTM Business (continued)

No material transaction costs were incurred in this acquisition.

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

	RMB'000
Cash consideration	(6,414)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(6,414)

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 SmartshowTM business from the Group. Therefore, it is impractical to disclose the revenue and profit or loss of the SmartshowTM 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 ended 31 December 2015.

41. DISPOSAL OF A SUBSIDIARY AND BUSINESS

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 balance	6,316
Trade payable	(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	—

41. DISPOSAL OF A SUBSIDIARY AND BUSINESS (continued)

Disposal of a subsidiary (continued)

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 balance disposed of	(6,316)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(6,316)

Disposal of a business

On 1 April 2015, the Group entered into a business and asset transfer agreement with a third-party, pursuant to which, the Group agreed to dispose of the business and assets in relation to mobile virtual network operator business for tablets (the "MVNO Business"), for an aggregate cash consideration of JPY13, 209,366 (equivalent to RMB687,000).

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

	2015 RMB'000
Net assets disposed of:	
Inventories	11
Gain on disposal of the MVNO Business	676
	687
Satisfied by:	
Cash	687

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

	2015 RMB'000
Cash consideration	687
Net inflow of cash and cash equivalents in respect of the disposal of a business	687

42. 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 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**182,289**	181,048
After one year but not more than five years	**211,051**	250,103
After five years	**—**	1,830
	393,340	432,981

As at 31 December 2016, the calculation of the lease payment of some electronic equipment was based on the actual number of users of the relevant servers. The operating lease commitment under these operating leases was RMB853,977,000 for the year ended 31 December 2016 (2015: RMB422,479,133). 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.

43. COMMITMENTS

Capital commitments

	NOTE	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:			
Development of land and buildings	(i)	**697,532**	820,199
Acquisition of a subsidiary		**—**	27,000
Acquisition of intangible assets		**869**	2,222
		698,401	849,421

(i) The capital commitment for the development of land and buildings at 31 December 2016 represented the commitment to invest in an aggregate amount of RMB697,532,000 (2015: RMB820,199,000) in the development of a piece of land in Zhuhai.

44. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	NOTES	2016 RMB'000	2015 RMB'000
Equity contribution from a company controlled by a director of the Company	(i)	—	73,706
Provision of services to a company whose parent has significant influence on the Company	(ii)	**156,632**	277,080
Online marketing services from a company whose parent has significant influence on the Company	(ii)	**35,304**	39,240
Licence fee from a company whose parent has significant influence on the Company	(ii)	**555,756**	4,570
Provision of services to a company controlled by a director of the Company	(iii)	**220,570**	127,320
Purchases of products from a company controlled by a director of the Company	(iii)	**10,976**	15,980
Purchase of service from a company controlled by a director of the Company	(iii)	**64,411**	46,040
Fee from companies controlled by a director of the Company for joint operation of games		**52,799**	26,160
Disposal of an associate to a company controlled by a director of the Company	(iv)	**49,019**	—
Interest income from non-controlling shareholders of subsidiaries	(v)	**2,756**	2,482
Licence fee to a joint venture	(vi)	**279,283**	—
Interest income from an associate		**526**	—

(i) On 30 March 2015, a company controlled by a director of the Company exercised the warrants in full at the exercise price of US$0.0742 per share and subscribed for 161,688,000 Kingsoft Cloud Series A Preferred Shares in an aggregate consideration of US$12 million (equivalent to RMB73,706,000). Upon completion of the transaction, the company controlled by a director of the Company holds approximately 32.77% of equity interests in Kingsoft Cloud.

44. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(ii) In 2013 and 2015, the Group entered into framework agreements with a company whose parent has significant influence on the Company. Pursuant to the framework agreement, the Group provides various forms of promotion services to this related company and its controlled affiliates through the Group's internet platforms. The price is determined based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting the similar transactions. The Group received a total of approximately RMB156,632,000 for the year ended 31 December 2016 (2015: RMB277,080,000).

In 2015, the Group entered into framework agreements with a company whose parent has significant influence on the Company. Pursuant to the framework agreements, the company whose parent has 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. For the year ended 31 December 2016, the Group received online marketing services from the related company and its controlled affiliates of RMB35,304,000 (2015: RMB39,240,000).

In 2015 and 2016, the Group entered into various licensing agreements with a company whose parent has significant influence on the Company to operate the Group's mobile games with this related company at the prevailing fair market price. For the year ended 31 December 2016, the Group received licence fee from this related company and its controlled affiliates of RMB555,756,000 (2015: RMB4,570,000).

(iii) Since 2012, the Group has 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 online advertising services to this related company and its affiliates at the prevailing fair market price in the same industry for similar transactions. During the year ended 31 December 2016, the Group provided services of approximately RMB220,570,000 (2015: RMB127,320,000) to affiliates of the related company.

During the year ended 31 December 2016, the Group purchased smart phones and phone accessories of approximately RMB10,976,000 (2015: RMB15,980,000) from the affiliate of the related company at the market price.

44. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(iii) (continued)

In 2014, 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 its 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. For the year ended 31 December 2016, the aforementioned revenue was approximately RMB64,411,000 (2015: RMB46,040,000).

(iv) As disclosed in note 20, 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).

(v) The interest income from non-controlling shareholders of subsidiaries was approximately HK$3,080,000 (equivalent to RMB2,756,000) and HK$3,075,000 (equivalent to RMB2,482,000) in 2016 and 2015, respectively. Details of the loans are disclosed in note 44(b).

(vi) In 2015 and 2016, the Group entered into game development and operation agreements with a joint venture to joint develop and operate the Group's online games at the prevailing fair market price. For the year ended 31 December 2016, the Group paid licence fee of RMB279,283,000 (2015: nil) to this joint venture.

44. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties:

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

	NOTES	2016 RMB'000	2015 RMB'000
Due from related parties:			
Loans to a non-controlling shareholder of Seasun Holdings	(i)	**99,622**	88,742
Loans to non-controlling shareholders of Beijing Kingsoft Office	(ii)	**—**	30,745
Loan to a director of the Company		**—**	1,189
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	(iii)	**30,275**	3,350
Other receivables from non-controlling shareholders of Beijing Kingsoft Office		**—**	6,367
		141,233	130,393
Less: Current portion	26	**(141,233)**	(129,725)
Non-current portion	23	**—**	668
Receivables from a company controlled by a director of the Company	25	**132,188**	45,711
Receivables from a company whose parent has significant influence on the Company	25	**643,202**	33,398
Due to related parties:			
Advance from a company controlled by a director of the Company	29	**—**	3,734
Advance from a company controlled by a key management of the Company	29	**301**	—
Payables to a company controlled by a director of the Company	28	**15,469**	23,461
Payables to a company whose parent has significant influence on the Company	28	**26,223**	16,272
Payables to a joint venture	28	**285,485**	—

44. 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 of this loan included unpaid principal and interest receivable of RMB92,733,000 and RMB4,009,000, respectively as at 31 December 2016.

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) On 21 May 2012, KOS Holdings issued 200,000,000 ordinary shares (representing 21.05% of the enlarged capital of KOS Holdings) to a company owned by some founding employees of KOS Holdings, including a director of some subsidiaries of KOS Holdings, at a subscription price of US$0.03 per share for an aggregate consideration of US$6,000,000 (equivalent to RMB36,917,000). Part of the consideration amounting to US$4,500,000 (equivalent to RMB27,688,000) was funded by a loan advanced from the Company, the parent of KOS Holdings, which bear interest at the Hong Kong Interbank Offered Rate plus 1.3%, and is secured by 200,000,000 shares of KOS Holdings held by a company owned by some founding employees. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied. In January 2016, all the interest and principal in respect of this loan was settled.

(iii) In November 2015 and March 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 5.225% and 4.75%, respectively, 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 of the loans included unpaid principal and interest receivable of RMB29,133,000 and RMB1,142,000, respectively as at 31 December 2016.

44. 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:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**3,449**	4,952
Pension plan contributions	**295**	317
Share-based compensation costs	**37,643**	62,380
Total compensation paid to key management personnel	**41,387**	67,649

45. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

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**
Loan receivables	**8,957**	**—**	**—**	**8,957**
Trade receivables	**1,774,156**	**—**	**—**	**1,774,156**
Other long term receivables	**21,662**	**—**	**—**	**21,662**
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**

45. 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 liabilities	**30,358**	**1,382,179**	**1,412,537**
Interest-bearing bank loans	**—**	**817,874**	**817,874**
Liability component of convertible bonds	**—**	**2,911,354**	**2,911,354**
Liability components of redeemable convertible preferred shares	**41,387**	**297,007**	**338,394**
Total	**71,745**	**5,968,902**	**6,040,647**

2015

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	—	—	26,294	26,294
Available-for-sale investments	—	2,276,302	—	2,276,302
Loan receivables	12,971	—	—	12,971
Trade receivables	966,000	—	—	966,000
Other long term receivables	88,499	—	—	88,499
Financial assets included in prepayments, deposits and other receivables	738,321	—	—	738,321
Restricted cash	130,187	—	—	130,187
Pledged deposits	46,657	—	—	46,657
Cash and cash equivalents	8,606,434	—	—	8,606,434
Total	10,589,069	2,276,302	26,294	12,891,665

45. 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	—	185,417	185,417
Financial liabilities included in other liabilities	23,339	1,375,696	1,399,035
Interest-bearing bank loans	—	157,552	157,552
Liability component of convertible bonds	—	2,699,698	2,699,698
Total	23,339	4,418,363	4,441,702

46. 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	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
FINANCIAL ASSETS				
Loan receivables	**8,957**	12,971	**9,052**	13,099
Available-for-sale investments	**797,333**	1,726,438	**797,333**	1,726,438
Other long term receivables	**21,662**	88,499	**21,662**	88,499
Other financial assets	**71,091**	26,294	**71,091**	26,294
	899,043	1,854,202	**899,138**	1,854,330
FINANCIAL LIABILITIES				
Liability component of convertible bonds	**2,911,354**	2,699,698	**2,911,354**	2,699,698
Liability components of redeemable convertible preferred shares	**338,394**	—	**338,394**	—
Other liabilities	**30,358**	23,339	**30,358**	23,339
Interest-bearing bank loans	**817,874**	157,552	**818,730**	157,552
	4,097,980	2,880,589	**4,098,836**	2,880,589

46. 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 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 2016 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.

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

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

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**

As at 31 December 2015

	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	1,726,438	—	—	1,726,438
Other financial assets	—	—	26,294	26,294
	1,726,438	—	26,294	1,752,732

46. 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:

	2016 RMB'000	2015 RMB'000
Available-for-sale investments and other financial assets:		
At 1 January	**26,294**	88,441
Additions	**28,829**	53,303
Disposal	**—**	(67,640)
Total gains/(loss) recognised in the statement of profit or loss	**12,080**	(49,650)
Total gain recognised in other comprehensive income	**3,888**	1,840
At 31 December	**71,091**	26,294

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2016:

	VALUATION TECHNIQUES	SIGNIFICANT UNOBSERVABLE INPUTS	SENSITIVITY OF THE INPUT TO FAIR VALUE
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 RMB3,081,000
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB215,000
		Volatility	5% increase (decrease) in volatility would result in increase(decrease) in fair value by RMB1,003,000
Other financial assets	Probabilities Weighted Expected Return Method	Probability	5% increase (decrease) in probability would result in decrease (increase) in fair value by RMB69,000(RMB139,000)
		Bond yield	5% increase (decrease) in bond yield would result in increase (decrease) in fair value by RMB69,000
Other financial assets	Equity valuation allocation model	Probability	5% increase (decrease) in probability would result in increase (decrease) in fair value by RMB500,000 (RMB1,887,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in decrease (increase) in fair value by RMB107,000(RMB7,000)
		Volatility	5% increase (decrease) in volatility would result in decrease (increase) in fair value by RMB1,588,000(RMB894,000)

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

Fair value hierarchy (continued)

Liabilities measured at fair value:

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
Other liabilities	**—**	**—**	**71,745**	**71,745**

As at 31 December 2015

	FAIR VALUE MEASUREMENT USING			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	TOTAL RMB'000
Other liabilities	—	—	23,339	23,339

The movements in fair value measurements in Level 3 during the year are as follows:

	2016 RMB'000	2015 RMB'000
Other financial liabilities at fair value through profit or loss:		
At 1 January	**23,339**	53,591
Additions	**63,345**	17,202
Paid	**(24,686)**	(32,727)
Extinguish	**—**	(18,532)
Total loss recognised in the statement of profit or loss	**4,109**	2,747
Total loss recognised in other comprehensive income	**5,638**	1,058
At 31 December	**71,745**	23,339

46. 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 THE INPUT TO FAIR VALUE
Other liabilities	Discounted cash flow method	Discount rate for cash flows	5% increase(decrease) in discount rate would result in decrease(increase) in fair value by RMB114,000 (RMB113,000)
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 RMB6,709,000(RMB6,606,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB235,000
		Volatility	5% increase (decrease) in volatility would result in increase(decrease) in fair value by RMB1,405,000(RMB1,299,000)
		Probability of IPO	5% increase(decrease) in probability of IPO would result in decrease (increase) in fair value by RMB3,072,000

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 (2015: nil).

Assets for which fair values are disclosed:

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
Loan receivables	**—**	**9,052**	**—**	**9,052**

As at 31 December 2015

	FAIR VALUE MEASUREMENT USING			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	TOTAL RMB'000
Loan receivables	—	13,099	—	13,099

46. 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 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 components of redeemable convertible preferred shares	**—**	**—**	**338,394**	**338,394**
Interest-bearing bank loans	**—**	**818,730**	**—**	**818,730**
	—	**818,730**	**3,249,748**	**4,068,478**

As at 31 December 2015

	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	—	—	2,699,698	2,699,698
Interest-bearing bank loans	—	157,552	—	157,552
	—	157,552	2,699,698	2,857,250

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, convertible bonds, 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 2016, approximately nil, RMB447,437,000, RMB50,905,000 and RMB319,532,000 of the Group's bank loans were denominated in HK$, US$, Euro and RMB (2015: RMB16,756,000, RMB129,872,000, RMB10,924,000 and nil), and bore interest at floating rates.

For the year ended 31 December 2016, if the average interest rate on bank loans had been 5% (2015: 5%) higher/lower with all other variables held constant, the profit of the Group for the year would have been approximately RMB1,293,000 (2015: RMB158,000) lower/higher as a result of higher/lower finance costs.

47. 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 34% (2015: 35%) 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
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**
2015	
If RMB strengthens 5% against HK$	(192,275)
If RMB weakens 5% against HK$	192,275
If RMB strengthens 5% against US$	(40,823)
If RMB weakens 5% against US$	40,823

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 25 to the financial statements.

47. 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 28, 30, 32 and 33 respectively. For trade payables, they are generally on credit terms of two to three months after the invoice date. For other payables and accruals, there are generally no specified contractual maturities for these liabilities, and they are paid on a regular basis or upon counterparty's formal notification.

The Group has been continuously generating cash inflows from its operating activities and recording an increase of cash and bank deposits. As at 31 December 2016, the Group's cash and bank deposits were approximately RMB9,825,494,000 (2015: RMB8,606,434,000), accounting for 75.0% (2015: 80.9%) of the Group's current assets and 55.9% (2015: 55.6%) 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 2016					
	ON DEMAND	LESS THAN THREE MONTHS	3 TO LESS THAN 12 MONTHS	1 TO 5 YEARS	5 YEARS ABOVE	TOTAL
	RMB'000	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	**1,633,447**	**393,513**	**55,447**	**39,508**	**—**	**2,121,915**

	31 DECEMBER 2015					
	ON DEMAND	LESS THAN THREE MONTHS	3 TO LESS THAN 12 MONTHS	1 TO 5 YEARS	5 YEARS ABOVE	TOTAL
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Convertible bonds	—	12,567	36,937	2,910,738	—	2,960,242
Interest-bearing bank loans	—	130,651	17,452	9,714	1,873	159,690
Trade payables	—	154,335	22,779	8,303	—	185,417
Other payables	1,608,215	109,351	38,678	124,550	—	1,880,794

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments (note 21) as at 31 December 2016. 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 2016	HIGH/LOW 2016	31 DECEMBER 2015	HIGH/LOW 2015
United States — NASDAQ Index	**5,383.12**	**5,512.37/ 4,209.76**	5,007.41	5,218.86/ 4,506.49

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
2016		
Investments listed in:		
United States — Available-for-sale	**665,530**	6,655

47. 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 2016 and 31 December 2015.

The Group monitors capital using the asset-liability ratio, which represents total liabilities divided by total assets.

	2016 RMB'000	2015 RMB'000
Total liabilities	**(7,577,228)**	(5,573,522)
Total assets	**17,578,952**	15,484,877
Asset-liability ratio	**43%**	36%

48. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities.

49. EVENT AFTER THE REPORTING PERIOD

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. Pursuant to this agreement, the Company will delegate the voting rights of Cheetah Mobile 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 Mobile), subject to certain conditions.

Upon completion of the transaction, the Group will lose control over Cheetah Mobile and Cheetah Mobile will be accounted for as an associate of the Company.

50. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised IFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

51. 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:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,279,452**	801,825
Property, plant and equipment	**44**	36
Investments in associates	**—**	32,609
Long term receivables	**197**	69,436
Total non-current assets	**1,279,693**	903,906
CURRENT ASSETS		
Prepayments, deposits and other receivables	**5,908**	86,499
Due from subsidiaries	**2,270,047**	2,249,205
Pledged deposit	**—**	20,683
Cash and bank deposits	**2,863,937**	2,950,980
Total current assets	**5,139,892**	5,307,367
CURRENT LIABILITIES		
Other payables and accruals	**24,097**	18,909
Interest-bearing bank loan	**—**	16,756
Income tax payable	**15,035**	11,694
Due to subsidiaries	**265,188**	311,948
Total current liabilities	**304,320**	359,307
NET CURRENT ASSETS	**4,835,572**	4,948,060
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,115,265**	5,851,966
NON-CURRENT LIABILITIES		
Liability component of convertible bonds	**2,911,354**	2,699,698
Total non-current liabilities	**2,911,354**	2,699,698
Net assets	**3,203,911**	3,152,268
EQUITY		
Issued capital	**5,097**	5,092
Share premium account	**2,369,129**	2,474,663
Treasury shares	**(25,477)**	(34,766)
Equity component of convertible bonds	**72,295**	72,295
Other reserves	**782,867**	634,984
TOTAL EQUITY	**3,203,911**	3,152,268

Tao ZOU	**Yuk Keung NG**
Director	*Director*

51. 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	TOTAL RMB'000
AT 1 JANUARY 2015	219,207	(83,964)	74,505	137,224	(145,151)	449,160	650,981
Total comprehensive income for the year	—	—	—	—	185,709	(3,853)	181,856
Approved and paid final dividend in respect of the previous year	(121,521)	—	—	—	—	—	(121,521)
Issuance of new shares	2,145,716	—	—	—	—	—	2,145,716
Exercise of share options	2,079		—	(989)	—	—	1,090
Share-based compensation costs	—	—	—	16,919	—	—	16,919
Vested awarded shares transferred to employees	—	4,035	—	(4,035)	—	—	—
Conversion of convertible bonds	279,679	—	(2,210)	—	—	—	277,469
Share repurchased for cancellation	(50,497)	45,163	—	—	—	—	(5,334)
AT 31 DECEMBER 2015 AND 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	**2,369,129**	**(25,477)**	**72,295**	**150,981[#]**	**251,090[#]**	**380,796[#]**	**3,198,814**

[#] These reserve accounts comprise the other reserves of RMB782,867,000 (2015: RMB634,984,000) 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.

52. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2017.

TERMS AND GLOSSARIES

"2004 Pre-IPO Share Option Scheme"	the share option scheme adopted by the Company on 30 June 2004 before its initial public offering
"2006–2007 Kingsoft Japan Share Option Scheme"	the share option scheme adopted by Kingsoft Japan on 2 November 2006 and 31 July 2007
"2007 Pre-IPO Share Option Scheme"	the share option scheme adopted by the Company on 22 January 2007 before its initial public offering
"2011 Cheetah Mobile Share Award Scheme"	the share award scheme approved and adopted by the directors of Cheetah Mobile on 26 May 2011
"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 Cheetah Mobile Share Award Scheme"	the share award scheme approved and adopted by the shareholders of Cheetah Mobile on 24 April 2014
"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
"2014 Kingsoft Japan Share Option Scheme"	the share option scheme of Kingsoft Japan approved by the shareholders of the Company on 2 January 2014 and adopted by the shareholders of Kingsoft Japan on 28 March 2014
"ADPCU"	daily average peak concurrent users
"ADS"	American Depositary Share
"Antutu Technology"	Beijing Antutu Technology Co., Ltd.* (北京安兔兔科技有限公司)
"APA"	average paying accounts
"ARPU"	average revenue per paying user
"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), a subsidiary of Kingsoft Cloud
"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 Office Software"	Beijing Kingsoft Office Software Co., Ltd.* (北京金山辦公軟件有限公司)
"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
"CG Code"	the Corporate Governance Code 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 and was listed on NYSE in May 2014
"Cheetah Mobile Equity Incentive Scheme"	the equity incentive scheme of Cheetah Mobile approved by the shareholders of the Company and Cheetah Mobile on 2 January 2014
"Cheetah Share(s)"	ordinary share(s) of Cheetah Mobile
"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 Westhouse Interactive & Entertainment Co., Ltd.* (成都西山居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 Network"	Conew Network Technology (Beijing) Co., Ltd.* (可牛網絡技術 (北京) 有限公司)
"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 A Preferred Shares"	series A preferred convertible shares of Kingsoft Cloud with par value of US$0.001 per share
"Kingsoft Cloud Series B Preferred Shares"	series B preferred convertible shares of Kingsoft Cloud with par value of US$0.001 per share
"Kingsoft Cloud Series C Preferred Shares"	series C preferred convertible shares of Kingsoft Cloud with par value of US$0.001 per share
"Kingsoft Cloud Share(s)"	the issued ordinary shares of Kingsoft Cloud
"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 Clould on 27 February 2013
"Kingsoft Japan"	Kingsoft Japan Inc., a subsidiary of the Company
"Kingsoft Qijian"	Beijing Kingsoft Qijian Digital Technology Co., Ltd.* (北京金山奇劍數碼科技有限公司)
"KOS" or "KOS Holdings"	Kingsoft Office Software Holdings Limited, a subsidiary of the Company
"KOS Group"	KOS and its subsidiaries
"KOS Share Award Scheme"	the share award scheme approved and adopted by the directors of KOS on 3 December 2012
"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
"Pre-IPO Share Option Schemes"	the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme
"R&D"	research and development
"RMB" or "Renminbi"	the lawful currency of the PRC
"Seasun Group"	Seasun Holdings and its subsidiaries
"Seasun Holdings"	Seasun Holdings Limited, a subsidiary of the Company
"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
"U.S."	United States of America
"US$"	United States dollars, the lawful currency of the U.S.
"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 Kingsoft Office"	Zhuhai Kingsoft Office Software Co., Ltd.* (珠海金山辦公軟件有限公司)
"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