KINGSOFT®

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

# KINGSOFT CORPORATION LIMITED
# 2020 ANNUAL REPORT

剑侠情缘网络版叁 剑侠情缘手游 WPS Office Kingsoft Cloud

Beijing / Zhuhai / Chengdu / Guangzhou / Dalian / Shanghai
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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 in Beijing**

Building D

Xiaomi Campus

No. 33 Xierqi Middle Road

Haidian District

Beijing 100085

PRC

**Principal Place of Business in Hong Kong**

Suite 3208, 32/F, Tower 5

The Gateway, Harbour City

Tsim Sha Tsui, Kowloon

Hong Kong

**Registered Office**

PO Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

**Executive Directors**

Mr. Tao ZOU

Mr. Yuk Keung NG

**Non-executive Directors**

Mr. Jun LEI (Chairman)

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

**Independent Non-executive Directors**

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

**Audit Committee**

Ms. Wenjie WU (Chairman)

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

**Remuneration Committee**

Mr. Shun Tak WONG (Chairman)

Mr. Jun LEI

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

**Nomination Committee**

Mr. Shun Tak WONG (Chairman)

Mr. Chi Ping LAU

Ms. Wenjie WU

**Board Secretary/Company Secretary**

Mr. Yuk Keung NG

Ms. Hongyu LV

**Authorised Representatives**

Mr. Tao ZOU

Mr. Yuk Keung NG

# CORPORATE INFORMATION (continued)

## Principal Share Registrar and Transfer Office

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F. Hopewell Centre
183 Queen's Road East
Hong Kong

## Auditor

Ernst & Young, Registered Public Interest Entity Auditor
Certified Public Accountants
22th Floor, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

## Legal Advisor on Hong Kong Law

Baker & McKenzie
14th Floor, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

## Principal Bankers

China CITIC Bank Corp., Ltd.
China Merchants Bank Co., Ltd.
Bank of Beijing Co., Ltd.
Bank of Communications Co., Ltd.
Industrial and Commercial Bank of China (Asia) Limited

## Investor and Media Relations

Tel: (852) 24050088 (86) 10 82325515
Fax: (86) 10 82325655
Email: ir@kingsoft.com
Website: www.kingsoft.com

# FINANCIAL HIGHLIGHTS

*Consolidated Statement of Profit or Loss (Restated)*

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016 RMB'000** | **2017 RMB'000** | **2018 RMB'000** | **2019 RMB'000** | **2020 RMB'000** |
| **Continuing Operations** | | | | | |
| **Revenue** | | | | | |
| Online games and others | 2,551,912 | 3,127,491 | 2,587,626 | 2,796,309 | **3,337,066** |
| Office software and services | 544,429 | 721,277 | 1,101,054 | 1,574,778 | **2,257,177** |
| | 3,096,341 | 3,848,768 | 3,688,680 | 4,371,087 | **5,594,243** |
| Cost of revenue | (506,276) | (662,920) | (672,663) | (810,147) | **(917,281)** |
| **Gross profit** | 2,590,065 | 3,185,848 | 3,016,017 | 3,560,940 | **4,676,962** |
| Research and development costs, net | (876,649) | (1,121,760) | (1,453,001) | (1,538,529) | **(1,656,067)** |
| Selling and distribution expenses | (242,720) | (417,299) | (545,289) | (708,992) | **(838,482)** |
| Administrative expenses | (159,643) | (200,563) | (343,252) | (376,897) | **(453,809)** |
| Share-based compensation costs | (25,588) | (192,568) | (144,312) | (148,712) | **(179,372)** |
| Other income | 34,132 | 279,057 | 271,806 | 239,396 | **310,789** |
| Other expenses | (7,633) | (6,737) | (53,110) | (14,400) | **(4,887)** |
| **Operating profit** | 1,311,964 | 1,525,978 | 748,859 | 1,012,806 | **1,855,134** |
| Other gains/(losses), net | (1,080,753) | (187,836) | (55,917) | (1,236,554) | **154,739** |
| Finance income | 142,654 | 175,339 | 209,656 | 220,532 | **437,997** |
| Finance costs | (76,116) | (45,732) | (27,159) | (19,672) | **(107,514)** |
| Share of profits and losses of: | | | | | |
| Joint ventures | 101,291 | 121,039 | 49,898 | 17,524 | **(25,929)** |
| Associates | (6,683) | 51,076 | 374,037 | (409,874) | **(245,067)** |
| **Profit/(loss) before tax from continuing operations** | 392,357 | 1,639,864 | 1,299,374 | (415,238) | **2,069,360** |
| Income tax expense | (178,083) | (134,982) | (128,155) | (152,537) | **(270,924)** |
| **Profit/(loss) for the year from continuing operations** | 214,274 | 1,504,882 | 1,171,219 | (567,775) | **1,798,436** |
| **Discontinued Operation** | | | | | |
| Profit/(loss) for the year from a discontinued operation | (506,549) | 1,791,747 | (1,336,461) | (1,514,924) | **8,446,504** |
| **Profit/(loss) for the year** | (292,275) | 3,296,629 | (165,242) | (2,082,699) | **10,244,940** |
| **Attributable to:** | | | | | |
| Owners of the parent | (270,732) | 3,201,837 | 389,214 | (1,546,385) | **10,045,043** |
| Non-controlling interests | (21,543) | 94,792 | (554,456) | (536,314) | **199,897** |
| | (292,275) | 3,296,629 | (165,242) | (2,082,699) | **10,244,940** |
| **Proposed final dividends** | 115,676 | 122,428 | — | 122,413 | **230,269** |
| | **RMB** | **RMB** | **RMB** | **RMB** | **RMB** |
| **Earnings per share attributable to ordinary equity holders of the parent** | | | | | |
| Basic | (0.21) | 2.46 | 0.29 | (1.13) | **7.35** |
| Dilute | (0.21) | 2.39 | 0.27 | (1.15) | **7.32** |

# CHAIRMAN'S STATEMENT

## BUSINESS REVIEW AND OUTLOOK

In a landmark year, we took advantage of the industry trend to expand our core businesses. Kingsoft Office Group seized the opportunity for online collaboration and brought high-quality products and services to a larger group of users. Meanwhile, online games business made continuous efforts to strengthen the R&D capabilities, maintaining longevity and vitality of core games and achieved steady growth. We believe that the efforts will lay a solid foundation for our further penetration in the office service market and online gaming market.

We achieved a solid growth in 2020, with our revenue up 28% year-on-year to RMB5,594.2 million. The momentum continued in both office software and services business as well as online games and others business, with revenue of the segments surging by 43% and 19% year-on-year, respectively. In tandem with our strong revenue growth, our operating profit increased 83% year-on-year to RMB1,855.1 million during the year.

Our office software and services business achieved outstanding performance, with revenue increasing significantly by 43% year-on-year during the year. For government and enterprise businesses, Kingsoft Office Group is committed to accelerate the development within the industry and has assisted in the formulation of certain office application and services standards. In addition, Kingsoft Office Group has completed product adaptation with its developer partners and consolidated co-operation with other core hardware and software suppliers, which further optimized the office ecosystem development.

Riding the wave of remote working, online collaboration has become the new core product strategy for Kingsoft Office Group, and a series of online collaboration products have been launched in 2020. In addition, Kingsoft Office Group has launched WPS+ for micro, small, and medium enterprises. As a beneficiary of rising demand due to increased remote working amid the pandemic, the market penetration and customer loyalty of WPS+ cloud office services have significantly improved.

Kingsoft Office Group's personal subscription business achieved outstanding performance during the year, driven by rapid growth in the number of WPS members. Kingsoft Office Group focused on expanding content and resources to promote the organic growth of WPS members, and the key operational indicators of personal cloud services grew rapidly. Kingsoft Office Group also expanded channels for marketing to enhance the penetration rate of paying subscribers.

In addition, WPS Office will feature as one of the second-level examination subjects in the National Computer Rank Examination, demonstrating significant progress in terms of the awareness of our office software solutions in China.

Looking ahead, Kingsoft Office Group will continue to adhere to technological empowerment and user-oriented principles, aiming to drive office innovations for individual and enterprise users globally.

# CHAIRMAN'S STATEMENT (continued)

During the year, online games business delivered a steady year-on-year growth, mainly attributable to the focus in product development and the stable growth of core premium games. JX Online III and other PC games of the JX series have achieved double-digit growth during the year. In the fourth quarter, online games business launched Feng Tian Zheng Dao (奉天証道), the anniversary expansion pack for the JX Online III. Mobile games business recorded stable performance. Double Life World (雙生視界) was launched in South Korea this year, and it won Google Play's Best Innovative Games of 2020 award in South Korea.

Online games business continued to enhance the influence of JX IP and made strong efforts to expand its presence in the cultural and creative industries. JX Online III — The Adventure of Shen Jianxin in Chang'an (劍網3•俠肝義膽沈劍心之長漂), an animation series based on the JX Online III was released on Bilibili in October 2020 and was much welcomed by our gamers. Multiple film and television productions based on JX IP have been in process in 2020.

Looking forward to 2021, online games business will continue to place its emphasis on the JX series to drive sustained growth. Meanwhile, we are also committed to investment in R&D of new game genres and operation, aiming to enhance its competitiveness within the overall online gaming industry.

Amidst a turbulent economic environment and global COVID-19 pandemic in 2020, we still managed to achieve a solid performance. Looking ahead, we will continue to focus on our office software and service business, and continue to deepen our online collaborative and cloud office strategy, aiming to improve the industry's ecological development and our core competitive advantages. Regarding our online games business, we will continue to maintain the solid development of our core games while bringing new game genres to further strengthen our development in the online games business. We remain confident of a robust operational outlook and sustained growth for 2021.

**Jun LEI**
*Chairman*
Hong Kong, 23 March 2021

## OPERATIONAL HIGHLIGHTS

| | In December 2020 | In September 2020 | In June 2020 | In March 2020 | In December 2019 |
|---|---|---|---|---|---|
| **Office Software** | | | | | |
| MAU of the key products* (Million) | **474** | **457** | **454** | **447** | 411 |

| | As at 31 December 2020 | As at 30 June 2020 | As at 31 December 2019 | As at 30 June 2019 |
|---|---|---|---|---|
| Accumulated paying subscribers** (Million) | **19.62** | **16.81** | 12.02 | 8.47 |

| | As at 31 December 2020 | As at 31 December 2019 | As at 31 December 2018 |
|---|---|---|---|
| Total number of documents uploaded in the cloud platform*** (Billion) | **89.8** | 50.1 | 17.5 |

* MAU of the key products are defined as the aggregate MAU of both WPS Office and Kingsoft Powerword across all platforms.

** Accumulated paying subscribers are defined as paying individual subscribers in the past twelve months (excluding one-time purchase). We disclose these figures on a semi-annual basis.

*** Total number of documents uploaded in the cloud platform do not include the repetitive editing process and historical versions.

**For the Year Ended 31 December 2020**

The following table sets forth the comparative numbers for the years ended 31 December 2020 and 2019, respectively.

| | Year ended 31 December | |
|---|---|---|
| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(Restated) |
| **CONTINUING OPERATIONS** | | |
| **Revenue** | | |
| Online games and others | **3,337,066** | 2,796,309 |
| Office software and services | **2,257,177** | 1,574,778 |
| | **5,594,243** | 4,371,087 |
| Cost of revenue | **(917,281)** | (810,147) |
| **Gross profit** | **4,676,962** | 3,560,940 |
| Research and development costs, net | **(1,656,067)** | (1,538,529) |
| Selling and distribution expenses | **(838,482)** | (708,992) |
| Administrative expenses | **(453,809)** | (376,897) |
| Share-based compensation costs | **(179,372)** | (148,712) |
| Other income | **310,789** | 239,396 |
| Other expenses | **(4,887)** | (14,400) |
| **Operating profit** | **1,855,134** | 1,012,806 |
| Other gains/(losses), net | **154,739** | (1,236,554) |
| Finance income | **437,997** | 220,532 |
| Finance costs | **(107,514)** | (19,672) |
| Share of profits and losses of: | | |
| Joint ventures | **(25,929)** | 17,524 |
| Associates | **(245,067)** | (409,874) |
| **Profit/(loss) before tax from continuing operations** | **2,069,360** | (415,238) |
| Income tax expense | **(270,924)** | (152,537) |
| **Profit/(loss) for the year from continuing operations** | **1,798,436** | (567,775) |
| **DISCONTINUED OPERATION** | | |
| Profit/(loss) for the year from a discontinued operation | **8,446,504** | (1,514,924) |
| **Profit/(loss) for the year** | **10,244,940** | (2,082,699) |
| **Attributable to:** | | |
| Owners of the parent | **10,045,043** | (1,546,385) |
| Non-controlling interests | **199,897** | (536,314) |
| | **10,244,940** | (2,082,699) |

| | Year ended 31 December | |
|---|---|---|
| | **2020** | **2019** |
| | **RMB** | **RMB** |
| | | **(Restated)** |
| **Earnings/(loss) per share attributable to ordinary equity holders of the parent** | | |
| Basic | | |
| — For profit/(loss) for the year | **7.35** | (1.13) |
| — For profit/(loss) from continuing operations | **0.94** | (0.56) |
| Diluted | | |
| — For profit/(loss) for the year | **7.32** | (1.15) |
| — For profit/(loss) from continuing operations | **0.92** | (0.57) |

## Revenue

Revenue for the year of 2020 increased 28% year-on-year to RMB5,594.2 million. Revenue from the online games and others, and office software and services represented 60% and 40% of the Group's total revenue for the year of 2020.

Revenue from the online games and others business for the year of 2020 increased 19% year-on-year to RMB3,337.1 million. The increase was primarily due to strong performance of JX Online III with sustained and growing popularity as the result of enriched content and enhanced user experience, and revenue contribution from the newly-launched mobile games, partially offset by the declined revenue from existing mobile games.

Revenue from the office software and services business for the year of 2020 increased 43% year-on-year to RMB2,257.2 million. The year-on-year increase was mainly attributable to strong revenue growth from the subscription services and licensing business, driven by the expansion of user base and increasing paid conversion rate.

## Cost of Revenue and Gross Profit

Cost of revenue for the year of 2020 increased 13% year-on-year to RMB917.3 million. The year-on-year increase was primarily due to higher server and data storage costs associated with increased users.

Gross profit for the year of 2020 increased 31% year-on-year to RMB4,677.0 million. The Group's gross profit margin increased by three percentage points year-on-year to 84%.

## R&D Costs, net

R&D costs, net for the year of 2020 increased 8% year-on-year to RMB1,656.1 million. The year-on-year increase was mainly due to increased personnel related expenses as we continued to invest in technological research and innovation, partially offset by temporary exemption or reduction of social and medical insurance premiums in 2020.

## Selling and Distribution Expenses

Selling and distribution expenses for the year of 2020 increased 18% year-on-year to RMB838.5 million. The year-on-year increase mainly reflected greater spending of Kingsoft Office Group to expand its reach into enterprise and government markets.

## Administrative Expenses

Administrative expenses for the year of 2020 increased 20% year-on-year to RMB453.8 million. The year-on-year increase was mainly due to increased staff-related costs and professional service fees.

## Share-based Compensation Costs

Share-based compensation costs for the year of 2020 increased 21% year-on-year to RMB179.4 million. The increase was primarily due to the new grants of awarded shares to the selected employees of certain subsidiaries of the Company.

## Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the year of 2020 increased 75% year-on-year to RMB2,034.5 million.

## Other Gains/(Losses), net

Net other gains for 2020 were RMB154.7 million, compared to net other losses of RMB1,236.6 million for the last year. The net other gains of 2020 were mainly due to that we recognized a gain on deemed disposal of Kingsoft Cloud as a result of the dilution impact of issue of new shares of Kingsoft Cloud in the second half of 2020. The net other losses of 2019 primarily represented the provision for impairment on investment in Cheetah Mobile of RMB 1,300 million.

## Finance Costs

Finance costs for 2020 was RMB107.5 million, compared with finance costs of RMB19.7 million for the last year. The year-on-year increase was primarily due to issued convertible bonds in April 2020 with the interest rate of an equivalent market interest rate for a similar bond in the accounting treatment, which would not result in cash outflow, instead of the actual yield to maturity.

## Share of Profits and Losses of Associates

Share of losses of associates for 2020 were RMB245.1 million, compared to share of losses of RMB409.9 million for the last year. The losses in 2020 were mainly due to the losses recognized in Kingsoft Cloud partially offset by the profits recognized in Cheetah Mobile. The losses in 2019 were mainly due to the losses recognized in Cheetah Mobile.

## Income Tax Expense

Income tax expense for the year of 2020 increased 78% year-on-year to RMB270.9 million.

## Profit/(Loss) Attributable to Owners of the Parent

For the reasons described above, profit attributable to owners of the parent (including that from continuing operations and a discontinued operation) for the year of 2020 was RMB10,045.0 million, compared to loss of RMB1,546.4 million for the last year.

## Profit/(Loss) Attributable to Owners of the Parent before Share-based Compensation Costs

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

Profit attributable to owners of the parent before share-based compensation costs (including that from continuing operations and a discontinued operation) for the year of 2020 was RMB10,201.3 million, compared to loss of RMB1,380.7 million for the last year.

The net profit/(loss) margin excluding the effect of share-based compensation costs was 138% and (17%) for the year 2020 and 2019, respectively.

## Liquidity and Financial Resource

The Group had a strong cash position towards the end of 2020. As at 31 December 2020, the Group had major financial resources in the forms of restricted cash and cash and bank deposits amounting to RMB13.1 million and RMB14,049.1 million, respectively, which totally represented 40% of the Group's total assets.

As at 31 December 2020, the Group's gearing ratio, which represents total liabilities divided by total assets, was 19%, as compared to 36% as at 31 December 2019.

## Foreign Currency Risk Management

As at 31 December 2020, RMB4,763.2 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

## Net Cash Generated from Operating Activities

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

Net cash generated from operating activities (including that from continuing operations and a discontinued operation) was RMB2,991.1 million and RMB825.0 million for the years ended 31 December 2020 and 31 December 2019, respectively.

## Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fixed assets and intangible assets. Cash used for capital expenditures (including that from continuing operations and a discontinued operation) was RMB683.6 million and RMB1,361.8 million for the years ended 31 December 2020 and 31 December 2019, respectively.

# DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Tao ZOU**, aged 45, is currently an executive Director and the chief executive officer ("**CEO**") of the Company. Mr. ZOU is a director of Seasun Holdings, a director of Cheetah Mobile (NYSE: CMCM) Chairman of Kingsoft Office (SSE STAR Market: 688111) and a director of Kingsoft Cloud (NASDAQ: KC). Mr. ZOU also serves as a director of Xunlei Limited (NASDAQ: XNET) from 1 December 2016 to 2 April 2020 and a director of 21Vianet Group, Inc. (NASDAQ: VNET) from 1 December 2016 to 14 December 2020. Mr. ZOU graduated from Nankai University in 1997. Mr. ZOU joined us in 1998 and was responsible for the development of our Kingsoft PowerWord. Mr. ZOU has been responsible for our entertainment software business since 2004 and served as the CEO of Seasun Holdings until January 2018.

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

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

**Yuk Keung NG**, aged 56, is currently an executive Director and the chief financial officer ("**CFO**") of the Company. Mr. NG graduated from the University of Hong Kong with a bachelor's degree in Social Sciences in 1988 and obtained a Master of Science degree in Global Business Management and E-commerce in 2002. Mr. NG is a professional accountant, and a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, and the Institute of Chartered Accountants in England and Wales.

Mr. NG has more than twenty years of experience in financial management, corporate finance and merger and acquisition. Mr. NG worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. Before joining the Company, Mr. NG held financial management positions in several listed companies, including deputy CFO, joint company secretary and qualified accountant of IRICO Group Electronics Company Limited (Stock Code: 438); vice president and CFO of China Huiyuan Juice Group Ltd. (Stock Code: 1886); executive director, CFO and company secretary of China NT Pharma Group Company Limited (Stock Code: 1011). Mr. NG is currently an independent non-executive director of Sany Heavy Equipment International Holdings Company Limited (Stock Code: 631), and an independent non-executive director and the chairman of the audit committee of E-Commodities Holdings Limited (Stock Code: 1733). Mr. NG is also a member of the board of trustees of International School of Beijing, an academic institution in Beijing, China from April 2018. 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 51, is a non-executive Director, the Chairman of the Board, a member of the Remuneration Committee and the co-founder of the Company. Mr. LEI has been employed by us since 1992 and has played a key role in developing the operation of our Group and expanding our business operations. He had been our CEO since 1998, and under his leadership, we further expanded application software businesses into utilities software, internet security software and online games. He also played a major role in transforming our Group from a traditional software company into an on demand software company which extensively utilizes the internet. In December 2007, Mr. LEI relinquished his position as CEO, chief technology officer and president of the Company. In August 2008, Mr. LEI was re-designated from an executive Director to a non-executive Director. Mr. LEI was appointed as the Chairman of the Board of our Company on 5 July 2011. Mr. LEI is also a director of certain subsidiaries of the Company.

Mr. LEI co-founded Xiaomi Corporation (a company listed on the Stock Exchange in July 2018, Stock Code: 1810) with other partners in 2010, and currently is an executive director, the chairman, the CEO and a member of the Remuneration Committee. Since December 2011, Mr. LEI has served as a director of Kingsoft Office (SSE STAR Market: 688111). Since April 2015, Mr. LEI has been the chairman of the board of Kingsoft Cloud (NASDAQ: KC).

Mr. LEI graduated from Wuhan University in 1991 with a bachelor's degree in Computer Science. He has been a member of the board of Wuhan University since 2003. He has been serving as vice chairman of All-China Federation of Industry and Commerce, vice chairman of Beijing Federation of Industry and Commerce and vice president of China Association For Quality since 2017.

Mr. LEI was elected as one of the top 10 economic personages of China in 2017 and one of 100 outstanding private entrepreneurs on the 40th anniversary of the China's reform and opening-up. In 2020, Mr. LEI was honored with title of "National Advanced Individual of Private Economy Fighting against COVID-19" and title of "Beijing Model Worker".

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

**Pak Kwan KAU**, aged 56, was re-designated from an executive Director to a non-executive Director of our Company with effect from 24 October 2011. Mr. KAU has been employed by us since 1988. He graduated from National Defense University of Science and Technology in China in 1984 with a bachelor's degree in Information Management Systems. Between 1984 and 1987, Mr. KAU worked at various Chinese companies as a software developer.

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

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

**Chi Ping LAU**, aged 47, 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, Inc. (NASDAQ: JD, Stock Exchange: 09618), an online direct sales company in China. From 31 March 2014 to 18 August 2020, Mr. LAU served as a director of Leju Holdings Limited (NYSE: LEJU), an online-to-offline real estate services provider in China. On 12 July 2016, Mr. LAU was appointed as a director of Tencent Music Entertainment Group (formerly known as China Music Corporation, NYSE: TME), an online music entertainment platform in China. On 29 December 2017, Mr. LAU was appointed as a director of Vipshop Holdings Limited (NYSE: VIPS), an online discount retailer company. On 4 September 2018, Mr. LAU was appointed as a non-executive director of Meituan Dianping (Stock Exchange: 03690), a China's leading e-commerce platform for services.

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 60, 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 was a co-founder and acting as CFO of Rokid Corporation Ltd., an artificial intelligence devices design and development company. From June 2018, Mr. WONG is an independent non-executive director and chairman of audit committee of Xiaomi Corporation (a company listed on the Stock Exchange in July 2018, Stock Code: 1810). He served as an executive Director and CFO of the Company from October 2011 to July 2012, and also acted as an independent non-executive Director, chairman of the Audit Committee and member of the Remuneration Committee of the Company from April 2007 to September 2011.

Mr. WONG was vice president for finance and corporate controller of Alibaba Group from August 2007 to September 2011, an enterprise which engages in internet-based businesses that includes business-to-business international trade, retail and payment platforms and data-centric cloud computing services. During his service with Alibaba Group, he also acted as chairman of Group Financial Control Committee of Alibaba Group.

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

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

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

**David Yuen Kwan TANG**, aged 66, 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 30 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 non-executive director of JOYY, Inc. (NASDAQ: YY) and Standard Chartered PLC (Stock Code: 2888). 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 investments in businesses in China. Prior to joining NGP, Mr. TANG was appointed as the corporate senior vice president and the president of Greater China of AMD (Greater China is the largest region of AMD with sales, marketing, research and development and manufacturing operations). During 2004 to 2010, Mr. TANG held a number of positions in Nokia, including the global vice president, the vice chairman and the vice president of sales in Greater China. Mr. TANG was also appointed as the chairman of Nokia Telecommunications Limited (諾基亞通信有限公司) which is a joint venture established by Nokia in China. In addition, Mr. TANG held senior positions at Apple.Inc, 3Com, DEC and AST.

**Wenjie WU**, aged 46, 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 was appointed as an independent director of BlueCity Holdings Ltd. (NASDAQ: BLCT) since July 2020. Ms. WU is currently a director of Xunlei Limited (NASDAQ: XNET). Ms. WU served as the Chief Investment Officer of New Hope Group from November 2018 to February 2020. Ms. WU served as managing partner of Baidu Capital from November 2016 to November 2018. Ms. WU successively served as deputy CFO, CFO and CSO of Ctrip.com (NASDAQ: CTRP) from December 2011 to November 2016. Ms. WU was an equity research analyst covering China Internet and Media industries in Morgan Stanley Asia Limited and in Citigroup Global Markets Asia Limited from 2005 to 2011. Prior to that, Ms. WU worked for China Merchants Holdings (International) Company Limited (Stock Code: 0144), a company listed on the Stock Exchange for three years.

Ms. WU has a Ph.D. degree in Finance from the University of Hong Kong, a master's degree in Finance from the Hong Kong University of Science and Technology, and both a master's degree and a bachelor's degree in Economics from Nan Kai University, China. Ms. WU has been a Chartered Financial Analyst (CFA) since 2004.

## Senior Management

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

**Wei LIU**, aged 44, is currently a senior vice president of the Company. Mr. LIU joined the Group in 2000 and has been project manager, HR director and the vice president of human resources of Westhouse Holdings Limited. Mr. LIU has started as an assistant president of our Group since April 2012, and has been the vice president of the Group and assistant to the Chairman since 2013. Mr. LIU became senior vice president of the Company and special assistant to the Chairman in 2016. Mr. LIU is also a director of Kingsoft Office (SSE: 688111).

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

**KWOK Wai Wai Kris**, aged 40, is currently a senior vice president of our Group and the chief executive officer in Seasun Holdings Limited ("**Seasun**"). He joined the JX3 Online ("**JX3**") development team in Seasun in the year 2004, and currently serves as JX3 producer. Mr. KWOK is familiar with the business and development strategy of Seasun with rich experience in business operation and management. Mr. KWOK graduated from Saint John's University.

## Joint Company Secretaries

For the biography details of Mr. Yuk Keung NG, please refer to the paragraph headed "Executive Directors" above in this section.

**Hongyu LV**, aged 39, is currently joint company secretary and Board secretary of the Company. Ms. LV joined the Company in October 2013, responsible for company secretarial and compliance matters. Before joining the Company, Ms. LV worked in another company listed on the Main Board of the Stock Exchange for many years, responsible for legal compliance, asset reorganization, investment and financing and company secretarial matters. She also worked in law firms. Ms. LV is a Fellow of both The Chartered Governance Institute and The Hong Kong Institute of Chartered Secretaries, holding Chartered Secretary and Chartered Governance Professional dual designations. Ms. LV also holds the Chinese legal professional qualification certificate and the board secretary qualification granted by the Shanghai Stock Exchange. Ms. LV holds a bachelor's degree in law and a master's degree in economic law.

## 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 provisions A.6.7 and C.1.2 of the Code.

The code provision A.6.7 of the Code is regarding the non-executive directors' attendance to general meetings. Non-executive Director, Mr. Chi Ping LAU, did not attend the annual general meeting of the Company held on 27 May 2020 due to pre-arranged engagements. Non-executive Directors, Mr. Jun LEI and Mr. Chi Ping LAU, did not attend the extraordinary general meeting of the Company held on 20 March 2020 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 shall make necessary changes when appropriate and report to the shareholders accordingly.

The following is a summary of work performed by the Board in determining the policy for the corporate governance of the Company during the year ended 31 December 2020:

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

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

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

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

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

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

## BUSINESS MODEL AND STRATEGY

The Group always endeavors to enhance its enterprise value, ensure the Company's long-term and stable development and benefit its shareholders and other stakeholders. The Group emphasizes on long term business growth instead of short term reward by focusing on innovation and R&D to continue improving products and services. The discussion and analysis of the Group's performance for the year ended 31 December 2020 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 Directors 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 2020 and up to the date of this annual report. The designated senior management of the Company also has adopted the Model Code.

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

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

No incident of non-compliance of the Guidelines by the employees of the Group was noted by the Company during the year ended 31 December 2020.

## THE BOARD

### *Responsibilities of the Board*

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

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

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

The Board is responsible for the preparation of financial statements, so that such financial statements meet the requirements of laws and regulations and applicable accounting standards, and truly and fairly reflect the financial position, the operating results and cash flows of the Group for each reporting period. The Directors also ensures the timely publication of the Group's financial statements. In preparing the financial statements for the year ended 31 December 2020, the Directors adopted appropriate accounting policies and made fair and reasonable judgments and estimates, and the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue on a going concern basis. The external auditor's responsibilities to shareholders are set out in the Independent Auditor's Report of this annual report.

### *Composition of the Board*

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

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

A list of Directors, their respective biographies and their relationship with others, if any, are set out in the section headed Directors and Senior Management in 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 2020, the Board comprises the following Directors:

**Executive Directors:**

Mr. Tao ZOU

Mr. Yuk Keung NG

**Non-executive Directors:**

Mr. Jun LEI

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

**Independent Non-executive Directors:**

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

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

### *Supply of and Access to Information and Resource*

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

### *Continuing Development*

Every newly appointed Director of the Company has received a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development are also available as 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/her responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

Pursuant to the applicable code provisions as set out in the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2020, all Directors, namely, the executive Directors 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 2020, the company secretary of the Company (the "**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 2020 were convened with at least 14 days' notice, which is in compliance with code provision A.1.3 of the Code. The Company adopted a flexible approach in convening Board meetings and ensured 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 notices. 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 with reasonable advance notice.

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

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with a physical board meeting rather than a written resolution. Independent non-executive Directors who, and whose close associates, have no material interest in the transaction should be present and vote at such Board meeting.

### Directors' Attendance Records

There were four Board meetings and two general meetings held during the year ended 31 December 2020. The attendance records of each Director at the Board meetings and general meetings during the year of 2020 are set out below:

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

The written terms of reference of our Audit Committee, Remuneration Committee and Nomination Committee which cover their respectively specific role, authority and functions 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.

On 23 March 2021, the Board has established the Environmental, Social and Governance Committee, Mr. David Yuen Kwan TANG, Mr. Shun Tak WONG, Ms. Wenjie WU and Mr. Yuk Keung NG have been appointed as the members of the Environmental, Social and Governance Committee, and Mr. David Yuen Kwan TANG has been appointed as the chairman of the Environmental, Social and Governance Committee. The written terms of reference of the Environmental, Social and Governance Committee is available on our website.

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 2020:

### *Audit Committee*

**Membership and Responsibilities**

During the year ended 31 December 2020, our Audit Committee comprised of three independent non-executive Directors, namely Ms. Wenjie WU (chairman of the Audit Committee), Mr. David Yuen Kwan TANG and Mr. Shun Tak WONG. In compliance with rule 3.21 of the Listing Rules, both Mr. Shun Tak WONG and Ms. Wenjie WU of the Audit Committee possess appropriate professional qualifications on accounting or related financial management expertise. None of the Audit Committee members is a member of the previous or existing auditor of the Company.

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

**Summary of principal work performed**

Principal work performed by the Audit Committee during the year ended 31 December 2020 includes reviewing and/or approving:

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

**Meetings attendance**

The Audit Committee held four meetings during the year ended 31 December 2020. The attendance records of each member of the Audit Committee are set out below:

| Members | Attendance/ Number of meetings held |
|---|---|
| Ms. Wenjie WU (Chairman) | 4/4 |
| Mr. Shun Tak WONG | 4/4 |
| Mr. David Yuen Kwan TANG | 4/4 |

*Remuneration Committee*

**Membership and Responsibilities**

The Remuneration Committee currently consists of four Directors with three of them being independent non-executive Directors, namely, Mr. Shun Tak WONG, Mr. David Yuen Kwan TANG, Ms. Wenjie WU and one non-executive Director, Mr. Jun LEI.

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

The basic salary and director's fees depend on individual's experience, responsibilities and relevant market rate. The bonus depends on actual performance of the Company's targets and individual performance. Details for the stock option scheme and the share award scheme can be found under the subtitle of "Share Option Schemes" and "Share Award Scheme" in the Directors' Report. The awarded shares are offered to qualified employees to reward them for their high level of performance and foster loyalty with the Group. The information regarding the remuneration of the Directors during the year ended 31 December 2020 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/her 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 2020:

- 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 to the Board; and
- Reviewed and recommended performance bonus scheme of the Company to the Board.

**Meetings attendance**

The Remuneration Committee held 1 meeting during the year ended 31 December 2020. 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 to the Board. 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 for the Chairman and the CEO.

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

**Summary of principal work performed**

The following is a summary of work performed by the Nomination Committee during the year ended 31 December 2020:

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

**Meetings attendance**

The Nomination Committee held 1 meeting during the year ended 31 December 2020. 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 |
| Ms. Wenjie WU | 1/1 |
| Mr. Chi Ping LAU | 1/1 |

## EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

Ernst & Young, Hong Kong, Certified Public Accountants, were engaged as the Company's external auditor for the year ended 31 December 2020. External auditor may provide certain non-audit services to the Group as long as these services do not involve any management or decision making functions for and on behalf of the Group, performing of self-assessments or action as an advocacy role for the Group. Before any engagement with external auditor for non-audit services, external auditor must comply with the independence requirements under Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report of this annual report.

During the year ended 31 December 2020, the remunerations paid or payable to Ernst & Young regarding the audit and non-audit services (together with the comparative figures for 2019) are set out as follows:

| | **2020 RMB Million** | 2019 RMB Million |
|---|---|---|
| Audit services | **6.68** | 9.39 |
| Non-audit services* | **5.48** | 5.61 |
| Total | **12.16** | 15.00 |

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

## DIVIDEND POLICY

The Company has adopted a dividend policy. Subject to the Companies Law of the Cayman Islands and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board.

The Board may from time to time pay to the shareholders of the Company such interim dividends subject to the Companies Law of the Cayman Islands and the Articles of Association. The Board may also pay half-yearly or at other suitable intervals to be settled by it any dividend which may be payable at a fixed rate, or from time to time declare and pay special dividends subject to the Companies Law of the Cayman Islands and the Articles of Association.

In proposing any dividend payment, the Board shall take into account the following criteria, including:

- the Group's actual and expected results of operations and cash flow and financial position;
- general business conditions and the Group's business strategies;
- distributable profit, retained earnings and/or distributable reserves of the Company and the members of the Group;
- the Group's expected working capital requirements and future expansion plans;
- the Group's indebtedness level and liquidity position;
- legal, regulatory and other contractual restrictions on the Group's declaration and payment of dividends; and
- other factors that the Board deems appropriate.

## INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

The Board has the responsibility to oversee the risks undertaken by the Group, and to actively consider, analyze and formulate strategies to control the risks the Group is exposed to, and determine the level of risk the Company wishes to and is able to take. The Board realizes that risk management is incorporated as part of the Group's annual strategic planning process across all major functions of the Company rather than being a separate and standalone process. Therefore, all business functions are required to identify, assess and evaluate material risks that may impact their strategy objectives, including the following aspects of the risk: business continuity, financial impact, reputational risk, safety and health, external regulations and social responsibility. Each business function monitors and reviews the risks and reports to the senior management team periodically. The senior management team monitors these risks and develops effective systems and mechanisms to mitigate the risks to an acceptable level as determined by the Board. At least annually, the senior management team coordinates the risk identification and assessment process and reports 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 2020, the Board has reviewed the effectiveness of the system of internal control and risk management of the Group and considers the internal control and risk management systems effective and adequate. Such review also took into consideration the adequacy of resources, qualification and experience of staff of the Company's accounting and financial reporting function, as well as their training programs and budget.

## INSIDE INFORMATION

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

## COMMUNICATION WITH SHAREHOLDERS

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

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

The Board endeavours to maintain an on-going dialogue with our shareholders, uses annual general meetings or other general meetings to communicate with our shareholders in particular and encourages 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 which contain 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 fair investment decisions.

During the year ended 31 December 2020, the Company's senior management presented its results in Hong Kong, Beijing, Shanghai, and various other cities. Through various activities such as analyst briefings, press conferences, conference calls, virtual conferences and investor non-deal road shows, our senior management presented and answered the key issues about 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 general meetings*

Shareholders are welcomed to put forward proposals relating to the operations, strategy and/or management of the Group to be discussed at general meetings. 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 Suite 3208, 32/F, Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong or at the Company's principal place of business in Beijing at Building D, Xiaomi Campus, No.33 Xierqi Middle Road, Haidian District, Beijing 100085, the PRC.

### *Shareholders' enquiries*

If the Shareholders are in any doubt about their shareholdings, the Shareholders shall inquire the Company's share registrar directly. 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 in Hong Kong at Suite 3208, 32/F, Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong or at the Company's principal place of business in Beijing at Building D, Xiaomi Campus, No. 33 Xierqi Middle 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 2020.

On behalf of the Board
**Jun LEI**
*Chairman*

Hong Kong, 23 March 2021

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## I. Report Overview

The report aims to objectively and fairly reflect the environmental, social, and governance ("ESG") performance of Kingsoft and its subsidiaries, comprising Kingsoft Office and Seasun Holdings (hereinafter referred to as "the Group" or "we") in 2020. Since Kingsoft Cloud, which has ceased to be a subsidiary of Kingsoft, has been listed independently on NASDAQ in the United States, the scope of the Group's ESG report from this year will no longer include it.

The report is prepared in accordance with the *Environmental, Social and Governance Reporting Guide* set out in Appendix 27 to the *Main Board Listing Rules* (the "Listing Rules") on the Stock Exchange of Hong Kong Limited. For information on governance, it is recommended to read in conjunction with the Corporate Governance Report in this Annual Report.

Unless otherwise stated, the report covers the period from 1 January 2020 to 31 December 2020.

The report has been reviewed and approved by the Board of Directors.

## II. ESG Strategy

### *1. ESG Concept*

The Group is dedicated to becoming a world-class software and internet services enterprise. Following the implementation of its "mobile internet transformation"strategy, the Group has completed the comprehensive transformation of its overall business and management models and formed a strategic platform with interactive entertainment and office software as the pillars and cloud services and AI as the new directions, to contribute to the information technology development of all walks of life in China.

We integrate ESG considerations into our business operations and management. Our ESG concept consists of four aspects: responsible operation, caring for employees, green development and giving back to the society.

The United Nations Sustainable Development Goals ("SDGs") aims at guiding countries around the world to solve development issues in society, economy and environment, and encourages all sectors of society to contribute to sustainable development. We identified SDGs priorities based on the Group's business features and integrated them into our ESG concept to guide the Group's ESG actions.

| | |
|---|---|
| **Responsible Operation** | The Group provides quality products and services to consumers and focuses on information security and privacy protection, consumers' rights and interests protection, intellectual property protection, and advertising compliance. In addition, we are committed to implementing effective anti-corruption measures and a sound supplier management system. |
| **Caring for Employees** | The Group establishes effective employee compensation, benefits and training system, provides a good reward and promotion platform, advocates a healthy work and lifestyle, creates an equal and diversified team, and carries out various employee activities to enhance the well-being of the employees. |
| **Green Operation** | We positively respond to the country's call for low-carbon development by integrating energy saving, emission reduction and combating climate change activities into our operation, products and services. We enhance our environmental protection management policies and measures, and promote employees to practice the environmental protection concept. |
| **Giving back to the Society** | As a responsible corporate citizen, we are committed to giving back to society from various perspectives as we develop ourselves. We have undertaken our social responsibilities in various social aspects, including assisting public welfare, education support, environmental protection and combating the pandemic. |

### 2. ESG Governance

We have established an ESG organisational structure covering our subsidiaries and departments to better practice the ESG concept. The Board, with the support of ESG Committee, is responsible for the decision-making and review of ESG strategy and performance, and the relevant functional departments and each subsidiary are responsible for the management and implementation of specific ESG actions.

### 3. Stakeholder Engagement

We recognize the importance of engaging communication with stakeholders and regard their views and opinions as a vital driving force to continuously enhance our ESG management. We communicate with stakeholders proactively via various channels to understand and respond to their demands promptly. We have identified our material stakeholders and obtained their opinions and expectations that have an interactive impact on the Group's operation. These are summarised in the table below.

| MATERIAL STAKEHOLDERS | MATERIAL DEMANDS AND EXPECTATIONS | MATERIAL COMMUNICATION AND RESPONSE CHANNELS |
|---|---|---|
| Governmental and regulatory authorities | Compliance with laws and regulations<br>The safety and reliability of products<br>Promoting technological progress<br>Serving national interests and people's livelihood | Inspection and reception<br>Annual report<br>Company's website<br>Official correspondence |
| Investors | Maintaining good operating performance<br>Compliant operation<br>Information disclosure | Shareholders' general meeting<br>Company's announcements<br>Reporting of special projects<br>Visitor reception |
| Customers | High-quality products and services<br>Protecting information security and privacy<br>Satisfying the diversified needs of customers | Daily communication with customers<br>Survey on customer satisfaction<br>Handling and feedback of customer complaints |
| Staff | Protecting employees' rights and interests<br>Protecting occupational health<br>Training and development<br>Promotion channels<br>Work-life balance | Staff meeting<br>Platforms for staff's suggestions<br>Face-to-face communication<br>Staff training |
| Suppliers and partners | Open, fair and impartial procurement<br>Fulfilling contractual obligations<br>Mutual benefits and win-win cooperation | Public tendering<br>Face-to-face communication |
| Communities | Community development<br>Public welfare undertakings<br>Environmental protection | Participating in community activities |

### 4. *Materiality Assessment*

We identified the ESG concerns or issues from our material stakeholders through communication, and conducted materiality assessment of these issues. Our approach and screening process are as follows:

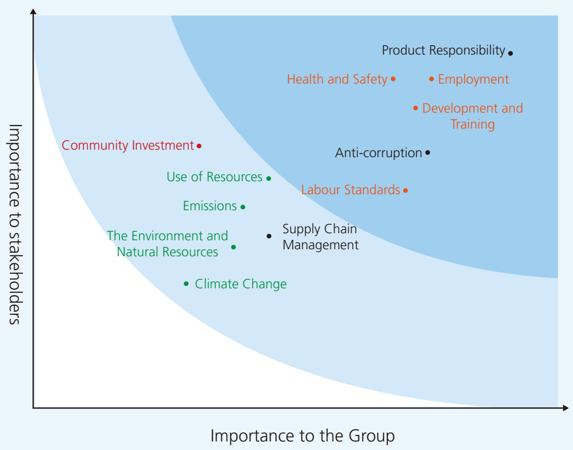
**Screening Process of ESG Issues**

Source of issues

- Benchmarking research of peers
- Internationally recognised sustainability reporting guidelines
- Seeking views and opinions from employees
- Recommendations from the management
- Recommendations from internal and external experts
- Media focus

Screening criteria

- Values and strategies of the Group
- Relevant laws and regulations
- Demands and expectations from stakeholders
- Peer practices
- Recommendations from the management and the ESG management team




The Group's 2020 matrix of material ESG issues

## III. Responsible Operation

Since the Group's establishment, we have been adhering to the mission of "Aim High and Down-to-earth", to continuously optimise our organisational structure, improve our products, explore technological innovation, and contribute to the industry development of information technology. With the unremitting efforts of the Group and its subsidiaries, we were awarded many honours and recognitions in 2020.

| DATE | AWARDS |
|---|---|
| 9 May 2020 | Kingsoft Office ranked No. 1 in the market value of A-share Chinese Internet enterprises |
| 13 May 2020 | Kingsoft Office was shortlisted on Forbes "Global 2000 Biggest Public Companies" |
| 30 June 2020 | Kingsoft Office became the official office collaboration software supplier for the 2022 Winter Olympics |
| 17 November 2020 | Kingsoft Office was listed as "Top 100 Enterprises with Comprehensive Strength in Beijing Software and Information Service Industry" and was awarded as "Growth Enterprise in 2020 Beijing Software Enterprise Core Competitiveness Evaluation". |
| 9 December 2020 | Seasun Holdings products won two Golden Plume Awards in 2020 — the "Players' Most Favoured Online Game" and the "Best Original Mobile Game" |

### *1. Health and Safety of Products and Services*

We devote ourselves to providing users with healthy and safe products and services. We emphasize importance of enforcing effective information security and privacy protection measures and maintaining compliance with data privacy protection requirements to safeguard the Group and users' privacy. In our game business, we also put in place effective measures in protecting online game users' physical and mental health, primarily minors.

### 1.1 Information Security and Privacy Protection

We strictly adhere to information security and privacy protection laws and regulations in our business such as *the Cybersecurity Law of the People's Republic of China, Provisions on Protecting the Personal Information of Telecommunications and Internet Users,* and *the Provisions on the Technical Measures for the Protection of the Security of the Internet*. The Group's subsidiaries have put in place privacy policies, which are disclosed and available to users on official website.

We have a dedicated professional information security team responsible for risk control, and a dedicated quality control team for frequent inspection and sampling of products to protect customer privacy. In the *Code of Conduct for Kingsoft's Employees,* we require staff to preserve the Group's information security and customers' privacy. Besides, we also conduct training courses and implement performance evaluation for employees on information security and privacy protection.

Kingsoft Office has established a management system for information security and data privacy, with a Security Committee set up to be in charge of decision-making related to data security. The Committee is comprised of a Chief Security Officer and a Security Management Office responsible for the coordination of information security management. The Product Security Department, Network Security Department, Information Security Department and the Security Support Team take the lead responsibility for information security matters. Kingsoft Office has formulated a series of policies to ensure information security, such as the *General Outline of Information Security Management, the Emergency Plan Management Policy,* the *Basic Standards for R&D Security and Privacy Protection,* and the *Specifications for Security Programming*. Besides, Kingsoft Office has completed the registration and assessment on Classified Protection at Level 3 of the Information Security of the Ministry of Public Security in compliance with the required protection standards of network security and relevant regulations and also carried out annual security internal audit to supervise the implementation of data security and privacy protection control measures.

Seasun Holdings has formulated management measures including the *Framework for Network Access Control* and the *Specification for Equipment Access Management* to strengthen the development of network information security based on ISO/IEC 27001:2013 Information Security Management Systems requirements. Sensitive personal information related to users' privacy, such as name, mobile phone number, email address, ID card information, of Seasun Holdings are encrypted and stored in secure database. Seasun Holding has a strict approval in place for restricting access to users' personal information. Business operation personnel are authorized and restricted access to user information on a need to know basis according to policies. Besides, to ensure user accounts' privacy and security, Seasun Holdings publicises and popularises information security knowledge to users regularly, thereby promoting their awareness of safeguard information security.

### 1.2 Preventing from Indulging in Games

In strict compliance with the laws and regulations, including the *Measures of the People's Republic of China for the Administration of Internet Information Services*, the *Provisions on the Administration of Online Publishing Services,* the *Interim Provisions on the Administration of Internet Culture*, the *Interim Measures for the Administration of Online Games*, the *Notice on Regulating the Operations of Online Games and Strengthening Interim and Ex Post Regulation*, and *the Notice of Preventing Minors from Indulging in Online Games*, we actively implement management measures to safeguard anti-addiction on online games.

To better protect under-age and teenage online game users, Seasun Holdings has strengthened the requirements of user identity authentication, comprehensively upgraded the real-name authentication system and the anti-addiction system, and implemented a real-name registration system for online game user accounts, which require online game users to use their real names for account registration and to be at least 18 years old. We also adopt safeguard measures such as restrict users' game accounts and set recharge threshold limits of users based on age, to guide minors i.e. not into over excessive entertainment and irrational consumption.

### *2. Product and Service Quality*

The Group is committed to providing and continuously enhancing quality products and services to users.

Kingsoft Office has formulated the *Outline of Security and Privacy Protection*, the *Measures for the Management of Digital Assets*, and *the Basic Standards for R&D Security* and other management standards to strictly ensure software products' quality We conduct a strict compliance review and testing on the products and perform a comprehensive inspection and vigorous evaluation of product stability and safety before the product is launched.

Seasun Holdings has set up a Project Review Committee comprising CEO, vice president, and director-level leaders to supervise the quality of products throughout the whole process, where a quality centre is in charge of the management of product quality. We have put in place effective quality control process that uses various automated platforms to monitor and analyse product related data from different risk attributes. The project quality review evaluates quality focusing on a wide range of factors such as suitability, stability, security, and copyright, to continuously optimise products.

### *3. Customer Service Improvement*

Strictly abiding by laws and regulations such as the *Law of the People's Republic of China on the Protection of Consumer Rights and Interests*, we continuously improve our customer service management processes, such as customer complaints and customer satisfaction surveys, so as to enable us to promptly respond to customers' diversified needs. The Group and its subsidiaries have also established a customer complaint management mechanism including various complaints channels such as WeChat, complaints hotline, email, Weibo, etc. We also have a professional customer service team to handle and respond to customers' complaints and feedback. In specific, we collect, summarise and analyse these complaints and feedback regularly, so as to report the identified root causes to the product team to further optimise our product design and development.

We continuously improve our customer service management system and organise regular training for our customer service personnel to standardise and optimise our customer service process, accelerate our response time in customer service, and hence provide our customers a better user experience. During the reporting period, the customer satisfaction rate of Kingsoft Office reached 98.32%, while that of Seasun Holdings reached 95.58%.

### 4. *Protection of Intellectual Property Rights*

The Group strictly adheres to relevant laws and regulations to protect intellectual property rights, such as the *Trademark Law of the People's Republic of China*, the *Patent Law of the People's Republic of China*, and the Copyright Law of the People's Republic of China. According to the Specifications for the Administration of Intellectual Property Rights of Enterprises, we have formulated and improved the *Intellectual Property Management Manual* and the *Incentive Policy of Kingsoft for Technology Innovation, Promotion and Introduction and Patent Application* in protecting intellectual property rights. We continuously improve our intellectual property protection management, whilst encouraging and enhancing the employees' enthusiasm in technology innovation. Additionally, we arrange regular training and publicity on intellectual property protection to our employees and promote their awareness and the requirement of reporting to the Legal Department via email if they are aware of any of intellectual property right infringements.

### 5. *Advertising Management*

In strict compliance with the *Advertising Law of the People's Republic of China and relevant laws and regulations*, the Group has formulated the *Measures for the Approval and Administration of Public Promotion* to stipulate the review and approval process of publicising promotional documents and advertisements in ensuring their authenticity, accuracy and validity as well as they are not misleading in nature.

The Group has set up an advertising review team comprising the Legal Department and the Board Secretariat to strictly regulate advertising activities. The Legal Department is mainly responsible for reviewing legal compliance of the promotional materials, and the Board Secretariat evaluates if the proposed promotional materials contravene any requirements of the listing rules. We take serious punishment measures against those behaviours and personnel who violate the policies for example publishing promotional materials without approval.

### 6. *Anti-corruption*

Strictly abiding by relevant laws and regulations such as the *Criminal Law of the People's Republic of China,* the *Company Law of the People's Republic of China*, and the *Anti-Unfair Competition Law of the People's Republic of China*, the Group has formulated the policies and relevant measures, such as the *Code of Conduct for Kingsoft's Employees*, the *Regulations of Kingsoft on the Management of Whistle Blowing and Complaints*, the *Punishments Regulations of Kingsoft on Negligence and Pretermission for Leaders*, and *the Regulations on the Administration of rebates of Kingsoft* to protect ethical development of the Group. The Audit Committee is primarily responsible for overseeing the handling of corruption cases and dealing with the cases that may involve the Group's executives, while the Internal Audit Department is in charge of organising and conducting anti-fraud investigations.

We encourage entities or individuals to report any behaviours violating the rules and regulations of the Group to our internal audit department through a variety of available reporting channels, including by email, reporting hotline, face-to-face, etc. We maintain strict confidentiality of whistle-blower's information such as their identities, personal data and reporting matters, and enforce punishments measures such as dismissal, and demotion for any illegal or undesirable behavioural acts of intimidation or retaliation to ensure protection of effective whistle-blower.

### 7. *Supply Chain Management*

Adhering to the laws and regulations such as the *Bidding Law of the People's Republic of China* and the *Regulation on the Implementation of the Bidding Law of the People's Republic of China*, the Group is committed to protecting the rights and interests of suppliers to create a greater value for the society. The Group and its subsidiaries have formulated and implemented relevant management standards, including the *Specification on the Group's Supply Chain Purchasing Management*, the *Procurement Control Procedure of Kingsoft Office* and the *Supply chain Procurement Principle of Seasun*

*Holdings* to effectively regulate and manage acceptance, evaluation and performance review processes of suppliers. We also focus on suppliers' integrity management, mandatorily requiring suppliers to commit in writing, and confirm fulfilment of our integrity standards under the *Letter of Commitment Relating to Supplier Integrity*. As of 31 December 2020, the Group had 2,487 suppliers, all of which were located in China.

At the supplier acceptance stage, we consider and assess their performance in environmental protection, social responsibility, and employees' health and safety. We evaluate their performance through conducting due diligence review on their qualification documents such as quality certification, business license, production license, product certificate and other relevant inspection reports. We give priority to those suppliers with certification or qualification on environmental protection, and do not conduct business with suppliers with unsatisfactory performance track record.

## IV. Caring for Employees

The Group establishes effective employee compensation, benefits and training system, provides a good reward and promotion platform, advocates a healthy work and lifestyle, creates an equal and diversified team, and carries out various employee activities to enhance the well-being of the employees.

### *1. Employment and Labour Standards*

Talents are always regarded as the most valuable assets and resources of the Group. We have established a sound employment mechanism, conducted fair and equitable recruitment process, cultivated a diversified pool of talents, provided a reasonable employee compensation and promotion mechanism, offered various employee welfare benefits, and implemented a transparent and effective employee performance and communication mechanism to achieve a harmonious and win-win employment relationship.

### 1.1 Recruitment, Dismissal and Labour Standards

The Group protects the legitimate rights and interests of employees compatible with the *Labour Law of the People's Republic of China,* the *Labour Contract Law of the People's Republic of China,* the *Social Insurance Law of the People's Republic of China,* the *Law of the People's Republic of China on the Protection of Women's Rights and Interests,* and the *Special Rules on the Labour Protection of Female Employees* and other laws and regulations. Employees of the Group are recruited in accordance with the principles of fair competition, merit-based recruitment and equal opportunities. We firmly prohibit child labour and forced labour. As of 31 December 2020, the Group had a total of 6,104 employees, including 5,775 full-time employees and 329 interns.

| CATEGORY | 2020 | 2019 |
|---|---|---|
| **By age** | | |
| 30 years old and under | **2,686** | 3,353 |
| 30–50 years old | **3,358** | 4,193 |
| 50 years old and above | **60** | 43 |
| **By gender** | | |
| Male | **4,045** | 5,084 |
| Female | **2,059** | 2,505 |

| CATEGORY | 2020 | 2019 |
|---|---|---|
| **By geographical region** | | |
| China | **5,977** | 7,462 |
| Asia-Pacific (excluding China) | **127** | 127 |
| **By type of employment relations** | | |
| Full-time employees | **5,775** | 7,137 |
| Interns | **329** | 452 |
| **By Level** | | |
| Management | **63** | 61 |
| General staff | **6,041** | 7,528 |

Note: Since Kingsoft Cloud ceased to be a subsidiary of the Company with effect on 8 May 2020, the number of employees of the Group as at 31 December 2020 did not include that of Kingsoft Cloud Group.

### 1.2 Anti-discrimination, Pluralism and Equal Opportunities

Applicants for posts and employees are treated equally in recruitment and remuneration, regardless of their ethnicity, race, age, gender, marital status and religious beliefs. The Group signs labour contracts with employees in accordance with the principle of equality, consensus, honesty and trustworthiness. We conscientiously implement the *Special Rules on the Labour Protection of Female Employees*, assure the rights and benefits of female employees during pregnancy, childbirth and breastfeeding, and prohibit reduced wages and unreasonable dismissal of female employees due to pregnancy, childbirth and breastfeeding. We fully respect our employees. We promote equality of personality, reject any form of abusive discrimination, and firmly prohibit forced, threatening, abusive or exploitative labour practices and employee for age under 18.

### 1.3 Compensation and Promotion

We continue to build and improve the performance evaluation and promotion system.

We have established a comprehensive performance evaluation process, which covers self-evaluation, peer and supervisor evaluation, to ensure employees performance is evaluated in an objective and fair basis. We also regularly maintain close communication with our employees to ensure that they can obtain required resources and support for their career developments.

The Group has established an independent evaluation process based on pre-determined performance rating system that corresponds to the job specification/role positions to ensure a fair and transparent promotion process for employees, hence enhancing the Group's capability in talent development.

### 1.4 Working Hours and Holidays

According to the *Labour Law of the People's Republic of China* and the *Labour Contract Law of the People's Republic of China*, we implement an attendance system to manage employees' working hours. Except for national holidays, we provide employees with additional annual leave and paid sick leave. Besides, female employees are entitled to paid maternity leave and other related leaves, while male employees are provided with paid paternity leaves. The Group has formulated the *Rules on Employee Benefits*, providing employees with various additional benefits, such as festival allowances, wedding allowances and meal allowances.

### 1.5 Employee Communication

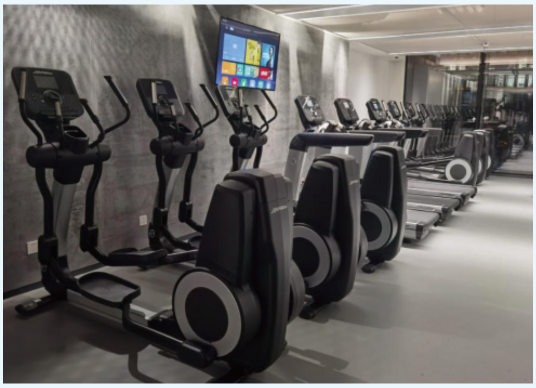
The Group encourages open communication with employees, setting up various communication channels to maintain effective communication. We have established a labour union to collect and seek track employee's opinions and seek their feedback. Employees can submit their views or suggestions through online and offline platforms. The feedback is sent to the corresponding department leaders for any necessary follow-up and response.

### 1.6 Employee Activities

We always uphold the corporate culture and concept of "building Kingsoft as home, thinking of what employees think and doing what employees need". We encourage employees to balance work life and actively participate in various cultural and sports activities.

- **Physical Activities**

The Group and its subsidiaries actively carry out various sports activities for employees. The Group has been equipped with a special fitness room with specialized trainers for employees to do more exercise and maintain fitness at break or after work. In 2020, Kingsoft Office and Seasun Holdings held and encouraged employees to actively participate in a diversified range of sport activities such as shining run, basketball league match, yoga, skiing, hiking and biking to enhance employees' sense of happiness and fulfilment.



Fitness room for the Group's employees

Yoga club of Kingsoft Office

Basketball club of Kingsoft Office

Ski club of Kingsoft Office

Seasun Holdings — Shining run

- **Entertainment**

We organise various cultural and recreational activities to enhance employees' sense of identity and belonging to the Group. Seasun Holdings' Guzheng club has cultivated employees' artistic qualities and promoted Chinese traditional culture. Kingsoft Office's dance club has provided employees with training areas and performance opportunities to stimulate their vitality.


Guzheng club of Seasun Holdings

Dance club of Kingsoft Office

### 2. *Employee Training*

We are committed to building a learning-oriented organisation in staff development, building and improving the talent training system and setting up more diversified educational training courses to achieve mutual development of the Group and its employees.

The Group offers employee a wide range of training programs covering orientation training camp for new recruits, technical trainings, middle management and management sharing programs. The Group's "King Plan" for management trainees provides them with professional knowledge training on products, operation and marketing, and leadership skills. In 2020, "King Plan" completed a total of 12 classroom courses, 4 online courses, 10 externally organized training courses and 6 self-developed courses with a participation rate of 100%.

Orientation training camp for new recruits


Workplace skills training

Kingsoft Office provides targeted training for employees at different levels. It Course evaluation helps improve training effectiveness. In 2020, Kingsoft Office organised 568 trainings of various kinds.

| Training Module | Training Content |
|---|---|
| CEO office training | Broadening the thinking of management of the CEO office through enterprise interview and Tibet hiking activities |
| Middle management training | Capability building for middle management through training on supervisor empowerment, coaching leadership, financial management, communication, operation simulation, etc. |
| | Cooperating with external senior training institutions to develop youth training courses, empowering young cadres of to improve their work and management capabilities |
| | Supporting the middle and senior management to attend external training and giving them training allowances to further promote their work and management capabilities |
| On-the-job training | Improving employees' soft power and technical level through general soft skills training and technology sharing |
| Special sales training | Conducting special sales training for new sales staff and enhancing their understanding of company policies to upgrade their sales skills |
| Orientation for recruits | Carrying out orientation for recruits to strengthen their comprehensive understanding of the company for quick adaptation to the company |

Seasun Holdings has established a training system consisting of four modules: "senior management training", "middle management competency training", "employees' professional skills and professional ability training" and "new employee professionalism training", to build a team with strategic vision and strong business ability and to improve the comprehensive professional quality of all staff.

| Training Module | Training Content |
|---|---|
| Senior management training | Conducting strategic seminars, quarterly sharing and exchange visits to improve the management level and capability of senior management |
| Middle management capabilities training | Conducting training on enterprise operation simulation with sand table and high-value management kit to enhance the management capability and inter-department collaboration capability of the middle management |
| Professional skills and vocational training for employees | Carrying out training such as SDC (Seasun Development Conference) to enhance employees' communication, writing and professional skills |
| Professional training for recruits | Carrying out training such as professional training for recruits and time management courses to deepen their understanding of corporate culture and policies and improve their time management capabilities |

SDC training

High-value management kits

### 3. *Health and Safety*

In strict compliance with the *Labour Law of the People's Republic of China*, the *Production Safety Law of the People's Republic of China*, the *Prevention and Control Law of Occupational Diseases of the People's Republic of China*, the *Fire Protection Law of the People's Republic of China* and other laws and regulations on occupational health and safety and fire safety in the workplace, we formulated various emergency plans such as the *Management Policy for Office Environment of Kingsoft Software* and the *Measures for the Management of Visitors' Entrances and Exits of Kingsoft Software* to comprehensively safeguard the health and safety of employees in office areas. We continue to strengthen security management in office areas, establishing access control and security monitoring to manage entrances and exits strictly, and conduct fire safety inspection regularly. We provide supplementary commercial insurance and annual physical examinations to employees and periodically conduct training on security personnel regarding safety management standards and emergency management.

We followed the state and local governmental policies on epidemic management for employees' health. We formulated the *Emergency Prevention and Control Plan for Kingsoft in Fight against COVID-19*, asking employees to protect themselves when travelling, reporting body temperature timely and cooperating with local governments to implement quarantine measures. We have strictly carried out disinfection work in office areas to ensure safe resumption of work. The Group also provides updates of the epidemic so that employees keep abreast of the epidemic developments and make travel arrangements.

## V. Green Operation

Pursuant to the *Environmental Protection Law of the People's Republic of China* and the *Energy Conservation Law of the People's Republic of China* and other laws and regulations on environmental protection and in response to the call of low-carbon development, the Group integrates energy saving and emission reduction and climate change combating activities into its operation, products and services. The Group also continuously improves its environmental protection management measures and policies, and promotes employees' awareness and practice of environmental protection.

The impact of the Group's operations on the environment and natural resources mainly lies in emissions and resource use of the office buildings.

### 1. *Green Office*

The Group is committed to a resource-saving and environmentally friendly workplace. We implemented management systems such as the *Management Rules for the Turning on/off of Lights* and the *Management Rules for the Power on/off of Computers* to ensure energy saving and emission reduction. We use LED energy-saving lamps, and make full use of natural light so as to use less lighting appliances.

### 2. *Employees' Awareness of Environmental Protection*

We also put up energy-saving slogans, advocating for the energy-efficient use of computers and shutting down electronic equipment and power supplies after work. The Group encourages employees to save paper by double-sided printing. In addition, we apply water-saving faucets to reduce water waste and call on our employees to pay attention to water conservation.

We promote the concept of environmental protection to our employees and their families. In 2020, Seasun Holdings held the 7th "Family Day". We enhance the environmental protection awareness of employees and their family members through activities such as waste classification knowledge publicity, waste recycling, and Q&A on marine knowledge.


Environmental protection knowledge publicity on Family Day

### 3. *Green Products*

We integrate environmental responsibility into our products and services, and support customers' green operation through paperless office. Catering to customer use scenarios, Kingsoft Office focuses on "cloud office" and "paperless conference", and has launched WPS+ cloud office service and mobile WPS. Functions such as remote meeting, document encryption and table tools help contribute to customers' with low-carbon operation.

### 4. *Environmental Key Performance Indicators*

Unless otherwise stated, the following data covers main office buildings located in Beijing, Zhuhai, Chengdu, Wuhan, Dalian and Hong Kong.

**Office Buildings**

| **EMISSIONS** | **2020** | **2019** |
|---|---|---|
| Total direct GHG emissions (Scopes 1 and 2) (tonnes) | 9,274.61 | 9,937.27 |
| Total direct GHG emissions (Scope 1) (tonnes) | 272.85 | 546.88 |
| Including: Petrol (tonnes) | 100.09 | 58.15 |
| Natural gas (tonnes) | 172.76 | 488.73 |
| Total indirect GHG emissions (Scope 2) (tonnes) | 9,001.76 | 9,390.39 |
| Including: Purchased electricity (tonnes) | 9,001.76 | 9,390.39 |
| Total GHG emissions per employee (tonnes per employee) | 1.64 | 1.31 |
| Total GHG emissions per floor area (tonnes per square metre) | 0.11 | 0.11 |
| Total hazardous waste (tonnes) | 0.06 | 0.10 |
| Hazardous waste per employee (tonnes per employee) | 0.000011 | 0.000017 |
| Total non-hazardous waste (tonnes) | 488.21 | 643.04 |
| Non-hazardous waste per employee (tonnes per employee) | 0.086 | 0.086 |

| USE OF RESOURCES | 2020 | 2019 |
|---|---|---|
| Total energy consumption (MWh) | 17,254.92 | 18,379.76 |
| Direct energy consumption (MWh) | 986.72 | 2,559.39 |
| Including: Petrol (MWh) | 103.21 | 59.96 |
| Natural gas (MWh) | 883.52 | 2,499.44 |
| Indirect energy consumption (MWh) | 16,268.20 | 15,820.36 |
| Including: Purchased electricity (MWh) | 16,268.20 | 15,820.36 |
| Energy consumption per employee (MWh per employee) | 3.04 | 2.42 |
| Total energy consumption per floor area (MWh per square meter) | 0.20 | 0.21 |
| Total water consumption (tonnes) | 110,712.16 | 138,533.00 |
| Total water consumption per floor area (tonnes per square meter) | 2.15 | 1.96 |

Notes:

1. Due to its business nature, the major emissions of the Group are greenhouse gas (GHG) emissions, arising from NG and electricity converted from fossil fuels.

2. The Group's greenhouse gas inventories include carbon dioxide, methane and nitrous oxide. GHG emissions are measured in carbon dioxide equivalents and calculated based on the 2019 Baseline Emission Factors for Regional Power Grids in China issued by the Ministry of Ecological Environment of the People's Republic of China and the 2006 IPCC Guidelines for National Greenhouse Gas Inventories issued by the Intergovernmental Panel on Climate Change (IPCC).

3. The hazardous waste involved in the Group's operation mainly includes waste toner cartridges and waste ink cartridges generated from office printing equipment. Waste toner cartridges and waste ink cartridges are uniformly recycled by qualified vendors. The non-hazardous waste involved in the Group mainly includes office and domestic waste, which are all handled by property management companies.

4. The non-hazardous wastes involved in the Group's office buildings mainly include domestic waste, which property management companies handle and cannot be individually measured. Therefore, we estimate wastes generated from the operation of the office buildings in accordance with the *Handbook on Domestic Discharge Efficiencies for Towns in the First Nationwide Census on Contaminant Discharge* published by the State Council.

5. The Group mainly uses municipal tap water and has no issue in obtaining water sources. The current water consumption statistics include those of Xiaomi Science and Technology Park, Zhuhai Kingsoft Park, Wuhan Office in Guanggu Square and Chengdu Office. Other office buildings cannot measure water consumption separately because running water costs are included in property costs.

6. Energy consumption is calculated based on the electricity and fuel consumption and the conversion factors in the *National Standards General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2008)*.

7. Due to the nature of our businesses, the Group does not produce any packaging products and, therefore, does not use packaging materials.

## VI. Contributing to the Society

As a responsible corporate citizen, we are committed to giving back to society. We fulfil our social responsibility through public welfare assistance, supporting education, environmental protection and fighting against the epidemic.

### *1. Public Welfare Assistance*

We provide public welfare assistance to people in areas with limited educational resources by giving them free products and technical support or other donations.

- **Realising "dream of reading" by donating books**

Since 2016, Seasun Holdings has been cooperating with players to donate books for primary and secondary school students in poverty-stricken areas to help them realise the "dream of reading". Seasun Holdings "Xi Fund" donated more than 43,000 books to primary and secondary school students in Honghe Autonomous Prefecture, Yunnan.


Book donation activities of Seasun Holdings

*2. Supporting education*

We aim to cultivate talents through education empowerment so as to boost future industry development.

- **WPS educational informatisation**

In June 2020, Kingsoft Office entered into a strategic cooperation agreement with the United Nations Educational, Scientific and Cultural Organisation (UNESCO) and joined the International Institute of Online Education under the International Centre for Higher Education Innovation of UNESCO. Online courses of the WPS Office are introduced to the international educational resource platform to improve the educational informatisation in developing countries in Asia Pacific and Africa. Kingsoft Office will also provide WPS office software for free to the "Smart Classroom" built by the International Centre for Higher Education Innovation of UNESCO in Asia and Africa. The offline Smart Classroom works with the online International Institute of Online Education to support higher education in developing countries.


Kingsoft Office signed a strategic cooperation agreement with UNESCO

Kingsoft Office distributed 78,230 sets of educational products of Kingsoft Document for free to 127 schools, 5,230 teachers and 73,000 students in Xuanhua District of Zhangjiakou City. It will continue to provide follow-up services for these educational products.

- **Free training camps**

Seasun Holdings organized the "Art Training Camp" and the "SEED Training Camp" to provide free technical skills training courses for students and game-lovers.

### Art Training Camp

The Art Training Camp provided diversified courses ranging from basic training on software application to practical exercises. The senior art employees from Seasun Holdings delivered the training. Participants with outstanding performance may receive offer from Seasun Holdings.

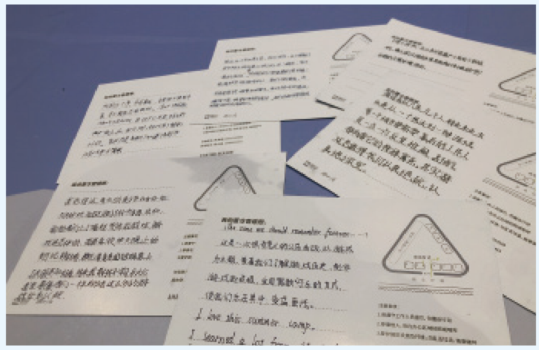
### SEED Training Camp

Participants are provided with professional training on game design and invited to experience the whole process of game making from creative ideas to the creation of new games. Participants completing the course will be awarded a certificate issued by SEED Training Camp, and receive a formal or internship offer from Seasun Holdings.

- **Guidance for teenagers on keeping games in perspective**

Seasun Holdings conducted a summer camp activity named "Seasonal Journey to the West", to provide education for teenagers aged 12 to 15 who are interested in online games. Teenagers could participate in the design and production process of games and attend lectures and salons, so as to form a proper understanding of online games.


Seasonal Journey to the West Group Photo



Thank You Letters to the Summer Camp

### 3. *Environmental Protection*

We encourage users to participate in environmental protection activities based on products. Seasun Holdings, together with public welfare organisations for environmental protection and enthusiastic players, held a public welfare activity named "Blue Sea Guardian - Clean Beach Action", which aims to cleaning up the beach and seafloor wastes in 11 coastal cities. Seasun Holdings also integrates design elements related to marine protection in its online game products, so that players will gain knowledge on marine conservation while playing games.


Enthusiastic players of Seasun Holdings organised "Clean Beach Action"

i Elements of marine protection integrated into Seasun Holdings games

### *4. Fight Against COVID-19*

The Group responded proactively to contribute to the fight against the COVID-19 nationwide. In 2020, the Group raised donations totalling RMB2.86 million to purchase all kinds of materials to fight against the epidemic.

Kingsoft Office supported the resumption of work for enterprises and governments, as well as online courses for schools through its cloud office platform, proving the essential social value of new infrastructure construction. Kingsoft Office provided WPS office software for free to 54 primary and secondary schools, 4,200 teachers and 60,000 students in Jianghan District, Wuhan City, to support online courses for schools during the epidemic. In addition, Kingsoft Office supported pandemic prevention and control in Qingdao. Products such as WPS Office helped with in time health information processing, and multiple access on different devices and in different areas.

# DIRECTORS' REPORT

The Board of the Company submits its report together with the audited financial statements of the Group for the year ended 31 December 2020.

## Principal Business

The continuing operations of the Group comprised the following principal activities:

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

The discontinued operation of the Group was involved in provision of cloud services including cloud computing, storage and delivery, and comprehensive cloud-based solutions through Kingsoft Cloud Group.

## Results and Appropriations

The results of the Group for the year ended 31 December 2020 are set out in the consolidated income statement of comprehensive income of this annual report.

The state of affairs of the Group as at 31 December 2020 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 2020 is set out in this annual report.

The Directors recommend the payment of a final dividend of HK$0.20 per ordinary share (2019: HK$0.10 per ordinary share) totalling approximately HK$273.6 million (2019: HK$136.6 million), which excluded the dividend related to the shares held under the Share Award Scheme, based on issued shares capital as at 31 December 2020 to shareholders whose names appear on the register of members of the Company on Monday, 7 June 2021. Such proposed dividends will be subject to approval of the shareholders at the forthcoming annual general meeting ("**AGM**") to be held on Wednesday, 26 May 2021. Such proposed dividends will be payable on Friday, 18 June 2021. This recommendation has been incorporated in note 14 to the financial statements.

For the year ended 31 December 2020, the Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

## Closure of Register of Members

The register of members of the Company will be closed from Friday, 21 May 2021 to Wednesday, 26 May 2021, and Wednesday, 2 June 2021 to Monday, 7 June 2021, 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 Thursday, 20 May 2021 and Tuesday, 1 June 2021, respectively.

## Reserves

For the year ended 31 December 2020, the profit attributable to owners of the parent company amounted to RMB10,045.0 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 2020, the Company had distributable reserves amounting to RMB5,182.4 million, calculated in accordance with any statutory provisions applicable in the Cayman Islands. Details of movements in the reserves of the Group and the Company during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity of this annual report, and in note 50 to the financial statements, respectively.

## Donations

During the year, the Group made charitable and other donations totalling RMB1.7 million (2019: 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 2.4 to the financial statements.

## Employee and Remuneration Policy

As at 31 December 2020, the Group employed approximately 5,775 full-time employees (2019: 7,137) inclusive of all its staff in Mainland China and overseas offices, most of whom are based at the Company's offices in Beijing and Zhuhai. Since Kingsoft Cloud ceased to be a subsidiary of the Company with effect on 8 May 2020, the number of full-time employees of the Group as at 31 December 2020 did not include that of Kingsoft Cloud Group.

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

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

The staff costs of the Group including Directors' and senior management's emoluments in 2020 and 2019 were approximately RMB2,105.1 million and RMB2,720.5 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 expenses.

## Subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2020 are set out in note 1 to the financial statements.

## Material Investments and Acquisitions

Details of the material investments and acquisitions incurred during 2020 are set out in note 21, 22, 23, 24 and 40 to the financial statement.

## Spin-off and Separate Listing of Kingsoft Cloud on NASDAQ

### Major transaction in relation to deemed disposal of interest in Kingsoft Cloud and connected transactions in relation to the subscriptions of the ADSs by the Company and Xiaomi

On 8 May 2020, the Company announced that the spin-off and separate listing of Kingsoft Cloud, a non-wholly owned subsidiary of the Company, on NASDAQ has been completed and the trading in the ADSs of Kingsoft Cloud commenced on 8 May 2020 (New York time). Pursuant to its public offering, Kingsoft Cloud would issue 30,000,000 ADSs before any exercise of the over-allotment option and the underwriters had an option to purchase up to an additional 4,500,000 ADSs pursuant to the over-allotment option. On 7 May 2020 (New York time), each of the Company and Xiaomi subscribed for 1,175,000 ADSs and 2,355,000 ADSs, respectively, at the offer price of US$17 per ADS. The consideration payable by each of the Company and Xiaomi for the subscriptions amounted to approximately US$19,975,000 and US$40,035,000, respectively. The Directors considered the subscriptions of the ADSs by the Company and Xiaomi are beneficial to the Company for the following reasons: (i) the Company will be able to replenish its shareholding in Kingsoft Cloud through the subscription of the ADSs; and (ii) the subscriptions of the ADSs by the Company and Xiaomi will provide financial supports to the business development and promote the fast growth of Kingsoft Could, which in turn will enhance the shareholder value of the Company.

Following completion of the spin-off and separate listing of Kingsoft Cloud (taking into account the Company's subscription of the ADSs), Kingsoft Cloud has ceased to be a subsidiary of the Company. Therefore, the spin-off and separate listing of Kingsoft Cloud constituted a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. As the highest applicable percentage ratio in respect of the spin-off and separate listing of Kingsoft Cloud exceeded 25% but was less than 75%, the spin-off and separate listing of Kingsoft Cloud constituted a major transaction of the Company and the Company has complied with the requirements under paragraph 3(e)(1) of Practice Note 15 of the Listing Rules and the applicable requirements of Chapter 14 of the Listing Rules (including the announcement, circular, appointment of an independent financial adviser and shareholders' approval requirements).

Furthermore, Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. Mr. Jun LEI holds a majority of voting power in Xiaomi, save for resolutions with respect to a limited number of reserved matters. As such, Xiaomi is a connected person of the Company pursuant to Chapter 14A of the Listing Rules and the subscription of the ADSs by Xiaomi was therefore a connected transaction of the Company. As at the date of such transactions, Xiaomi held over 10% equity interest in Kingsoft Cloud, and therefore Kingsoft Cloud was a connected subsidiary of the Company by virtue of Rule 14A.16 of the Listing Rules. As such, the subscription of the ADSs by the Company was also a connected transaction of the Company. As each of the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the subscriptions of the ADSs by the Company and Xiaomi exceeded 0.1% but was less than 5%, each of the subscriptions of the ADSs by the Company and Xiaomi was subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

In addition, to give due regard to the interests of the shareholders of the Company as required by Practice Note 15 of the Listing Rules, the Company declared and distributed a special dividend to its shareholders by way of a distribution in specie, and the cheques for cash payment were despatched on 16 June 2020 (Hong Kong time) and the distributing ADSs were despatched on 16 June 2020 (New York time).

For more details, please refer to announcements of the Company dated 14 November 2019, 22 December 2019, 20 March 2020, 17 April 2020, 28 April 2020, 4 May 2020, 5 May 2020, 8 May 2020 and 16 June 2020 and the circular of the Company dated 26 February 2020, and note 13 to the financial statement.

## Future Plans for Material Investments or Capital Assets

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

Save as those disclosed in note 43 to the financial statements, there was no specific plan for material investments and acquisitions of material capital assets as at 31 December 2020.

## 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 2016, 2017, 2018, 2019 and 2020, is set out as below. The summary does not form part of the audited financial statements.

| | YEAR ENDED 31 DECEMBER | | | | RMB'000 |
|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2019** | **2020** |
| Profit/(loss) for the year | (292,275) | 3,296,629 | (165,242) | (2,082,699) | **10,244,940** |

| | AS AT 31 DECEMBER | | | | |
|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2019** | **2020** |
| Total assets | 17,578,952 | 17,762,390 | 20,049,812 | 24,401,623 | **35,044,195** |
| Total liabilities | 7,577,228 | 5,209,419 | 7,128,213 | 8,792,242 | **6,816,285** |

## 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 2020.

## Bank Borrowings

Particulars of bank loans as at 31 December 2020 are set out in note 32 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 2020 are set out in note 16 to the financial statements. No assets of the Group are charged during the year ended 31 December 2020.

## Principal Properties

During the year, the Group has not held any properties for development and/or sale or for investment purposes of which 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 2020.

## 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 2020 are set out in note 36 to the financial statements.

## Share Option Schemes

***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.

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

Details of the movements in share options of the Group for the year ended 31 December 2020 are set out in note 37 to the financial statements.

## Summary of the Share Option Schemes

| | Detail | 2011 Share Option Scheme | Seasun Holdings Share Option Scheme |
|---|---|---|---|
| 1 | Purposes | 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 Westhouse Group and/or to enable the Westhouse Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Westhouse Group and any invested entity. |
| 2 | Qualified participants | Any executive director (exclusive of any independent non-executive director) and other employees of the Group. 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 which the Group holds any equity interest. | Employee(s) (whether full time or part time employee(s)) of Seasun Holdings, its subsidiaries or any invested entities. |

| | Detail | 2011 Share Option Scheme | Seasun Holdings Share Option Scheme |
|---|---|---|---|
| 3 | Maximum number of shares | 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 total number of shares available for issue under the 2011 Share Option Scheme are 106,264,893, representing approximately 7.74% of the issued shares of the Company as at the date of this annual report. | The total number of shares which may be issued upon exercise of all options to be granted shall not in aggregate exceed 40,000,000 ordinary shares of Seasun Holdings unless otherwise approved by the shareholders of the Company and Seasun Holdings in general meeting. |
| 4 | Maximum entitlement of each participant | 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. | The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total number of shares in issue, unless separately approved by the shareholders of the Company and Seasun Holdings in general meeting with such participant and his associates abstaining from voting. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) (where the shares are listed on the Stock Exchange,) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders of the Company and Seasun Holdings. |
| 5 | Option period | 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 Seasun Holdings may in its absolute discretion determine and notify to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme. |
| 6 | Acceptance of offer | The offer of grant of share options must be accepted within a period of 28 days from the date of offer, upon payment of a consideration of HK$1.00 on acceptance of each grant of share options. | 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 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 Seasun Holdings but in any case the subscription price of options granted after Seasun Holdings or the Company has resolved to seek a separate initial public offering and up to date of Seasun Holdings' initial public offering must not be lower than the new issue price (if any) in the Seasun Holdings' initial public offering. In particular, any options granted during the period commencing six months before the lodgment of Form A1 (or its equivalent) up to the date of Seasun Holdings' initial public offering are subject to this requirement. The subscription price of options granted during such period shall be subject to adjustment to a price not lower than the new issue price in Seasun Holdings' initial public offering. |
| 8 | Remaining life of the Scheme | It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect. | It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect. |

**2011 Share Option Scheme**

The following share options were outstanding under the 2011 Share Option Scheme as of 31 December 2020:

| | NUMBER OF SHARE OPTIONS | | | | | | |
|---|---|---|---|---|---|---|---|
| NAME OR CATEGORY OF PARTICIPANT | AT 1 JAN 2020 | GRANTED DURING THE PERIOD | EXERCISED DURING THE PERIOD | CANCELLED DURING THE PERIOD | AT 31 DEC 2020 | DATE OF GRANT OF SHARE OPTIONS | EXERCISE PRICE OF SHARE OPTIONS HK$ PER SHARE |
| **Executive Directors** | | | | | | | |
| Tao ZOU | 4,000,000 | — | — | — | 4,000,000 | 21 April 2017 | 20.25 |
| Yuk Keung NG | 600,000 | — | — | — | 600,000 | 23 November 2017 | 22.75 |
| | 4,600,000 | — | — | — | 4,600,000 | | |

## Share Award Scheme

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

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

## Seasun Holdings Share Award Schemes

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

More details regarding the Seasun Holdings Share Award Schemes are set out in note 37 to the financial statements.

## Directors

The Directors of the Company up to the date of this report comprised 8 Directors, of which 2 were executive Directors, 3 were non-executive Directors and 3 were independent non-executive Directors, whose names are as follows:

| | APPOINTMENT DATE | RESIGNATION DATE | RE-DESIGNATION DATE |
|---|---|---|---|
| **EXECUTIVE DIRECTORS** | | | |
| Mr. Tao ZOU (鄒濤) | 25 August 2009 | N/A | N/A |
| Mr. Yuk Keung NG (吳育强） | 1 March 2013 | N/A | N/A |
| **NON-EXECUTIVE DIRECTORS** | | | |
| Mr. Jun LEI (雷軍) | 27 July 1998 | N/A | 28 August 2008 |
| Mr. Pak Kwan KAU (求伯君) | 27 July 1998 | N/A | 24 October 2011 |
| Mr. Chi Ping LAU (劉熾平) | 28 July 2011 | N/A | N/A |
| **INDEPENDENT NON-EXECUTIVE DIRECTORS** | | | |
| Mr. Shun Tak WONG (王舜德) | 15 July 2014 | N/A | N/A |
| Mr. David Yuen Kwan TANG (鄧元鋆) | 6 May 2013 | N/A | N/A |
| Ms. Wenjie WU（武文潔） | 1 March 2013 | N/A | N/A |

In accordance with Article 108 of the Articles of Association, Mr. Chi Ping LAU, Mr. Shun Tak WONG, and Mr. David Yuen Kwan TANG will retire at the forthcoming AGM of the Company and, being eligible, will offer themselves for re-election.

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

### *Directors' and Senior Management's Biographies*

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 13 to 16 of this annual report.

### *Directors' Service Contracts*

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

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

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

### *Interests of the Directors in Contracts*

Save as disclosed in the section of "Related Party Transactions and Connected Transactions" in Directors' Report, no Directors had any direct or indirect material interests in any contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party at the end of the year or at any time during the year ended 31 December 2020.

### *Directors' and Chief Executive's Interests in Securities*

As at 31 December 2020, 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 | 15.31 | Long position |
| | Other | 129,184,003 | 9.41 | Long position |
| | Total | 339,300,251 (Note 2) | 24.72 | Long position |
| Pak Kwan KAU | Interest of controlled corporation | 101,502,566 (Note 3) | 7.39 | Long position |
| Tao ZOU | Beneficial owner | 6,378,307 | 0.46 | Long position |
| Yuk Keung NG | Beneficial owner | 1,098,000 | 0.08 | 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 2020, which was 1,372,728,717.

2. As at 31 December 2020, among these 339,300,251 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a British Virgin Islands company owned as to 100% by Mr. Jun LEI; (ii) 35,298,057 shares are held by a wholly-owned subsidiary of Xiaomi, a company controlled by Mr. Jun LEI under the SFO; and (iii) 129,184,003 shares are deemed to be interested by Mr. Jun LEI under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG would vote in the same way as Mr. Jun LEI votes with these shares.

3. These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Mr. Pak Kwan KAU. In addition, Mr. Jun LEI is also deemed to be interested in these shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares.

*Interests in shares and underlying shares of associated corporations of the Company*

Seasun Holdings (Note 1)

| Name of Director | Capacity | No. of shares interested | % of issued share capital in class (Note 2) | Nature of Shares interested |
|---|---|---|---|---|
| Tao ZOU | Beneficial owner | 18,123,462 | 1.97 | Long position |

Notes:

1. Seasun Holdings is a non-wholly owned subsidiary of the Company.

2. % of issued share capital in class was calculated on basis of the issued ordinary shares of Seasun Holdings as at 31 December 2020, which was 918,149,438.

Cheetah Mobile (Note 1)

| Name of Director | Capacity | No. of shares interested | % of issued share capital in class (Note 2) | Nature of Shares interested |
|---|---|---|---|---|
| Jun LEI (Note 3) | Interest of controlled corporation | 14,285,714 | 3.21 | Long position |
| David Yuen Kwan TANG | Beneficial owner | 140,000 | 0.03 | Long position |
| Yuk Keung NG | Beneficial owner | 1,200 | 0.00 | Long position |

Notes:

1. The Company held 48.08% ownership interest and 26.40% voting power of Cheetah Mobile as at 31 December 2020, which is listed on the NYSE.

2. % of issued share capital in class was calculated on basis of the issued Class A Cheetah Shares as at 31 December 2020, which was 445,604,900.

3. These shares are held by Xiaomi, a company owned as to more than 30% voting power by Mr. Jun LEI under the SFO.

Save as disclosed above, none of the Directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2020.

## Substantial Shareholders

As at 31 December 2020, 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 provisions 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 issued share capital (Note 1) | Nature of Shares held |
|---|---|---|---|---|
| Color Link Management Limited (Note 2) | Beneficial owner | 174,818,191 | 12.74 | Long position |
| Topclick Holdings Limited (Note 3) | Beneficial owner | 101,502,566 | 7.39 | Long position |
| Tencent Holdings Limited (Note 4) | Interest of controlled corporation | 106,784,515 | 7.78 | Long position |
| JPMorgan Chase & Co. | Interest of controlled corporation | 18,170,087 | 1.32 | Long position |
| | Interest of controlled corporation | 13,590,384 | 0.99 | Short position |
| | Investment manager | 84,298,000 | 6.14 | Long position |
| | Person having a security interest in shares | 5,452,456 | 0.40 | Long position |
| | Approved lending agent | 5,416,121 | 0.39 | Long position |
| | Approved lending agent | 5,416,121 | 0.39 | Lending pool |

Notes:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 31 December 2020, which was 1,372,728,717.

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

3. These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Mr. Pak Kwan KAU. 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 Divisions 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 2020, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

## Convertible Bonds

The Company completed the issue of the 2020 Convertible Bonds in the principal amount of HK$3,100,000,000 on 29 April 2020. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each 2020 Convertible Bonds at 105.85% of its principal amount together with accrued and unpaid interest thereon on 29 April 2025. The net proceeds from the subscription of the 2020 Convertible Bonds, after deduction of commissions and other related expenses, were approximately HK$3,033.94 million. Assuming full conversion of the 2020 Convertible Bonds at the initial conversion price of HK$35.7637 per share and no further issue of shares, the 2020 Convertible Bonds will be convertible into approximately 86,680,069 shares of the Company. The net proceeds of approximately HK$3,033.94 million represents a net issue price of approximately HK$35.0016 per conversion share based on the initial conversion price of HK$35.7637 per conversion share.

The initial conversion price for each conversion share was HK$35.7637, which represented (i) a premium of approximately 27.5% over the last closing price of HK$28.05 per share as quoted on the Stock Exchange on 23 April 2020, being the trading day on which the subscription agreement was signed; (ii) a premium of approximately 30.2% over the average closing price of approximately HK$27.46 per share as quoted on the Stock Exchange for the five consecutive trading days up to and including 23 April 2020; and (iii) a premium of approximately 36.6% over the average closing price of approximately HK$26.19 per share as quoted on the Stock Exchange for the ten consecutive trading days up to and including 23 April 2020. The 2020 Convertible Bonds were offered and sold to no less than six independent placees (who were independent individual, corporate and/or institutional investors). The 2020 Convertible Bonds have been listed on the Stock Exchange since 4 May 2020. The interest is 0.625% per annum of the principal amount of the 2020 Convertible Bonds, payable semi-annually in arrear in equal instalments of HK$3,125 per calculation amount (i.e. interest in respect of any 2020 Convertible Bond shall be calculated per HK$1,000,000 in principal amount of the 2020 Convertible Bonds) on 29 April and 29 October in each year. 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, which is in accordance with the proposed uses as disclosed in the announcement of the Company dated 24 April 2020. The Directors are of the view that the issue of the 2020 Convertible Bonds can provide the Company with additional funds at lower funding cost for the said purposes.

The actual use of the net proceeds raised from the issue of the 2020 Convertible Bonds as at 31 December 2020 and the expected timeline for use of unutilized proceeds is set out as follows:

| PROPOSED USE OF PROCEEDS | ACTUAL USE OF PROCEEDS AS AT 31 DECEMBER 2020 (HK$ MILLION) | UNUTILIZED PROCEEDS (HK$ MILLION) | EXPECTED TIMELINE FOR USE OF UNUTILIZED PROCEEDS |
|---|---|---|---|
| Strategic investments and acquisitions | 154.81 | 2,245.18 | By 2023 |
| General corporate purposes | 261.87 | 372.08 | By 2025 |

As at 31 December 2020, no 2020 Convertible Bonds had been converted into new shares of the Company, and the outstanding 2020 Convertible Bonds at an aggregate principal amount of HK$3,100,000,000 are convertible into 86,680,069 shares upon full conversion. The following table summarizes the potential effects on the shareholding structure of the Company as a result of the full conversion of the 2020 Convertible Bonds, on the assumptions that there will be no other change to the share capital of the Company from 31 December 2020 to the date of full conversion of the 2020 Convertible Bonds, save for the conversion of the 2020 Convertible Bonds:

| | As at 31 December 2020 | | Assuming the 2020 Convertible Bonds are fully converted at the initial conversion price of HK$35.7637 per share | |
|---|---|---|---|---|
| **Name of Shareholders** | **Number of Shares** | **% of total issued Shares** | **Number of Shares** | **% of the enlarged issued Shares** |
| Mr. Jun LEI (Note 1) | 210,116,248 | 15.31% | 210,116,248 | 14.40% |
| Mr. Pak Kwan KAU (Note 2) | 101,502,566 | 7.39% | 101,502,566 | 6.96% |
| Mr. Tao ZOU (Note 3) | 6,378,307 | 0.46% | 6,378,307 | 0.44% |
| Mr. Yuk Keung NG (Note 4) | 1,098,000 | 0.08% | 1,098,000 | 0.08% |
| Tencent Holdings Limited (Note 5) | 106,784,515 | 7.78% | 106,784,515 | 7.32% |
| Holders of the 2020 Convertible Bonds (Note 6) | 0 | 0.00% | 86,680,069 | 5.94% |
| Other public shareholders | 946,849,081 | 68.98% | 946,849,081 | 64.88% |
| **Total Issued Shares (Note 7)** | **1,372,728,717** | **100.00%** | **1,459,408,786** | **100.00%** |

1. As at 31 December 2020, among these 210,116,248 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a British Virgin Islands company owned as to 100% by Mr. Jun LEI; and (ii) 35,298,057 shares are held by a wholly-owned subsidiary of Xiaomi, a company controlled by Mr. Jun LEI under the SFO. In addition, pursuant to Part XV of the SFO, Mr. Jun LEI is deemed to be interested in Mr. Pak Kwan KAU's interest of 101,502,566 shares (see Note 2 below) as well as 27,681,437 shares held by Mr. Shuen Lung CHEUNG pursuant to a voting consent agreement entered into among Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG whereby Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG would vote in the same way as Mr. Jun LEI with these shares.
2. These shares are held by Topclick Holdings Limited, a British Virgin Island company wholly owned by Mr. Pak Kwan KAU. In addition, Mr. Jun LEI is also deemed to be interested in these 101,502,566 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.
3. Mr. Tao ZOU is a Director of the Company.
4. Mr. Yuk Keung NG is a Director of the Company.
5. These shares are held by TCH Saffron Limited, a wholly-owned subsidiary of Tencent Holdings Limited. As such, Tencent Holdings Limited is deemed to be interested in TCH Saffron Limited's interests in the Company pursuant to Part XV of the SFO.
6. Assuming that the holders of the 2020 Convertible Bonds do not hold any shares of the Company as at 31 December 2020.
7. Any discrepancies between total and sum of percentage listed therein are due to rounding.

The Group had a strong cash position towards the end of reporting period. As at 31 December 2020, the Group had major financial resources in the forms of restricted cash and cash and bank deposits amounting to RMB13.1 million and RMB14,049.1 million, respectively, which totally represented 40% of the Group's total assets. As at 31 December 2020, the Group's gearing ratio, which represents total liabilities divided by total assets, was 19%, compared to 36% as at 31 December 2019. As the reasons discussed above, even though the holders hold the 2020 Convertible Bonds to maturity, the Company is fully capable of redeeming in cash.

References are made to the announcements of the Company dated 24 April 2020 and 29 April 2020 for principal terms of the 2020 Convertible Bonds.

Details of dilutive effect on the basic earnings per share as at 31 December 2020 are set out in note 15 to the financial statements.

## Major Customers and Suppliers

For the year ended 31 December 2020, the 5 largest customers of the Group accounted for 11% of the total revenue from continuing operations, while the largest customer accounted for 7% of the total revenue from continuing operations. For the year ended 31 December 2020, the 5 largest suppliers of the Group accounted for 44% of the total purchases from continuing operations, while the largest supplier accounted for 16% of the total purchases from continuing operations.

The major customers from continuing operations of the Group are mainly exclusive agents of online games and advertisers. 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 end customers vary for different categories of business of the Group, which include game users, purchasers of our application softwares or other internet services, advertisers who advertise 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 from continuing operations of the Group mainly provide R&D and distribution services of games, advertising services and cloud 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) encourage its employees to turn off lights and computers before leaving the office.

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

## Compliance with Relevant Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements. During the year ended 31 December 2020, 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 2020, all Directors of the Company were covered under the liability insurance purchased by the Company for its Directors.

## Related Party Transactions and Connected Transactions

### *1. Connected Transaction*

**The Subscriptions of the ADSs of Kingsoft Cloud by the Company and Xiaomi**

For details of this connected transaction, please refer to paragraph headed "Spin-off and Separate Listing of Kingsoft Cloud on NASDAQ" in this annual report.

### *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 99.91% by Beijing Digital Entertainment and 0.09% by Weiqin Qiu) hold the requisite ICP licenses.

**Pre-existing Structure Contracts during the 2020 financial year**

To streamline the corporate structure of the Group, the Group has commenced an internal reorganization exercise. In 2012, the Group has (i) entered into structure contracts relating to Zhuhai Cloud Technology; (ii) entered into structure contracts relating to Chengdu Seasun Shiyou and Zhuhai Seasun Shiyou. In 2013, the Group (i) entered into structure contracts relating to Zhuhai Seasun Shiyou and Guangzhou Seasun Shiyou; (ii) as part of the Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Cloud Technology. In 2014, as part of the Group's internal restructuring, the Group recloned the structure contracts in relation to Zhuhai Cloud Technology. In 2018, the Group entered into structure contracts relating to Kingsoft Cloud Information Technology. Since 8 May 2020, Kingsoft Cloud ceased to be a subsidiary of the Company and its operating results are no longer consolidated in the consolidated financial statements of the Group. Therefore, at the end of the 2020 financial year, the structure contracts relating to Zhuhai Cloud Technology and Kingsoft Cloud Information Technology no longer consisted of the business operations of the Group, and the transactions contemplated thereunder were no longer connected transactions of the Company under the Listing Rules.

The risks for operating business with contractual arrangements exist in the following aspects: (i) the PRC government may determine that the agreements which established the structure for operating the Group's business in the PRC do not comply with PRC government restrictions on foreign investment; (ii) the Group's structure contracts with relevant contractually-controlled entities and their shareholders may be less effective in providing operational control as compared with 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 mitigate 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 in relation to the business operations of the Group subject to the reporting requirements under the Chapter 14A of the Listing Rules which were pre-existing during the 2020 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 all of her equity interests 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 2020; 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 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.

**Structure Contracts II Relating to Zhuhai Cloud Technology**

(i) Gang Yang 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 Gang Yang.

(ii) Weiqin Qiu, Jin Wang, Gang Yang, 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 as described above in "Original Structure Contracts I Relating to Zhuhai Cloud Technology".

(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 I 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.

**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 Technology 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 Zhuhai Cloud Technology 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 Zhuhai 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 as described above in "Original Structure Contracts II Relating to Zhuhai Cloud Technology".

(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 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 2020; 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 Interactive Entertainment Co., Ltd. ("**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 2020; 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 Kingsoft Cloud Information Technology**

(i) Weiqin Qiu, Yulin Wang and Beijing Yunxiang Zhisheng Technology Co., Ltd. ("**Beijing Yunxiang**") entered into a loan agreement on 18 July 2018, pursuant to which Beijing Yunxiang provided interest free loans of RMB8,000,000 and RMB2,000,000 to Weiqin Qiu and Yulin Wang respectively. The loans have no fixed maturity date, and Beijing Yunxiang may at any time demand repayment by transferring their equity interests in Kingsoft Cloud (Beijing) Information Technology Co., Ltd. ("**Kingsoft Cloud Information Technology**"). Moreover, the ratio of the transferred equity interests in Kingsoft Cloud Information Technology to the equity interests in Kingsoft Cloud Information 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, Yulin Wang, Beijing Yunxiang and Kingsoft Cloud Information Technology entered into a shareholder voting entrustment agreement on 18 July 2018, pursuant to which Weiqin Qiu and Yulin 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 Kingsoft Cloud Information Technology) in Kingsoft Cloud Information Technology to Beijing Yunxiang.

(iii) Weiqin Qiu, Yulin Wang, Beijing Yunxiang and Kingsoft Cloud Information Technology entered into an exclusive option agreement on 18 July 2018, pursuant to which Beijing Yunxiang 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 Yulin Wang in Kingsoft Cloud Information Technology at any time. The exercise price shall equal to the corresponding portion of liability of Beijing Yunxiang borne by Weiqin Qiu and Yulin 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 Yulin Wang shall jointly waive the obligations of Beijing Yunxiang 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, Yulin Wang, Beijing Yunxiang and Kingsoft Cloud Information Technology entered into an equity pledge agreement on 18 July 2018, pursuant to which, Weiqin Qiu and Yulin Wang agreed to pledge all equity interests they respectively held in Kingsoft Cloud Information Technology and any increase in capital contributions in favor of Beijing Yunxiang, 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 Kingsoft Cloud Information Technology under the above shareholder voting entrustment agreement and exclusive option agreement.

(v) Beijing Yunxiang and Kingsoft Cloud Information Technology entered into an exclusive consultation and technological services agreement on 18 July 2018, pursuant to which Beijing Yunxiang provided exclusive services related to the business of Kingsoft Cloud Information Technology to Kingsoft Cloud Information Technology and Kingsoft Cloud Information Technology shall pay the service fee to Beijing Yunxiang on an annual basis. The relevant service fees shall be comprised of the results service fee (the remaining 100% of business income of Kingsoft Cloud Information Technology for the year, net of the mutually agreed business cost of Kingsoft Cloud Information Technology) and the mutually-agreed service fee (for the specified consultation services and technology services provided by Beijing Yunxiang at the request of Kingsoft Cloud Information Technology from time to time). Beijing Yunxiang shall be entitled to the rights to adjust the above service fees at its discretion.

The arrangement relating to Kingsoft Cloud Information 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 Kingsoft Cloud Information Technology, and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or any other distributions to the holders of their equity interests were made by Kingsoft Cloud Information Technology for the year ended 31 December 2020; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

### *Structure Contracts entered into in the 2020 financial year*

#### **Structure Contracts Relating to Wuhan Jufang Technology**

(i) Wei Liu, Weiqin Qiu and Seasun Technology (Wuhan) Co., Ltd. ("**Seasun Technology (Wuhan)**") entered into a loan agreement on 16 July 2020, pursuant to which Seasun Technology (Wuhan) provided interest free loans of RMB800,000 and RMB200,000 to Wei Liu and Weiqin Qiu respectively for subscription and fully payment of the entire registered capital of Wuhan Jufang Technology Co., Ltd. ("**Wuhan Jufang Technology**"). The loans have no fixed maturity date, and Seasun Technology (Wuhan) may demand repayment at any time. Subject to the PRC Laws, Wei Liu and Weiqin Qiu shall repay the loans by transferring their equity interests in Wuhan Jufang Technology to Seasun Technology (Wuhan) or its designated third party. Moreover, the ratio of the transferred equity interests in Wuhan Jufang Technology to the equity interests in Wuhan Jufang Technology held by these borrowers on the date of notice of repayment 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, Wei Liu, Seasun Technology (Wuhan) and Wuhan Jufang Technology entered into a shareholder voting entrustment agreement on 16 July 2020, pursuant to which Wei Liu and Weiqin Qiu 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 directors and managers) of Wuhan Jufang Technology) in Wuhan Jufang Technology to Seasun Technology (Wuhan) or persons designated by Seasun Technology (Wuhan).

(iii) Wei Liu, Weiqin Qiu, Seasun Technology (Wuhan) and Wuhan Jufang Technology entered into an exclusive option agreement on 16 July 2020, pursuant to which Seasun Technology (Wuhan) was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by Wei Liu and Weiqin Qiu in Wuhan Jufang Technology at any time at the price equal to the corresponding portion of liability of Seasun Technology (Wuhan) borne by Wei Liu and Weiqin Qiu under the loan agreement. However, if the lowest transfer price permitted by the PRC Laws is higher than the amounts of those liabilities, the transfer price shall be the lowest price permitted by the PRC Laws. Despite the above, Wei Liu and Weiqin Qiu shall jointly waive the obligations of Seasun Technology (Wuhan) 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 Seasun Technology (Wuhan), Seasun Technology (Wuhan) is entitled to the rights to pay the transfer price by directly waiving the corresponding portion of liability of Seasun Technology (Wuhan) borne by Wei Liu and Weiqin Qiu. The ratio of the waived liability of Wei Liu and Weiqin Qiu to their total liabilities shall be the same as that of the transferred equity interest held by Wei Liu and Weiqin Qiu to their total equity interest in Wuhan Jufang Technology. In addition, Seasun Technology (Wuhan) was also granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the assets of Wuhan Jufang Technology at any time at the lowest price permitted by the PRC Laws.

(iv) Seasun Technology (Wuhan) and Wuhan Jufang Technology entered into an exclusive technology development, support and consultation agreement on 16 July 2020, pursuant to which Seasun Technology (Wuhan) agreed, on the terms, conditions and pricing as required by the agreement, to provide to Wuhan Jufang Technology, and Wuhan Jufang Technology agreed to exclusively accept, the technology development, support and consultation services for an indefinite term unless otherwise terminated by Seasun Technology (Wuhan) in accordance with the terms of the agreement. The settlement period of the service fee payable by Wuhan Jufang Technology to Seasun Technology (Wuhan) shall be negotiated and agreed by both parties separately. The relevant service fees shall be comprised of the results service fee (the remaining 80%–100% of business income of Wuhan Jufang Technology for the year, net of the mutually-agreed business cost of Wuhan Jufang Technology) and the mutually-agreed service fee (for the specified consultation services and technology services provided by Seasun Technology (Wuhan) at the request of Wuhan Jufang Technology from time to time). Seasun Technology (Wuhan) shall be entitled to the rights to adjust the above service fees at its discretion. Seasun Technology (Wuhan) and Chengdu Jufang Technology Co., Ltd. ("**Chengdu Jufang Technology**"), the subsidiary of Wuhan Jufang Technology, entered into an exclusive technology development, support and consultation agreement on 28 July 2020, pursuant to which Seasun Technology (Wuhan) agreed, on the terms, conditions and pricing as required by the agreement, to provide to Chengdu Jufang Technology, and Chengdu Jufang Technology agreed to exclusively accept, the technology development, support and consultation services for an indefinite term unless otherwise terminated by Seasun Technology (Wuhan) in accordance with the terms of the agreement. The settlement period of the service fee payable by Chengdu Jufang Technology to Seasun Technology (Wuhan) shall be negotiated and agreed by both parties separately. The relevant service fees shall be comprised of the results service fee (the remaining 80%–100% of business income of Chengdu Jufang Technology for the year, net of the mutually-agreed business cost of Chengdu Jufang Technology) and the mutually-agreed service fee (for the specified consultation services and technology services provided by Seasun Technology (Wuhan) at the request of Chengdu Jufang Technology from time to time). Seasun Technology (Wuhan) shall be entitled to the rights to adjust the above service fees at its discretion.

(v) Wei Liu, Weiqin Qiu, Seasun Technology (Wuhan) and Wuhan Jufang Technology entered into a business operation agreement on 16 July 2020, pursuant to which, Wei Liu, Weiqin Qiu and Wuhan Jufang Technology will make relevant undertakings and guarantee to Seasun Technology (Wuhan) for the daily operation of Wuhan Jufang Technology for a term of 10 years, unless otherwise terminated by Seasun Technology (Wuhan), to ensure that Wuhan Jufang Technology would perform the obligations under the agreements entered into with Seasun Technology (Wuhan). Wei Liu, Weiqin Qiu, Seasun Technology (Wuhan), Wuhan Jufang Technology and Chengdu Jufang Technology entered into a business operation agreement on 28 July 2020, pursuant to which, Wei Liu, Weiqin Qiu, Wuhan Jufang Technology and Chengdu Jufang Technology will make relevant undertakings and guarantee to Seasun Technology (Wuhan) for the daily operation of Chengdu Jufang Technology for a term of 10 years, unless otherwise terminated by Seasun Technology (Wuhan), to ensure that Chengdu Jufang Technology would perform the obligations under the agreements entered into with Seasun Technology (Wuhan).

(vi) Wei Liu, Weiqin Qiu, Seasun Technology (Wuhan) and Wuhan Jufang Technology entered into an equity pledge agreement on 16 July 2020, pursuant to which, Wei Liu and Weiqin Qiu agreed to pledge all equity interests they respectively held in Wuhan Jufang Technology and any increase in capital contributions in favor of Seasun Technology (Wuhan), and granted the priority of pledge compensation while Wuhan Jufang Technology agreed to utilize these equity pledge arrangement as a security for the performance of obligations of Wei Liu, Weiqin Qiu, Wuhan Jufang Technology and Chengdu Jufang Technology under the above loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreements and business operation agreements 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 Wei Liu, Weiqin Qiu, Wuhan Jufang Technology and Chengdu Jufang Technology, and all expenses generated by Seasun Technology (Wuhan) for enforcing mandatory performance of all agreed obligations by Wei Liu, Weiqin Qiu, Wuhan Jufang Technology under the above loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreements and business operation agreements.

The arrangement relating to Wuhan Jufang 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 Wuhan Jufang Technology, and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or any other distributions to the holders of their equity interests were made by Wuhan Jufang Technology for the year ended 31 December 2020; 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**

The Company and Xiaomi entered into the framework agreement on 2 December 2019 (the "**Framework Agreement**"). Pursuant to the Framework Agreement, (i) the Group will provide various comprehensive services to Xiaomi Group, mainly including the cloud services, the promotion services, the mailbox customized development services and advertising agency services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) the Group will provide hardware products (mainly including server, storage devices, load balancer and other hardware products manufactured by independent third parties) to Xiaomi Group; (iv) Xiaomi Group will provide various comprehensive services to the Group, mainly including the promotion services, the software development services, the canteen services and other ancillary services; and (v) Xiaomi Group will provide products to the Group, for a term of three years ending 31 December 2022.

On 26 May 2020, the Company increased the annual caps for the fees payable by Xiaomi Group in respect of the provision of advertising agency services by the Group under the Framework Agreement for the three years ending 31 December 2022 to RMB150.00 million, RMB165.00 million and RMB195.00 million, respectively.

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. Mr. Jun LEI holds a majority of voting power in Xiaomi, save for resolutions with respect to a limited number of reserved matters. 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 Chapter 14A of the Listing Rules.

For details of the continuing connected transactions, please refer to the announcements of the Company dated 2 December 2019 and 26 May 2020.

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 2020 are set out as follows:

| | **Annual Cap for 2020 RMB million** | **Actual Amount for 2020 RMB million** |
|---|---|---|
| ***Fees payable by Xiaomi Group*** | | |
| Provision of cloud services by the Group | 816.97 | 185.64 |
| Provision of promotion services by the Group | 15.00 | 6.79 |
| Provision of mailbox customized development services by the Group | 10.00 | 2.66 |
| Provision of advertising agency services by the Group | 150.00 | 49.08 |
| Joint operation of games provided by Group | 10.79 | 7.85 |
| Provision of hardware products by the Group | 39.20 | 0 |
| ***Fees payable by the Group*** | | |
| Provision of promotion, software development and canteen services and other ancillary services by Xiaomi Group | 104.11 | 52.95 |
| Provision of products by Xiaomi Group | 58.00 | 2.69 |

**Previous Continuing Connected Transactions involving Kingsoft Cloud Group**

The Company and Kingsoft Cloud entered into a framework agreement on 1 December 2017. Pursuant to the framework agreement, (i) the Group (excluding Kingsoft Cloud Group) will provide the comprehensive leasing services to Kingsoft Cloud Group, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative support; and (ii) Kingsoft Cloud Group will provide cloud services to the Group (excluding Kingsoft Cloud Group), including but not limited to the cloud storage and cloud computing services, for a term of three years ended 31 December 2020.

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. Mr. Jun LEI holds a majority of voting power in Xiaomi, save for resolutions with respect to a limited number of reserved matters. As such, Xiaomi is a connected person of the Company. Kingsoft Cloud was a subsidiary of the Company until 8 May 2020. Xiaomi held over 10% equity interest in Kingsoft Cloud. Therefore, Kingsoft Cloud was a connected subsidiary of the Company by virtue of Rule 14A.16 of the Listing Rules until 8 May 2020. Therefore, the framework agreement dated 1 December 2017 entered into by the Company and Kingsoft Cloud and the transactions contemplated thereunder constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. On 8 May 2020, Kingsoft Cloud ceased to be the subsidiary of the Company. Since then, Kingsoft Cloud was no longer a connected person of the Company under the Listing Rules and the framework agreement and the transactions contemplated thereunder were no longer continuing connected transactions of the Company.

For details of the above previous continuing connected transactions, please refer to the announcement of the Company dated 1 December 2017. For details of the spin-off and separate listing of Kingsoft Cloud, please refer to paragraph headed "Spin-off and Separate Listing of Kingsoft Cloud on NASDAQ" in this report.

The annual caps for the previous continuing connected transactions under above framework agreement for the year ended 31 December 2020 as compared with the actual transactions amounts incurred or received by the Group from 1 January 2020 to 7 May 2020 are set out as follows:

| | Annual Cap for 2020 RMB million | Actual Amount for the period from 1 January 2020 to 7 May 2020 RMB million |
|---|---|---|
| ***Fees payable by Kingsoft Cloud Group*** | | |
| Provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group): | 75.00 | 5.41 |
| ***Fees payable by the Group (excluding Kingsoft Cloud Group)*** | | |
| Provision of cloud services by Kingsoft Cloud Group | 220.00 | 38.17 |

**Previous Continuing Connected Transactions in Relation to Leasing the Premises from Xiaomi**

On 27 November 2018, Beijing Cloud Network entered into a lease agreement with Beijing Xiaomi Electronic Co., Ltd. ("**Beijing Xiaomi Electronic**"), pursuant to which, Beijing Xiaomi Electronic agreed to lease the property situated at the whole first, second, third floors and partial first floor underground of Block C, Cloud Computing Platform, Xiaomi Internet Electronic Industry Park, #9 Kechuang Street, Yizhuang Economic and Development Zone, Daxing District, Beijing, with a total area of approximately 9,144.07 sq.m. (the "**Premises**") to Beijing Cloud Network for a term of fifteen years from 1 January 2019 to 31 December 2033.

On 27 December 2019, Beijing Cloud Network and Beijing Xiaomi Electronic entered into the supplemental agreement to amend certain terms of the lease agreement. Pursuant to the supplemental agreement, the annual rent for the year ended 31 December 2019 remains unchanged, while the annual rent (including value-added tax) for the year ended 31 December 2020 is reduced to RMB4,630,141.41, the annual rent (including value-added tax) for the year ending 31 December 2021 is reduced to RMB9,260,282.82, the annual rent (including value-added tax) for the three years from 1 January 2022 to 31 December 2024 is reduced to RMB9,815,899.79, the annual rent (including value-added tax) for the three years from 1 January 2025 to 31 December 2027 is reduced to RMB10,404,853.77, the annual rent (including value-added tax) for the three years from 1 January 2028 to 31 December 2030 is reduced to RMB11,029,145.00, and the annual rent (including value-added tax) for the three years from 1 January 2031 to 31 December 2033 is reduced to RMB11,690,985.70.

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. Mr. Jun LEI holds a majority of voting power in Xiaomi, save for resolutions with respect to a limited number of reserved matters. As such, each of Xiaomi and Beijing Xiaomi Electronic (a subsidiary of Xiaomi) is a connected person of the Company. Beijing Cloud Network is a subsidiary of Kingsoft Cloud, which was a subsidiary of the Company until 8 May 2020. Therefore, the entering into the lease agreement (as amended by the supplemental agreement) between Beijing Xiaomi Electronic and Beijing Cloud Network constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. On 8 May 2020, Beijing Cloud Network, being the subsidiary of Kingsoft Cloud, ceased to be the subsidiary of the Company. Since then, the lease agreement (as amended by the supplemental agreement) between Beijing Xiaomi Electronic and Beijing Cloud Network and the transactions contemplated thereunder were no longer continuing connected transactions of the Company.

For details of the above previous continuing connected transactions, please refer to the announcements of the Company dated 27 November 2018 and 27 December 2019. For details of the spin-off and separate listing of Kingsoft Cloud, please refer to paragraph headed "Spin-off and Separate Listing of Kingsoft Cloud on NASDAQ" in this report.

The annual cap for the previous continuing connected transactions under above lease agreement (as amended by the supplemental agreement) for the year ended 31 December 2020 as compared with the actual transactions amounts incurred or received by the Group from 1 January 2020 to 7 May 2020 are set out as follows:

| | **Annual Cap for 2020 RMB** | **Actual Amount for the period from 1 January 2020 to 7 May 2020 RMB** |
|---|---|---|
| ***Fees payable by the Group*** | | |
| Annual rent (including value-added tax) | 4,630,141.41 | 1,543,380.47 |

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 agreements, including the pricing range, the process for determining the prices; and

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

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the 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 2020, the Company complied with all code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules with the exception of the deviation from code provision A.6.7 and C1.2. Please also refer to the Corporate Governance Report in this annual report for full details.

## Auditor

The consolidated financial statements of the Company for the year ended 31 December 2020 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.

By order of the Board
**Jun LEI**
*Chairman*
Hong Kong, 23 March 2021

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

安永會計師事務所
香港中環添美道1號
中信大廈 22 樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com


**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 85 to 205, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 trade receivables* | |
| As at 31 December 2020, the Group held a significant amount of trade receivables of RMB772,485,000, which constituted a significant portion of total assets as at 31 December 2020 and the Group was exposed to credit risks thereof. The Group recognised an impairment loss amounting to RMB1,432,000 from continuing operations for the year ended 31 December 2020 based on the expected credit loss ("ECL") approach under IFRS 9 *Financial Instruments*. The measurement of ECLs requires the application of significant judgement and estimate, such as the expected future cash flows and forward-looking factors specific to the debtors and the economic environment.<br><br>Disclosures about accounting policies, significant accounting judgements and estimates and trade receivables are included in Note 2.4 "Summary of Significant Accounting Policies", Note 3 "Significant Accounting Judgements and Estimates" and Note 27 "Trade Receivables" to the consolidated financial statements. | Our audit procedures included the assessment of the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimation of expected credit losses.<br><br>We assessed the reasonableness of the ECL determined by management by examining the information used by management to form such judgement and estimate, including checking the accuracy of the historical default information, evaluating whether the historical loss rates were appropriately adjusted and the debtors were appropriately classified based on current economic conditions and forward-looking information.<br><br>We evaluated the reasonableness of the Group's provision for impairment of trade receivables by reference to the Group's subsequent collection of the trade receivables.<br><br>We also assessed the disclosure in relation to the provision for impairment of trade receivable made by the Group. |
| *Impairment of investments in associates* | |
| As at 31 December 2020, the Group held significant amounts of investments in associates amounting to RMB12,752,057,000. The Group recognised impairment loss amounting to RMB3,932,000 for the year ended 31 December 2020.<br><br>Investments in associates are subject to impairment assessments when there is an indication of impairment. For those investments with impairment indicators, the recoverable amounts of the investments in associates were determined by management with the assistance of the external valuer engaged by the Group. Significant management judgements and estimates are required to determine the expected future cash flows and the assumptions used, including growth rates and discount rates applied.<br><br>Disclosures about accounting policies, significant accounting judgements and estimates and investments in associates are included in Note 2.4 "Summary of Significant Accounting Policies", Note 3 "Significant Accounting Judgements and Estimates" and Note 22 "Investments in Associates" to the consolidated financial statements. | Our audit procedures included evaluating the assessments made by management on the existence of impairment indication on the investments in associates.<br><br>For those investments with impairment indicators, with the assistance of our internal valuation specialists, we assessed the valuation methodology, key assumptions and parameters, such as growth rate by reference to historical growth rate and the ones applied by comparative companies, and discount rate by reference of comparative calculation, used by management in determining the recoverable amount.<br><br>We also evaluated expected cash flow projections prepared by management by reference to the historical financial data, and approved budget and available market data.<br><br>We also evaluated the competence, capabilities, objectivity and independence of the external valuer engaged by the Group to appraise the recoverable amount of the investments in associates.<br><br>We also assessed the adequacy of the disclosure made about the impairment of investments in associates. |

### 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.

**Auditor's responsibilities for the consolidated financial statements (continued)**

- 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.

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, actions taken to eliminate threats or safeguards applied.

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

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

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

23 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

| | NOTES | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **REVENUE** | 5 | **5,594,243** | 4,371,087 |
| Cost of revenue | | **(917,281)** | (810,147) |
| Gross profit | | **4,676,962** | 3,560,940 |
| Research and development costs, net | | **(1,656,067)** | (1,538,529) |
| Selling and distribution expenses | | **(838,482)** | (708,992) |
| Administrative expenses | | **(453,809)** | (376,897) |
| Share-based compensation costs | 37 | **(179,372)** | (148,712) |
| Other income | 5 | **310,789** | 239,396 |
| Other expenses | | **(4,887)** | (14,400) |
| Other gains/(losses), net | 6 | **154,739** | (1,236,554) |
| Finance income | 8 | **437,997** | 220,532 |
| Finance costs | 9 | **(107,514)** | (19,672) |
| Share of profits and losses of: | | | |
| Joint ventures | 21 | **(25,929)** | 17,524 |
| Associates | 22 | **(245,067)** | (409,874) |
| **PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | 7 | **2,069,360** | (415,238) |
| Income tax expense | 12 | **(270,924)** | (152,537) |
| **PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS** | | **1,798,436** | (567,775) |
| **DISCONTINUED OPERATION** | | | |
| Profit/(loss) for the year from a discontinued operation | 13 | **8,446,504** | (1,514,924) |
| **PROFIT/(LOSS) FOR THE YEAR** | | **10,244,940** | (2,082,699) |
| Attributable to: | | | |
| Owners of the parent | | **10,045,043** | (1,546,385) |
| Non-controlling interests | | **199,897** | (536,314) |
| | | **10,244,940** | (2,082,699) |
| | | **RMB** | RMB |
| **EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 15 | | |
| Basic | | | |
| — For profit/(loss) for the year | | **7.35** | (1.13) |
| — For profit/(loss) from continuing operations | | **0.94** | (0.56) |
| Diluted | | | |
| — For profit/(loss) for the year | | **7.32** | (1.15) |
| — For profit/(loss) from continuing operations | | **0.92** | (0.57) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **PROFIT/(LOSS) FOR THE YEAR** | **10,244,940** | (2,082,699) |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences: | | |
| Exchange differences on translation of foreign operations | **(275,950)** | 32,139 |
| Reclassification adjustments for deemed disposal of a subsidiary | **64,475** | — |
| Reclassification adjustments for partial disposal and deemed disposal of associates | **9,002** | — |
| Share of other comprehensive income/(loss) of associates | **(324,056)** | 34,555 |
| Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods | **(526,529)** | 66,694 |
| Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods: | | |
| Equity investments designated at fair value through other comprehensive income: | | |
| Changes in fair value, net of tax | **959,391** | (14,026) |
| Share of other comprehensive income/(loss) of associates | **8,419** | (14,211) |
| Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods | **967,810** | (28,237) |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | **441,281** | 38,457 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | **10,686,221** | (2,044,242) |
| **Attributable to:** | | |
| Owners of the parent | **10,515,256** | (1,493,652) |
| Non-controlling interests | **170,965** | (550,590) |
| | **10,686,221** | (2,044,242) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

| | NOTES | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 16 | **1,184,902** | 2,913,460 |
| Investment properties | 17 | **64,003** | 62,504 |
| Right-of-use assets | 18 | **504,971** | 403,737 |
| Goodwill | 19 | **185,564** | — |
| Other intangible assets | 20 | **67,175** | 30,938 |
| Investments in joint ventures | 21 | **180,920** | 270,303 |
| Investments in associates | 22 | **12,752,057** | 2,437,522 |
| Equity investments designated at fair value through other comprehensive income | 23 | **10,725** | 746,992 |
| Financial assets at fair value through profit or loss | 24 | **198,953** | 49,314 |
| Deferred tax assets | 35 | **116,981** | 107,038 |
| Other non-current assets | 25 | **46,301** | 47,276 |
| Total non-current assets | | **15,312,552** | 7,069,084 |
| **CURRENT ASSETS** | | | |
| Inventories | 26 | **19,085** | 16,378 |
| Trade receivables | 27 | **772,485** | 2,059,031 |
| Prepayments, other receivables and other assets | 28 | **967,372** | 1,365,093 |
| Equity investments designated at fair value through other comprehensive income | 23 | **—** | 10,000 |
| Financial assets at fair value through profit or loss | 24 | **3,910,553** | 89,920 |
| Restricted cash | 29 | **13,079** | — |
| Cash and bank deposits | 29 | **14,049,069** | 13,792,117 |
| Total current assets | | **19,731,643** | 17,332,539 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 30 | **290,855** | 1,501,604 |
| Other payables and accruals | 31 | **1,328,005** | 1,690,263 |
| Interest-bearing bank loans | 32 | **—** | 623,215 |
| Lease liabilities | 18 | **52,758** | 18,260 |
| Deferred revenue | 33 | **1,306,207** | 879,440 |
| Income tax payable | | **265,823** | 93,430 |
| Derivative financial instruments | 13 | **—** | 128,236 |
| Total current liabilities | | **3,243,648** | 4,934,448 |
| **NET CURRENT ASSETS** | | **16,487,995** | 12,398,091 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **31,800,547** | 19,467,175 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2020

| | NOTES | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Deferred revenue | 33 | **147,193** | 51,944 |
| Deferred tax liabilities | 35 | **1,059,090** | 50,691 |
| Interest-bearing bank loans | 32 | **—** | 74,351 |
| Lease liabilities | 18 | **169,759** | 97,789 |
| Liability component of convertible bonds | 34 | **2,196,595** | — |
| Liability component of redeemable convertible preferred shares | 13 | **—** | 3,583,019 |
| Total non-current liabilities | | **3,572,637** | 3,857,794 |
| **Net assets** | | **28,227,910** | 15,609,381 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 36 | **5,316** | 5,316 |
| Share premium account | 36 | **2,762,242** | 2,995,605 |
| Treasury shares | 36 | **(11,181)** | (14,631) |
| Equity component of convertible bonds | 34 | **468,700** | — |
| Other reserves | 38 | **21,439,482** | 10,810,858 |
| | | **24,664,559** | 13,797,148 |
| **Non-controlling interests** | | **3,563,351** | 1,812,233 |
| **Total equity** | | **28,227,910** | 15,609,381 |

**Tao ZOU**
*Director*

**Yuk Keung NG**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

| | 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 34) RMB'000 | STATUTORY RESERVES (NOTE 38) RMB'000 | SHARE-BASED COMPENSATION RESERVE RMB'000 | OTHER CAPITAL RESERVE (NOTE 38) RMB'000 | FAIR VALUE RESERVE OF FI-NANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME 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 2019** | 5,316 | 2,972,969 | (18,089) | 1,274 | 275,986 | 471,326 | 1,857,341 | (1,044,690) | 311,094 | 8,196,881 | 13,029,408 | (116,240) | 12,913,168 |
| Loss for the year | — | — | — | — | — | — | — | — | — | (1,546,385) | (1,546,385) | (536,314) | (2,082,699) |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | — | — | — | — | — | 46,415 | — | 46,415 | (14,276) | 32,139 |
| Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax | — | — | — | — | — | — | — | (14,026) | — | — | (14,026) | — | (14,026) |
| Share of other comprehensive income/(loss) of associates | — | — | — | — | — | — | — | (14,211) | 34,555 | — | 20,344 | — | 20,344 |
| Total comprehensive income/(loss) for the year | — | — | — | — | — | — | — | (28,237) | 80,970 | (1,546,385) | (1,493,652) | (550,590) | (2,044,242) |
| Dividends paid to non-controlling interests | — | — | — | — | — | — | — | — | — | — | — | (13,996) | (13,996) |
| Share-based compensation costs | — | — | — | — | — | 165,791 | — | — | — | — | 165,791 | 79,148 | 244,939 |
| Vesting and settlement of awarded shares | — | 22,636 | 3,458 | — | — | (26,460) | 366 | — | — | — | — | — | — |
| Share of reserves of associates | — | — | — | — | — | — | (17,710) | — | — | — | (17,710) | — | (17,710) |
| Redemption of convertible bonds | — | — | — | (1,274) | — | — | 1,446 | — | (172) | — | — | — | — |
| Profit appropriation | — | — | — | — | 73,001 | — | — | — | — | (73,001) | — | — | — |
| Exercise and vesting of share-based awards issued by subsidiaries | — | — | — | — | — | (54,066) | 66,325 | — | — | — | 12,259 | 8,640 | 20,899 |
| Issue of shares by a subsidiary (note 38) | — | — | — | — | — | — | 2,478,570 | — | — | — | 2,478,570 | 1,996,235 | 4,474,805 |
| Changes in the ownership interests in subsidiaries | — | — | — | — | — | — | (377,518) | — | — | — | (377,518) | 409,036 | 31,518 |
| **At 31 December 2019** | 5,316 | 2,995,605 | (14,631) | — | 348,987# | 556,591# | 4,008,820# | (1,072,927)# | 391,892# | 6,577,495# | 13,797,148 | 1,812,233 | 15,609,381 |

| | 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 34) RMB'000 | STATUTORY RESERVES (NOTE 38) RMB'000 | SHARE-BASED COMPENSATION RESERVE RMB'000 | OTHER CAPITAL RESERVE (NOTE 38) RMB'000 | FAIR VALUE RESERVE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME 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 2020** | **5,316** | **2,995,605** | **(14,631)** | **—** | **348,987** | **556,591** | **4,008,820** | **(1,072,927)** | **391,892** | **6,577,495** | **13,797,148** | **1,812,233** | **15,609,381** |
| Profit for the year | — | — | — | — | — | — | — | — | — | **10,045,043** | **10,045,043** | **199,897** | **10,244,940** |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | | | |
| Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax | — | — | — | — | — | — | — | **959,391** | — | — | **959,391** | — | **959,391** |
| Exchange differences on translation of foreign operations | — | — | — | — | — | — | — | — | **(247,018)** | — | **(247,018)** | **(28,932)** | **(275,950)** |
| Reclassification adjustments for deemed disposal of a subsidiary (note 13) | — | — | — | — | — | — | — | — | **64,475** | — | **64,475** | — | **64,475** |
| Reclassification adjustments for partial disposal and deemed disposal associates | — | — | — | — | — | — | — | — | **9,002** | — | **9,002** | — | **9,002** |
| Share of other comprehensive income/(loss) of associates | — | — | — | — | — | — | — | **8,419** | **(324,056)** | — | **(315,637)** | — | **(315,637)** |
| Total comprehensive income/(loss) for the year | — | — | — | — | — | — | — | **967,810** | **(497,597)** | **10,045,043** | **10,515,256** | **170,965** | **10,686,221** |
| Dividends paid to non-controlling interests | — | — | — | — | — | — | — | — | — | — | — | **(226,555)** | **(226,555)** |
| Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income | — | — | — | — | — | — | — | **96,785** | — | **(96,785)** | — | — | — |
| Final 2019 dividend declared (note 14) | — | **(124,861)** | — | — | — | — | — | — | — | — | **(124,861)** | — | **(124,861)** |
| Other distributions (note 14) | — | **(130,033)** | — | — | — | — | — | — | — | — | **(130,033)** | — | **(130,033)** |
| Issue of convertible bonds (note 34) | — | — | — | **468,700** | — | — | — | — | — | — | **468,700** | — | **468,700** |
| Share-based compensation costs | — | — | — | — | — | **158,323** | — | — | — | — | **158,323** | **84,590** | **242,913** |
| Vesting and settlement of awarded shares | — | **21,531** | **3,450** | — | — | **(24,981)** | — | — | — | — | — | — | — |
| Exercise and vesting of share-based awards issued by subsidiaries | — | — | — | — | — | **(49,619)** | **51,358** | — | — | — | **1,739** | **1,500** | **3,239** |
| Share of reserves of associates | — | — | — | — | — | — | **6,918** | — | — | — | **6,918** | — | **6,918** |
| Profit appropriation | — | — | — | — | **102,523** | — | — | — | — | **(102,523)** | — | — | — |
| Changes in the ownership interests in subsidiaries | — | — | — | — | — | — | **(28,631)** | — | — | — | **(28,631)** | **(3,337)** | **(31,968)** |
| Acquisition of a subsidiary (note 40) | — | — | — | — | — | — | — | — | — | — | — | **30,108** | **30,108** |
| Deemed disposal of a subsidiary (note 13) | — | — | — | — | **(7,571)** | **(96,782)** | **(195,714)** | — | — | **300,067** | — | **1,693,847** | **1,693,847** |
| **At 31 December 2020** | **5,316** | **2,762,242** | **(11,181)** | **468,700** | **443,939#** | **543,532#** | **3,842,751#** | **(8,332)#** | **(105,705)#** | **16,723,297#** | **24,664,559** | **3,563,351** | **28,227,910** |

\# These reserve accounts comprise the consolidated other reserves of RMB21,439,482,000 (2019: RMB10,810,858,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

| | NOTES | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax | | | |
| From continuing operations | | **2,069,360** | (415,238) |
| From a discontinued operation | | **9,523,089** | (1,506,007) |
| Adjustments for: | | | |
| Loss/(gain) on disposal of items of property, plant and equipment | 7 | **36** | (270) |
| Depreciation of property, plant and equipment and investment properties | 16,17 | **404,090** | 684,109 |
| Depreciation of right-of-use assets | 18 | **72,888** | 23,366 |
| COVID-19-related rent concessions from lessors | 18 | **(118)** | — |
| Amortisation of other intangible assets | 20 | **13,507** | 30,451 |
| Finance costs | | **276,617** | 388,426 |
| Finance income | | **(448,980)** | (299,143) |
| Fair value gains/losses on financial instruments at fair value through profit or loss, net | 6 | **31,739** | (63,462) |
| Loss on disposal of an associate | | **—** | 134 |
| Gain on deemed disposal of subsidiaries | 41 | **(10,166,559)** | (61,706) |
| Gain on deemed disposal of a joint venture | 6 | **—** | (1,161) |
| (Gain)/loss on deemed disposal of associates | 6 | **(159,494)** | 14,850 |
| Gain on partial disposal of an associate | 6 | **—** | (2,018) |
| Gain on previously held equity investment remeasured at acquisition date fair value | 6 | **(81,341)** | — |
| Share-based compensation costs | | **240,836** | 244,820 |
| Impairment of property, plant and equipment | 7 | **—** | 2,432 |
| Impairment of trade and other receivables | | **16,531** | 69,037 |
| Impairment of right-of-use assets | 7 | **—** | 3,054 |
| Share of profits and losses of joint ventures | | **27,379** | (14,939) |
| Share of profits and losses of associates | | **262,713** | 412,972 |
| Listing expense from initial public offering of a subsidiary | | **—** | 15,403 |
| Foreign exchange differences, net | | **(10,971)** | 38,764 |
| Impairment of investments in associates | 6 | **3,932** | 1,300,000 |
| Impairment of investments in joint ventures | 6 | **48,098** | — |
| Impairment of loans to a joint venture | 6 | **7,200** | — |
| Impairment of loans to an associate | 6 | **38,517** | — |
| Impairment of goodwill | | **—** | 9,559 |
| Gain on distribution in specie | 6 | **(3,688)** | — |
| Loss on exchange for equity investments designated at fair value through other comprehensive income | 6 | **676** | — |
| Compensation to a shareholder of a joint venture | | **—** | 5,479 |
| | | **2,166,057** | 878,912 |
| Increase in trade receivables | | **(659,910)** | (936,921) |
| Increase in prepayments, other receivables and other assets | | **(89,800)** | (61,829) |
| Increase in inventories | | **(5,015)** | (4,699) |
| Decrease in other non-current assets | | **701** | 35,907 |
| Increase in trade payables | | **631,163** | 550,536 |
| Increase in deferred revenue | | **527,304** | 191,792 |
| Increase in other payables and accruals | | **496,096** | 189,162 |
| Cash generated from operations | | **3,066,596** | 842,860 |
| Interest received | | **89,647** | 116,138 |
| Income tax paid | | **(165,170)** | (134,030) |
| Net cash flows from operating activities | | **2,991,073** | 824,968 |

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2020

| | NOTES | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **289,874** | 180,192 |
| Purchases of items of property, plant and equipment | | **(488,000)** | (1,372,486) |
| Purchases of other intangible assets | | **(5,327)** | (4,310) |
| Purchases of land use rights | | **(40,365)** | — |
| Increase in deposits with original maturity of over three months when acquired, net | | **(3,496,302)** | (1,125,267) |
| Purchase of financial assets at fair value through profit or loss | | **(3,848,795)** | (30,073) |
| Receipt of government grants for property, plant and equipment | | **1,020** | 15,000 |
| Disposal of property, plant and equipment | | **593** | 576 |
| Dividends received from an associate and a joint venture | | **680,829** | 257,047 |
| Investments in joint ventures | | **(57,100)** | (62,500) |
| Investments in associates | | **(179,160)** | (42,876) |
| Loans to senior executives | | **—** | (23,379) |
| Decrease/(increase) in other loans | | **6,453** | (16,558) |
| Acquisition of a subsidiary, net of cash acquired | 40 | **(150,915)** | — |
| Deemed disposal of subsidiaries | 13, 41 | **(1,771,891)** | (134) |
| Proceeds from disposal of equity investments designated at fair value through other comprehensive income | | **1,484,141** | — |
| Proceeds from disposal or partial disposal of associates | | **—** | 5,002 |
| Net cash flows used in investing activities | | **(7,574,945)** | (2,219,766) |

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2020

| | NOTES | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Changes in the ownership of interests in subsidiaries | | **—** | 42,042 |
| Proceeds from issuance of convertible bonds | 34 | **2,767,564** | — |
| Proceeds from issuance of redeemable convertible preferred shares | | **—** | 349,395 |
| Cash settlement of share options issued by a subsidiary | | **(1,241)** | (2,945) |
| Principal portion of lease payments | | **(53,584)** | (23,525) |
| Redemption of convertible bonds | | **—** | (40,386) |
| Proceeds from exercise of share options | | **—** | 20,899 |
| Proceeds from issue of ordinary shares of a subsidiary, net of cost | | **—** | 4,449,055 |
| Proceeds from issue of redeemable convertible preferred shares of a subsidiary, net of cost | | **138,900** | — |
| Dividends paid to owners of the parent | 14 | **(237,979)** | — |
| Dividends paid to non-controlling interests | | **(160,716)** | (14,561) |
| Repayment of bank loans | | **(530,663)** | (583,474) |
| Interest paid | | **(33,218)** | (36,785) |
| Increase in restricted cash | | **(12,792)** | — |
| Government grant | | **—** | 9,907 |
| Net cash flows from financing activities | | **1,876,271** | 4,169,622 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(2,707,601)** | 2,774,824 |
| Cash and cash equivalents at beginning of year | | **7,329,845** | 4,544,784 |
| Effect of foreign exchange rate changes, net | | **(166,973)** | 10,237 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **4,455,271** | 7,329,845 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 29 | **1,471,825** | 3,248,496 |
| Deposits with original maturity of less than three months when acquired | 29 | **2,983,446** | 4,081,349 |
| **Cash and cash equivalents as stated in the statement of cash flows** | 29 | **4,455,271** | 7,329,845 |

## 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 ("Stock Exchange") since 9 October 2007.

The principal place of business of the Company is located at Building D, Xiaomi Campus, No.33 Xierqi Middle Road, Haidian District, Beijing, the People's Republic of China ("PRC").

During the year, there were no material changes in the principal activities of the Company and its subsidiaries (together, the "Group"), except that the operation of Kingsoft Cloud Holdings Limited ("Kingsoft Cloud") and its subsidiaries (collectively, "Kingsoft Cloud Group") before the deemed disposal has been reclassified as a discontinued operation of the Group. The continuing operations of the Group comprised the following principal activities:

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

The discontinued operation of the Group was involved in the provision of cloud services including cloud computing, storage and delivery, and comprehensive cloud-based solutions through Kingsoft Cloud Group.

### Information about subsidiaries and structured entities

Particulars of the Company's principal subsidiaries and structured entities held by the Group as at 31 December 2020 are as follows:

| NAME | PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS | ISSUED ORDINARY/ REGISTERED SHARE CAPITAL | PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY | | PRINCIPAL ACTIVITIES |
|---|---|---|---|---|---|
| | | | DIRECT | INDIRECT | |
| Kingsoft Entertainment Software Holdings Limited ("KES Holdings") | Cayman Islands | US$1 | 100 | — | Investment holding |
| Seasun Holdings Limited ("Seasun Holdings") | Cayman Islands | HK$27,060,297 | — | 72 | Investment holding |
| Kingsoft Entertainment Software Corporation Limited | Hong Kong | HK$10,000,000 | — | 100 | Investment holding, and operation and distribution of games |
| Seasun Games Corporation Limited | Hong Kong | HK$18,600,000 | — | 72 | Investment holding and provision of game services |
| Chengdu Kingsoft Interactive Entertainment Co., Ltd. (i)(ii) | Mainland China | RMB100,000,000 | — | 100 | Research and development of games |
| Beijing Kingsoft Qijian Digital Technology Co., Ltd. (i)(iv) | Mainland China | RMB1,500,000 | — | 100 | Marketing and operation of SMS and wireless service of online games and application software |
| Chengdu Kingsoft Digital Entertainment Technology Co., Ltd. (i)(iv) | Mainland China | RMB110,000,000 | — | 100 | Marketing and operation of entertainment software products |

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about subsidiaries and structured entities (continued)

Particulars of the Company's principal subsidiaries and structured entities held by the Group as at 31 December 2020 are as follows: (continued)

| NAME | PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS | ISSUED ORDINARY/ REGISTERED SHARE CAPITAL | PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY | | PRINCIPAL ACTIVITIES |
|---|---|---|---|---|---|
| | | | DIRECT | INDIRECT | |
| Chengdu Westhouse Interactive Entertainment Co., Ltd. (i)(ii) | Mainland China | RMB15,000,000 | — | 72 | Research and development of games |
| Zhuhai Seasun Shiyou Technology Co., Ltd. (i)(iv) | Mainland China | RMB10,000,000 | — | 72 | Marketing and operation of entertainment software products |
| Chengdu Seasun Shiyou Technology Co., Ltd. (i)(iv) | Mainland China | RMB10,000,000 | — | 72 | Marketing and operation of entertainment software products |
| Zhuhai Kingsoft Online Game Technology Co., Ltd. (i)(iii) | Mainland China | RMB10,000,000 | — | 72 | Research and development of online games |
| Wuhan Westhouse Technology Co., Ltd. (i)(ii) | Mainland China | RMB100,000,000 | — | 72 | Research and development of online games |
| Wuhan Jufang Technology Co., Ltd. (i)(iv) | Mainland China | RMB1,000,000 | — | 72 | Research and development of online games |
| Zhuhai Kingsoft Software Co., Ltd. (i)(iii) | Mainland China | RMB215,500,000 | — | 100 | Research, development and distribution of consumer application software |
| Beijing Kingsoft Office Software Co., Ltd. ("Beijing Kingsoft Office") (i)(iii) | Mainland China | RMB461,000,000 | — | 53 | Sale and operation of office application software |
| Zhuhai Kingsoft Office Software Co., Ltd. (i)(iii) | Mainland China | RMB673,260,000 | — | 53 | Sale and operation of office application software |
| Wuhan Kingsoft Office Software Co., Ltd. (i)(iii) | Mainland China | RMB450,000,000 | — | 53 | Sale and operation of office application software |

(i) The English names of these companies represent the best efforts by the 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 registered as limited liability enterprises under PRC law, except for Beijing Kingsoft Office which is registered as a joint stock limited enterprise under PRC law.

(iv) 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 service 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 derivative financial instruments, equity investments and certain other financial assets which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

The Company and certain subsidiaries have set up trusts or entities for the purpose of purchasing, administering and holding their shares for the share award scheme adopted. The Group has the power to govern the financial and operating policies of these trusts 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 *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to IFRS 3 | *Definition of a Business* |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | *Interest Rate Benchmark Reform* |
| Amendment to IFRS 16 | *COVID-19-Related Rent Concessions* (early adopted) |
| Amendments to IAS 1 and IAS 8 | *Definition of Material* |

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's buildings have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB118,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

## 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 3 | *Reference to the Conceptual Framework*[2] |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | *Interest Rate Benchmark Reform — Phase 2*[1] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| IFRS 17 | *Insurance Contracts*[3] |
| Amendments to IFRS 17 | *Insurance Contracts*[3,5] |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-current*[3] |
| Amendments to IAS 1 | *Disclosure of Accounting Policies*[3] |
| Amendments to IAS 8 | *Definition of Accounting Estimates*[3] |
| Amendments to IAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use*[2] |
| Amendments to IAS 37 | *Onerous Contracts — Cost of Fulfilling a Contract*[2] |
| *Annual Improvements to IFRS Standards 2018–2020* | Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2] |

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

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

As at 31 December 2020, the Group had no interest-bearing bank loans. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

*Annual Improvements to IFRS Standards 2018–2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that exist.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in associates and joint ventures (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations and goodwill (continued)

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

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

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

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

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

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

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

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

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets (continued)

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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation

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

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

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

| | |
|---|---|
| Buildings | Over the lease terms of related leasehold lands |
| Electronic equipment | 2–4 years |
| Office equipment and fixtures | 3–5 years |
| Motor vehicles | 4–5 years |
| Leasehold improvements | Over the shorter of the expected life of the leasehold improvements and the lease terms |
| Data center machinery and equipment | 10 years |

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each investment property to its residual value over its estimated useful life. The estimated useful lives are as follows:

| | |
|---|---|
| Leasehold land | Over the lease term |
| Buildings | Over the lease term of the leasehold land |

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

### 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.

*Purchased software, technology and customer relationship*

Purchased software, technology and customer relationship are stated at cost less any impairment losses and are amortised on the straight-line basis over the estimated economic lives of 1 to 10 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.

### Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

*Group as a lessee (continued)*

At inception or on reassessment of a contract that contains a lease component and non-lease component(s), the Group adopts the practical expedient not to separate non-lease component(s) and to account for the lease component and the associated non-lease component(s) (e.g., property management services for leases of properties) as a single lease component.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|---|---|
| Leasehold land | Over lease term |
| Buildings | 1 to 6 years |
| Equipment | 5 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are separately presented in the Group's consolidated statement of financial position.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

*Group as a lessor*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

*Subsequent measurement*

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

*Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

*Financial assets at fair value through other comprehensive income (debt instruments)*

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

*Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. 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)

*Financial assets at fair value through profit or loss (continued)*

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through 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 recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

*General approach*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets (continued)**

*General approach (continued)*

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

*Simplified approach*

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings, or as payables, as appropriate.

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

The Group's financial liabilities include trade and other payables, interest-bearing bank loans, lease liabilities and the liability component of convertible bonds.

*Subsequent measurement*

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

*Financial liabilities at amortised cost (loans and borrowings)*

After initial recognition, interest-bearing bank loans and lease liabilities 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

*Financial liabilities at amortised cost (loans and borrowings) (continued)*

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

*Convertible bonds*

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

### Derecognition of financial liabilities

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

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

### 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.

### Derivative financial instruments

*Initial recognition and subsequent measurement*

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

### 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.

### Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and 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, and 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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction of the related expense when the expense is incurred.

Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

### Revenue recognition

*Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**

*Revenue from contracts with customers (continued)*

(a) Office software and services

The Group is engaged in design, research and development, and sales and marketing of the office software products and services of WPS Office.

*Sales of application software*

Revenue from the sales of application software is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the application software.

Some contracts for the sales of application software require the Group to provide when-and-if-available upgrades, technical support and training to the customers. For contracts which bundled sales of application software and services associated with the software are comprised of two performance obligations because the promises to transfer the application software and provide services associated with the software are distinct and separately identifiable. Accordingly, the revenue from the sales of application software is recognised upon the control of the software is transferred and the revenue in relation to services associated with the software is amortised over the period that the services are provided.

*WPS Office Subscription service*

The Group provides WPS Office subscription service, including WPS membership, Docer membership and various virtual products and services to individual and enterprise users.

The Group provides different types of memberships of office application software, which enables subscription users to access to various products and functions during the membership validity period. The performance obligation of the subscription service is satisfied over the period in which the subscription services are provided, and payment is generally in advance. Revenue is recognized over the subscription period.

The Group provides various kinds of virtual products and services, such as resume templates, audio books, paper check service, etc., at a fix price. Payment is generally in advance. Revenue is recognised and the performance obligation is satisfied at the point in time when the virtual products are available for use by the customers or service is provided to customers.

*Online marketing service*

The Group provides marketing services primarily through display of impressions or clicks of the advertisement/ embedded hyperlinks on particular areas of the Group's websites or software. The service fee from customers is charged primarily on the basis of per click, per thousand impressions or per sales. Revenue is recognised over time as services are rendered.

(b) Services rendered in online games and mobile games

The Group engages in development and operation of online games and mobile games. Revenue from services in online games and mobile games is recognised upon services are rendered to players. The Group offers subscription service and virtual items to players. The service fee is paid directly by end players mainly via online payment channels or distributors.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**

*Revenue from contracts with customers (continued)*

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

The Group operates certain of its games through cooperation with third-party game distribution platforms under certain co-operation agreements. 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 not available to be tracked reliably, 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. For other third-party game distribution platforms which does not offer discounts, gross amount before deduction of commission charged is recognized as deferred revenue, and the relevant commission is recognised as cost of revenue.

Certain of the Group's games were licensed from game developers and published and operated by the Group in defined regions and/or countries or within a specific period. The Group has evaluated the respective roles and responsibilities of the Group and the game developers in the delivery of game experience to players and concluded that the Group have the primary responsibility in these licensing arrangements as the Group 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.

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 or amortised over the pre-determined period because the players simultaneously receives and consumes the benefits provided by the Group.

*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. Given there is obligation to maintain the in-game virtual items and allow users to gain access and experience from them, revenue is recognised when services are rendered.

- 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 is recognized based on consumption, expiration period, or player life, where applicable, in accordance with the type and term of relevant virtual items as determined by management.
- 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 is recognised over player life as determined by management.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

*Revenue from contracts with customers (continued)*

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

*Licensing fees*

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

The Group has evaluated the respective roles and responsibilities of the Group and the third-party game publishers in the delivery of game experience to players and concluded that the third-party 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. 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) Cloud service provided by the discontinued operation

The Group through the discontinued operation provides integrated cloud-based services including cloud computing, storage and delivery to customers. Revenue is recognised over time, using an output method based on monthly utilization records, because the Group's performance obligation is to stand ready to provide an unspecified quantify of integrated cloud-based services each day throughout the contract period and the customer simultaneously receives and consumes the benefits provided by the Group.

The Group through the discontinued operation also provides comprehensive customized cloud-based solutions, and related post-delivery maintenance and upgrade services to customers. Revenue from the cloud-based solutions and upgrades is recognised at a point in time upon the completion of the services and acceptance from customer. Revenue from maintenance is recognised over time, generally over the contact period, because the customer simultaneously receives and consumes the benefits provided by the Group.

*Revenue from other sources*

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

*Other 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

### Deferred revenue

Deferred revenue represents cash received or receivables (whichever is earlier) from the subscription of software and related service and payment for online and mobile games in advance of services being rendered. Deferred revenue is recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer). Deferred revenue also includes government grants received in advance of fulfilling the grant requirements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payments

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

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

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

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

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

### Defined contribution plan for PRC employees

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 14 to the financial statements.

### 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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Judgements

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

*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 from continuing operations generated from the entities which are controlled by the Group through the contractual agreements described above amounted to approximately RMB2,882,312,000 for the year ended 31 December 2020. At 31 December 2020, the Group's net assets held by these entities amounted to approximately RMB1,289,283,000.

### 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.

*Fair value of financial assets at fair value through profit or loss*

The Group held financial assets at fair value through profit or loss amounting to RMB4,109,506,000 as at 31 December 2020. The wealth management products amounting to RMB3,881,640,000 have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk volatility and discount rates and hence they are subject to uncertainty. Fair value of certain of financial instruments is determined using valuation model with the assistance of the external valuer engaged by the Group. Management makes estimates and assumptions about factors, such as the risk-free rate and, expected volatility as the parameters for applying the valuation. Further details are included in note 46 to the financial statements.

*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 2020 was nil (2019: nil). The amount of unrecognised tax losses at 31 December 2020 was RMB1,513,157,000 (2019: RMB4,983,004,000). Further details are included in note 35 to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was RMB185,564,000 (2019: nil). Further details are given in note 19.

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

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use 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 amount, 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.

*Provision for expected credit losses on trade receivables*

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type and customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 27 to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

*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 the estimated lives of the virtual items or the users, where appropriate, 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 lives of the in-game virtual items and the users on a game-by-game basis and re-assesses periodically. Future usage patterns may differ from the historical usage patterns on which the revenue recognition is based. The Group monitors the operating strategy and business patterns of the online games and mobile games. Any adjustments arising from changes in the lives of the virtual items and the users as a result of updated information will be accounted for prospectively as a change in accounting estimate.

*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 2020 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 2020 was approximately RMB56,116,000. The share-based compensation costs recognised during the year ended 31 December 2020 from continuing operations amounted to RMB179,372,000 (2019: RMB148,712,000) (restated).

The grant of awarded shares and share options is conditional upon the satisfaction of specified vesting conditions, including the service period. 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.

*Leases — Estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

## 4. OPERATING SEGMENT INFORMATION

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

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

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

## 4. OPERATING SEGMENT INFORMATION (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource 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 from continuing operations is measured consistently with the Group's profit/loss before tax from continuing operations except that net other gains/(losses), finance income, non-lease-related finance costs as well as share of profits and losses of joint ventures and associates are excluded from such measurement.

As disclosed in note 13, the operating results of Kingsoft Cloud Group before the deemed disposal were classified as a discontinued operation of the Group and were excluded from the segment information in 2020. For the purpose of making decisions about resources allocation and performance assessment after the deemed disposal of Kingsoft Cloud, the directors of the Company decided to make some reclassification among the remaining business units, the comparative figures of segment information for the year ended 31 December 2019 were restated accordingly.

| YEAR ENDED 31 DECEMBER 2020 | ENTERTAINMENT SOFTWARE AND OTHERS RMB'000 | OFFICE SOFTWARE AND SERVICES RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| **SEGMENT REVENUE** (note 5): | | | |
| Sales | 3,337,066 | 2,257,177 | 5,594,243 |
| **SEGMENT RESULTS** | 1,107,937 | 735,832 | 1,843,769 |
| *Reconciliation:* | | | |
| Other gains, net | | | 154,739 |
| Finance income | | | 437,997 |
| Finance costs (other than interest on lease liabilities) | | | (96,149) |
| Share of profits and losses of: | | | |
| Joint ventures | | | (25,929) |
| Associates | | | (245,067) |
| Profit before tax from continuing operations | | | 2,069,360 |
| **OTHER SEGMENT INFORMATION:** | | | |
| Impairment losses recognised in the statement of profit or loss | (100,351) | 311 | (100,040) |
| Depreciation and amortisation | (115,464) | (68,244) | (183,708) |
| Capital expenditure* | (139,205) | (89,416) | (228,621) |

* Capital expenditure consists of additions to property, plant and equipment, land use rights and other intangible assets, including assets from the acquisition of a subsidiary.

## 4. OPERATING SEGMENT INFORMATION (continued)

| YEAR ENDED 31 DECEMBER 2019 (RESTATED) | ENTERTAINMENT SOFTWARE AND OTHERS RMB'000 | OFFICE SOFTWARE AND SERVICES RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| **SEGMENT REVENUE** (note 5): | | | |
| Sales | 2,796,309 | 1,574,778 | 4,371,087 |
| **SEGMENT RESULTS** | 686,089 | 325,799 | 1,011,888 |
| *Reconciliation:* | | | |
| Other losses, net | | | (1,236,554) |
| Finance income | | | 220,532 |
| Finance costs (other than interest on lease liabilities) | | | (18,754) |
| Share of profits and losses of: | | | |
| Joint ventures | | | 17,524 |
| Associates | | | (409,874) |
| Loss before tax from continuing operations | | | (415,238) |
| **OTHER SEGMENT INFORMATION:** | | | |
| Impairment losses recognised in the statement of profit or loss | (1,308,151) | (9,761) | (1,317,912) |
| Depreciation and amortisation | (106,522) | (32,823) | (139,345) |
| Capital expenditure | (242,400) | (44,992) | (287,392) |

## 4. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

(a) *Revenue from external customers:*

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(RESTATED) |
|---|---|---|
| Mainland China | **5,358,616** | 4,172,963 |
| Hong Kong | **211,743** | 178,909 |
| Other countries/regions | **23,884** | 19,215 |
| Total | **5,594,243** | 4,371,087 |

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

(b) *Non-current assets:*

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| China | **2,045,089** | 3,450,842 |
| Other countries/regions | **3,243** | 2,785 |
| Total | **2,048,332** | 3,453,627 |

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

### Information about major customers

For the year ended 31 December 2019, revenue from continuing operations of approximately RMB469,496,000 and RMB10,253,000 was derived from sales and services by the entertainment software and others segment and office software and services segment, respectively, to a single customer, including sales to a group of entities which are known to be under common control with that customer. There was no revenue from continuing operations from transaction with a single customer which amounted to 10% or more of the Group's revenue during the year ended 31 December 2020.

## 5. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

| | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|
| *Revenue from contracts with customers* | **5,568,321** | 4,344,566 |
| *Revenue from other sources* | | |
| Gross rental income from investment property operating leases: | | |
| Lease payments, including fixed payments | **25,922** | 26,521 |
| | **5,594,243** | 4,371,087 |

### Revenue from contracts with customers

(a) *Disaggregated revenue information*

**For the year ended 31 December 2020**

| SEGMENTS | ENTERTAINMENT SOFTWARE AND OTHERS RMB'000 | OFFICE SOFTWARE AND SERVICES RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| **TYPES OF GOODS OR SERVICES** | | | |
| Game services | **2,589,979** | **—** | **2,589,979** |
| Sale and subscription of software and related services | **—** | **1,915,684** | **1,915,684** |
| Royalties | **584,448** | **—** | **584,448** |
| Online marketing services | **—** | **341,493** | **341,493** |
| Others | **136,717** | **—** | **136,717** |
| Total revenue from contracts with customers | **3,311,144** | **2,257,177** | **5,568,321** |
| **GEOGRAPHICAL MARKETS** | | | |
| Mainland China | **3,149,317** | **2,183,377** | **5,332,694** |
| Hong Kong | **146,500** | **65,243** | **211,743** |
| Other countries/regions | **15,327** | **8,557** | **23,884** |
| Total revenue from contracts with customers | **3,311,144** | **2,257,177** | **5,568,321** |

## 5. REVENUE AND OTHER INCOME (continued)

### Revenue from contracts with customers (continued)

*(a) Disaggregated revenue information (continued)*

| | ENTERTAINMENT SOFTWARE AND OTHERS RMB'000 | OFFICE SOFTWARE AND SERVICES RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| **TIMING OF REVENUE RECOGNITION** | | | |
| Goods or services transferred at a point in time | **136,717** | **871,094** | **1,007,811** |
| Services transferred over time | **3,174,427** | **1,386,083** | **4,560,510** |
| Total revenue from contracts with customers | **3,311,144** | **2,257,177** | **5,568,321** |

**For the year ended 31 December 2019 (RESTATED)**

| SEGMENTS | ENTERTAINMENT SOFTWARE AND OTHERS RMB'000 | OFFICE SOFTWARE AND SERVICES RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| **TYPE OF GOODS OR SERVICES** | | | |
| Game services | 2,062,581 | — | 2,062,581 |
| Sale and subscription of software and related services | — | 1,173,600 | 1,173,600 |
| Royalties | 642,747 | — | 642,747 |
| Online marketing services | — | 401,178 | 401,178 |
| Others | 64,460 | — | 64,460 |
| Total revenue from contracts with customers | 2,769,788 | 1,574,778 | 4,344,566 |
| **GEOGRAPHICAL MARKETS** | | | |
| Mainland China | 2,623,416 | 1,523,026 | 4,146,442 |
| Hong Kong | 127,834 | 51,075 | 178,909 |
| Other countries/regions | 18,538 | 677 | 19,215 |
| Total revenue from contracts with customers | 2,769,788 | 1,574,778 | 4,344,566 |
| **TIMING OF REVENUE RECOGNITION** | | | |
| Goods or services transferred at a point in time | 64,460 | 541,971 | 606,431 |
| Services transferred over time | 2,705,328 | 1,032,807 | 3,738,135 |
| Total revenue from contracts with customers | 2,769,788 | 1,574,778 | 4,344,566 |

## 5. REVENUE AND OTHER INCOME (continued)

### Revenue from contracts with customers (continued)

*(a) Disaggregated revenue information (continued)*

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

**For the year ended 31 December 2020**

| SEGMENTS | ENTERTAINMENT SOFTWARE AND OTHERS RMB'000 | OFFICE SOFTWARE AND SERVICES RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| REVENUE FROM CONTRACTS WITH CUSTOMERS | **3,311,144** | **2,257,177** | **5,568,321** |

**For the year ended 31 December 2019 (RESTATED)**

| SEGMENTS | ENTERTAINMENT SOFTWARE AND OTHERS RMB'000 | OFFICE SOFTWARE AND SERVICES RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| REVENUE FROM CONTRACTS WITH CUSTOMERS | 2,769,788 | 1,574,778 | 4,344,566 |

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

| | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | | |
| Game services | **448,956** | 500,256 |
| Software related services | **401,532** | 166,409 |
| Royalties | **26,714** | 30,641 |
| Others | **2,245** | 4,960 |
| | **879,447** | 702,266 |

## 5. REVENUE AND OTHER INCOME (continued)

**Revenue from contracts with customers (continued)**

(b) *Performance obligations*

Information about the Group's performance obligations is summarised below:

*Game services and royalties*

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 to 90 days from the date of billing, except for individual customers and certain agents, where payment in advance is required.

*Sales of application software*

The performance obligation for the sales of application software is satisfied upon delivery of the application software and payment is generally due within 30 to 90 days from invoice date, except for certain customers, where payment in advance may be required. The performance obligation associated with the sales of application software is satisfied at the point in time when the products are delivered.

*WPS Office subscription service*

The performance obligation for membership service is satisfied over time as services are rendered. The performance obligations for the sales of virtual products/services are satisfied at the point in time when the products are available-for-use or services are rendered. The payment in advance is normally required.

*Online marketing service*

The performance obligation for online marketing service is satisfied over time as services are rendered. The payments are generally due in 30 to 60 days.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) from continuing operations as at 31 December are as follows:

| | **2020 RMB'000** | **2019 RMB'000 (RESTATED)** |
|---|---|---|
| Amounts expected to be recognised as revenue: | | |
| Within one year | **1,473,599** | 896,780 |
| After one year | **100,498** | 52,702 |
| | **1,574,097** | 949,482 |

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to royalties and WPS Office subscription service, of which the performance obligations are to be satisfied within membership periods stated in the contracts. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

## 5. REVENUE AND OTHER INCOME (continued)

### Other income

| | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|
| Government grants* | **309,009** | 230,659 |
| Others | **1,780** | 8,737 |
| | **310,789** | 239,396 |

* There are no unfulfilled conditions or contingencies relating to these government grants.

## 6. OTHER GAINS/(LOSSES), NET

| | NOTES | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|---|
| Gain/(loss) on deemed disposal of associates | | **159,494** | (14,850) |
| Gain on deemed disposal of a joint venture | | **—** | 1,161 |
| Gain on partial disposal of an associate | 44(a)(xi) | **—** | 2,018 |
| Gain on deemed disposal of subsidiaries | 41 | **—** | 61,706 |
| Gain on previously held equity investment remeasured at acquisition date fair value | 40 | **81,341** | — |
| Impairment of investments in joint ventures | 21 | **(48,098)** | — |
| Impairment of investments in associates | 22 | **(3,932)** | (1,300,000) |
| Impairment of loans to a joint venture | 44(b)(iii) | **(7,200)** | — |
| Impairment of loans to an associate | | **(38,517)** | — |
| Gain on distribution in specie | | **3,688** | — |
| Loss on exchange for equity investments designated at fair value through other comprehensive income | | **(676)** | — |
| Foreign exchange differences, net | | **40,378** | 193 |
| Fair value gains/(losses) on financial instruments at fair value through profit or loss, net | | **(31,739)** | 18,831 |
| Others | | **—** | (5,613) |
| | | **154,739** | (1,236,554) |

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

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

| | NOTES | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|---|
| Employee benefit expenses (including directors' remuneration (note 10)): | | | |
| Wages and salaries | | **1,630,802** | 1,323,724 |
| Social insurance costs and staff welfare | | **237,738** | 222,259 |
| Share-based compensation costs | | **179,372** | 148,712 |
| Pension plan contributions* | | **57,148** | 125,664 |
| | | **2,105,060** | 1,820,359 |
| Loss on disposal of items of property, plant and equipment | | **36** | 15 |
| Lease payments not included in the measurement of lease liabilities | | **18,734** | 24,390 |
| Cost of inventories sold | | **2,747** | 6,961 |
| Cost of services provided | | **783,226** | 703,051 |
| Depreciation of property, plant and equipment | (a) | **111,297** | 91,760 |
| Depreciation of right-of-use assets | (a) | **58,274** | 21,261 |
| Depreciation of investment properties | (a) | **1,517** | 1,439 |
| Amortisation of other intangible assets | (a) | **12,620** | 24,885 |
| Impairment of trade and other receivables** | | **2,293** | 12,426 |
| Impairment of property, plant and equipment** | 16 | **—** | 2,432 |
| Impairment of right-of-use assets** | 18 | **—** | 3,054 |
| Donations** | | **1,672** | 470 |
| Auditor's remuneration | | **6,680** | 6,280 |

* At 31 December 2020, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2019: nil).

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

Note:

(a) Depreciation/amortisation of property, plant and equipment, investment properties, right-of-use assets, and other intangible assets from continuing operations:

| | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|
| Included in: | | |
| Cost of revenue | **14,947** | 15,567 |
| Research and development costs | **100,847** | 87,480 |
| Selling and distribution expenses | **11,801** | 5,228 |
| Administrative expenses | **56,113** | 31,070 |
| | **183,708** | 139,345 |

## 8. FINANCE INCOME

An analysis of finance income from continuing operations is as follows:

| | NOTE | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|---|
| Finance income from banks* | | **436,569** | 219,092 |
| Interest income from loans to related parties | 44(b) | **1,428** | 1,440 |
| | | **437,997** | 220,532 |

* This amount includes finance income recognised for cash and bank deposits and wealth management products issued by banks.

## 9. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

| | NOTES | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|---|
| Interest on convertible bonds | 34 | **91,058** | 273 |
| Interest on bank loans | | **5,091** | 18,481 |
| Interest on lease liabilities | 18(c) | **11,365** | 918 |
| | | **107,514** | 19,672 |

## 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:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Fees | **1,138** | 1,138 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **3,896** | 4,112 |
| Discretionary bonuses | **140** | 140 |
| Pension scheme contributions | **15** | 80 |
| Share-based compensation | **45,596** | 57,901 |
| | **50,785** | 63,371 |

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

### (a) Independent non-executive directors

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Shun Tak Wong | **379** | 379 |
| David Yuen Kwan Tang | **379** | 379 |
| Wenjie Wu | **380** | 380 |
| | **1,138** | 1,138 |

There were no other emoluments payable to the independent non-executive directors during the year (2019: nil).

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

| | 2020 | | | |
|---|---|---|---|---|
| | FEES RMB'000 | SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000 | DISCRETIONARY BONUSES RMB'000 | PENSION SCHEME CONTRIBUTIONS RMB'000 |
| Executive directors: | | | | |
| Yuk Keung Ng | **—** | **1,581** | **—** | **—** |
| Tao Zou | **—** | **1,575** | **140** | **7** |
| Non-executive directors: | | | | |
| Pak Kwan Kau | **—** | **379** | **—** | **—** |
| Jun Lei | **—** | **361** | **—** | **8** |
| Chi Ping Lau[1] | **—** | **—** | **—** | **—** |
| | **—** | **3,896** | **140** | **15** |

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

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

| 2019 | FEES RMB'000 | SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000 | DISCRETIONARY BONUSES RMB'000 | PENSION SCHEME CONTRIBUTIONS RMB'000 |
|---|---|---|---|---|
| Executive directors: | | | | |
| Yuk Keung Ng | — | 1,706 | — | — |
| Tao Zou | — | 1,663 | 140 | 50 |
| Non-executive directors: | | | | |
| Pak Kwan Kau | — | 379 | — | — |
| Jun Lei | — | 364 | — | 30 |
| Chi Ping Lau[1] | — | — | — | — |
| | — | 4,112 | 140 | 80 |

1 Mr. Chi Ping Lau agreed to waive his remuneration for the years ended 31 December 2020 and 2019.

During the year and prior years, certain directors were granted share options and awarded shares, in respect of their services to the Group. The fair value of such share options and awarded shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant. During the year ended 31 December 2020, share-based compensation costs of RMB46,805,000 and RMB2,635,000 were recognised in the statement of profit or loss for Mr. Tao Zou and Mr. Yuk Keung Ng, respectively (2019: RMB53,461,000 and RMB4,440,000, respectively). Further details of the share options and awarded shares granted to Mr. Tao Zou and Mr. Yuk Keung Ng are set out in note 37 to the financial statements.

## 11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors and the chief executive (2019: one director and the chief executive), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining three (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 3,067 | 4,994 |
| Discretionary bonuses | 1,456 | 564 |
| Pension scheme contributions | 48 | 180 |
| Share-based compensation | 87,756 | 58,127 |
| | 92,327 | 63,865 |

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 | |
|---|---|---|
| | 2020 | 2019 |
| HK$7,000,001 to HK$7,500,000 | — | 1 |
| HK$7,500,001 to HK$8,000,000 | — | 1 |
| HK$8,000,001 to HK$8,500,000 | — | 1 |
| HK$23,000,001 to HK$23,500,000 | 1 | — |
| HK$35,000,001 to HK$35,500,000 | 1 | — |
| HK$48,000,001 to HK$48,500,000 | — | 1 |
| HK$50,500,001 to HK$51,000,000 | 1 | — |
| | 3 | 4 |

During the year and the prior years, share options and awarded shares were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 37 to the financial statements. The fair value of such options and awarded shares, which has been recognised in the consolidated 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% (2019: 16.5%) on estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2019: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 16.5%).

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

| | NOTES | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|---|
| Current — Mainland China | | **326,690** | 112,113 |
| Current — Hong Kong | | **11,011** | 18,346 |
| Current — Elsewhere | | **11,492** | 1,217 |
| Deferred | 35 | **(78,269)** | 20,861 |
| Total tax charge for the year from continuing operations | | **270,924** | 152,537 |
| Total tax charge for the year from a discontinued operation | 13 | **1,076,585** | 8,917 |
| | | **1,347,509** | 161,454 |

## 12. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit/(loss) 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 is as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(RESTATED) |
|---|---|---|
| Profit/(loss) before tax from continuing operations | **2,069,360** | (415,238) |
| Profit/(loss) before tax from a discontinued operation | **9,523,089** | (1,506,007) |
| | **11,592,449** | (1,921,245) |
| Tax at the statutory tax rate of Mainland China | **2,898,214** | (479,730) |
| Lower tax rates for specific provinces or enacted by local authority | **(196,318)** | (74,149) |
| Effect of different tax rates in different jurisdictions | **(1,477,750)** | 102,532 |
| Effect on opening deferred tax of change in rates | **(20)** | (12,948) |
| Income not subject to tax | **(57,995)** | (19,946) |
| Expenses not deductible for tax | **56,683** | 387,588 |
| Research and development super deduction | **(125,389)** | (150,593) |
| Profits and losses attributable to joint ventures and associates | **64,363** | 83,047 |
| Tax losses and other temporary differences not recognised | **146,871** | 346,846 |
| Tax losses and other deductible temporary differences utilised from previous periods | **(7,986)** | (59,909) |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries | **39,345** | 31,063 |
| Effect of withholding tax on income arising from overseas operations | **9,342** | 14,436 |
| Others | **(1,851)** | (6,783) |
| Tax charge at the Group's effective rate | **1,347,509** | 161,454 |
| Tax charge from continuing operations at the effective rate | **270,924** | 152,537 |
| Tax charge from a discontinued operation at the effective rate | **1,076,585** | 8,917 |

During the year ended 31 December 2020, current tax amounting to RMB37,034,000 was recognised in other comprehensive income in respect of equity investments designated at fair value through other comprehensive income.

The share of tax expense attributable to associates amounting to RMB43,911,766 (2019: tax credit of RMB12,065,000) and the tax expense attributable to joint ventures amounting to RMB2,219,680 (2019: RMB3,691,000) were included in "share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

## 13. DISCONTINUED OPERATION

On 20 March 2020, the shareholders of the Company approved the proposed spin-off and separate listing of Kingsoft Cloud. On 8 May 2020 (New York time), the listing was completed and the trading in the American depositary shares ("ADSs") of Kingsoft Cloud on National Association of Securities Dealers Automated Quotations commenced. As a result, the Group lost control over Kingsoft Cloud, which was then changed from a subsidiary to an associate of the Company.

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

The results of Kingsoft Cloud Group for the period/year are presented below:

| | **2020*<br>RMB'000** | **2019<br>RMB'000** |
|---|---|---|
| Revenue | **1,788,395** | 3,847,176 |
| Total expenses | **(2,431,865)** | (5,353,183) |
| Loss before tax from the discontinued operation | **(643,470)** | (1,506,007) |
| Gain on deemed disposal of a subsidiary | **10,166,559** | — |
| Income tax: | | |
| Related to pre-tax profit | **(6,450)** | (8,917) |
| Related to gain on deemed disposal | **(1,070,135)** | — |
| Profit/(loss) for the period/year from the discontinued operation | **8,446,504** | (1,514,924) |

* These figures represent the operating results for the period prior to the deemed disposal on 8 May 2020.

## 13. DISCONTINUED OPERATION (continued)

The net assets of Kingsoft Cloud Group disposed of as at 8 May 2020 were as follows:

| | NOTES | RMB'000 |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment | 16 | 1,761,924 |
| Other intangible assets | 20 | 7,517 |
| Investments in joint ventures | | 59,856 |
| Investments in associates | | 39,563 |
| Financial assets at fair value through profit or loss | | 9,072 |
| Inventories | | 2,388 |
| Trade receivables | | 1,902,446 |
| Prepayments, other receivables and other assets | | 562,944 |
| Right-of-use assets | 18 | 271,903 |
| Cash and cash equivalents | | 1,771,891 |
| Time deposits with original maturity of over three months when acquired | | 228,530 |
| Trade payables | | (1,848,288) |
| Other payables and accruals | | (1,007,791) |
| Interest-bearing bank loans | | (174,351) |
| Lease liabilities | 18 | (279,770) |
| Deferred revenue | | (8,925) |
| Income tax payable | | (18,139) |
| Deferred tax liabilities | 35 | (147) |
| Derivative financial instruments | | (129,723) |
| Liability component of redeemable convertible preferred shares | | (3,785,716) |
| Non-controlling interests | | 1,693,847 |
| | | 1,059,031 |
| Exchange fluctuation reserve | | 64,475 |
| | | 1,123,506 |
| Gain on deemed disposal of a subsidiary | | 10,166,559 |
| Investment in an associate | | 11,290,065 |

The Group's derivative liabilities and liability component of redeemable convertible preferred shares as at 31 December 2019 were related to the discontinued operation and were deemed disposed of on 8 May 2020.

## 13. DISCONTINUED OPERATION (continued)

An analysis of the net outflows of cash and cash equivalents in respect of the deemed disposal of Kingsoft Cloud Group is as follows:

| | 2020<br>RMB'000 |
|---|---|
| Cash consideration | — |
| Cash and cash equivalents disposed of | **(1,771,891)** |
| Net cash outflows from the deemed disposal of a subsidiary | **(1,771,891)** |

The net cash flows incurred by Kingsoft Cloud Group are as follows:

| | 2020*<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Operating activities | **(61,910)** | (511,883) |
| Investing activities | **(280,787)** | 974,020 |
| Financing activities | **113,545** | 46,485 |
| Net cash (outflow)/inflow | **(229,152)** | 508,622 |

* These figures represent the operating results for the period prior to the deemed disposal on 8 May 2020.

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Earnings/(loss) per share: | | |
| Basic, from the discontinued operation | **RMB6.41** | RMB(0.57) |
| Diluted, from the discontinued operation | **RMB6.40** | RMB(0.58) |

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

| | 2020 | 2019 |
|---|---|---|
| Profit/(loss) attributable to ordinary equity holders of the parent from the discontinued operation | **RMB8,764,699,000** | RMB(779,941,000) |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation (note 15) | **1,367,090,890** | 1,365,661,224 |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation (note 15) | **1,370,872,929** | 1,365,661,224 |

## 14. DIVIDENDS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Proposed final dividend (note (a)): | | |
| HK$0.20 (2019: HK$0.10) per share based on issued share capital as at year end | **231,058** | 122,966 |
| Less: Dividend for shares held for share award scheme as at year end | **(789)** | (553) |
| | **230,269** | 122,413 |

(a) The actual amount of the 2019 dividend finally paid was RMB124,861,000, after eliminating the amount of RMB524,000 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.

### Other distributions

On 8 May 2020, Kingsoft Cloud completed its initial public offering on National Association of Securities Dealers Automated Quotations.

In order to give due regard to the interests of its shareholders, the Company has provided the shareholders with the choice of distribution in specie of ADS of Kingsoft Cloud, or cash payment in lieu, with value of each ADS to be HK$131.75, based on Kingsoft Cloud's initial public offering price of US$17 per ADS translated into HK$ at the exchange rate of US$1.00 to HK$7.75.

The total amount of cash payments distributed to the Company's shareholders is HK$124,000,000 (equivalent to RMB113,118,000), and the total number of ADSs distributed to the Company's shareholders is 110,265, equivalent to RMB16,915,000 at the date of distribution.

## 15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,367,090,890 (2019: 1,365,661,224) in issue during the year.

The calculation of the diluted earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the convertible bonds of the Company, the share option schemes and the share award schemes adopted by the Group's subsidiaries and associate, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) 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.

## 15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

The calculations of basic and diluted earnings/(loss) per share are based on:

| | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|
| **EARNINGS/(LOSS)** | | |
| Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation: | | |
| From continuing operations | **1,280,344** | (766,444) |
| From a discontinued operation | **8,764,699** | (779,941) |
| | **10,045,043** | (1,546,385) |
| Decrease in earnings/increase in loss adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries and associate | **(16,869)** | (18,759) |
| | **10,028,174** | (1,565,144) |
| Attributable to: | | |
| Continuing operations | **1,263,475** | (785,203) |
| Discontinued operation | **8,764,699** | (779,941) |
| | **10,028,174** | (1,565,144) |

| | NUMBER OF SHARES 2020 | 2019 |
|---|---|---|
| **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/(loss) per share calculation | **1,367,090,890** | 1,365,661,224 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| Share options | **1,726,557** | — |
| Awarded shares | **2,055,482** | — |
| | **1,370,872,929** | 1,365,661,224 |

The convertible bonds issued by the Company in 2020 and certain financial instruments of the Group's non-wholly owned subsidiaries, associates and joint ventures were anti-dilutive and ignored in the calculation of diluted earnings per share for the year ended 31 December 2020.

The share award schemes and the share option schemes adopted by the Company, the convertible bonds issued by the Company in 2014, and certain financial instruments of the Group's associate and the Group's non-wholly-owned subsidiaries were anti-dilutive and ignored in the calculation of diluted loss per share for the year ended 31 December 2019.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | BUILDINGS RMB'000 | ELECTRONIC EQUIPMENT RMB'000 | OFFICE EQUIPMENT AND FIXTURES RMB'000 | MOTOR VEHICLES RMB'000 | LEASEHOLD IMPROVEMENTS RMB'000 | CONSTRUCTION IN PROGRESS RMB'000 | DATA CENTER MACHINERY AND EQUIPMENT RMB'000 | TOTAL RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **31 DECEMBER 2020** | | | | | | | | |
| At 1 January 2020: | | | | | | | | |
| Cost | 682,329 | 3,563,363 | 312,633 | 6,993 | 13,645 | 298,767 | 132,824 | 5,010,554 |
| Accumulated depreciation and impairment | (51,376) | (1,863,039) | (164,497) | (4,689) | (12,350) | — | (1,143) | (2,097,094) |
| Net carrying amount | 630,953 | 1,700,324 | 148,136 | 2,304 | 1,295 | 298,767 | 131,681 | 2,913,460 |
| At 1 January 2020, net of accumulated depreciation and impairment | | | | | | | | |
| Additions | 597 | 379,048 | 13,572 | 1,333 | 1,096 | 39,435 | — | 435,081 |
| Acquisition of a subsidiary (note 40) | — | 1,021 | — | 8 | — | — | — | 1,029 |
| Disposals | — | (92) | (389) | (148) | — | — | — | (629) |
| Depreciation provided during the year | (12,182) | (353,483) | (30,705) | (1,004) | (603) | — | (4,596) | (402,573) |
| Transfers | — | — | 16,555 | — | 24,101 | (40,656) | — | — |
| Deemed disposal of a subsidiary (note 13) | — | (1,628,298) | (198) | — | — | (6,343) | (127,085) | (1,761,924) |
| Exchange realignment | — | 532 | (11) | (8) | (55) | — | — | 458 |
| At 31 December 2020, net of accumulated depreciation and impairment | 619,368 | 99,052 | 146,960 | 2,485 | 25,834 | 291,203 | — | 1,184,902 |
| At 31 December 2020: | | | | | | | | |
| Cost | 682,926 | 380,913 | 332,493 | 8,108 | 37,701 | 291,203 | — | 1,733,344 |
| Accumulated depreciation and impairment | (63,558) | (281,861) | (185,533) | (5,623) | (11,867) | — | — | (548,442) |
| Net carrying amount | 619,368 | 99,052 | 146,960 | 2,485 | 25,834 | 291,203 | — | 1,184,902 |

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

| | 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 | DATA CENTER MACHINERY AND EQUIPMENT RMB'000 | TOTAL RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **31 DECEMBER 2019** | | | | | | | | |
| At 1 January 2019: | | | | | | | | |
| Cost | 658,202 | 2,386,779 | 311,653 | 7,138 | 13,710 | 98,940 | — | 3,476,422 |
| Accumulated depreciation and impairment | (39,197) | (1,237,515) | (147,559) | (3,976) | (11,751) | — | — | (1,439,998) |
| Net carrying amount | 619,005 | 1,149,264 | 164,094 | 3,162 | 1,959 | 98,940 | — | 2,036,424 |
| At 1 January 2019, net of accumulated depreciation and impairment | 619,005 | 1,149,264 | 164,094 | 3,162 | 1,959 | 98,940 | — | 2,036,424 |
| Additions | — | 1,190,035 | 11,817 | 227 | 61 | 358,943 | — | 1,561,083 |
| Disposals | — | (45) | (241) | (19) | (1) | — | — | (306) |
| Impairment (note 7) | — | — | (2,432) | — | — | — | — | (2,432) |
| Depreciation provided during the year | (12,179) | (640,311) | (27,273) | (1,066) | (698) | — | (1,143) | (682,670) |
| Transfers | 24,127 | — | 2,165 | — | — | (159,116) | 132,824 | — |
| Deemed disposal of a subsidiary (note 41) | — | (355) | — | — | (81) | — | — | (436) |
| Exchange realignment | — | 1,736 | 6 | — | 55 | — | — | 1,797 |
| At 31 December 2019, net of accumulated depreciation and impairment | 630,953 | 1,700,324 | 148,136 | 2,304 | 1,295 | 298,767 | 131,681 | 2,913,460 |
| At 31 December 2019: | | | | | | | | |
| Cost | 682,329 | 3,563,363 | 312,633 | 6,993 | 13,645 | 298,767 | 132,824 | 5,010,554 |
| Accumulated depreciation and impairment | (51,376) | (1,863,039) | (164,497) | (4,689) | (12,350) | — | (1,143) | (2,097,094) |
| Net carrying amount | 630,953 | 1,700,324 | 148,136 | 2,304 | 1,295 | 298,767 | 131,681 | 2,913,460 |

## 17. INVESTMENT PROPERTIES

| | BUILDINGS RMB'000 | LAND USE RIGHT RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| **31 DECEMBER 2020** | | | |
| At 1 January 2020: | | | |
| Cost | **70,463** | **7,304** | **77,767** |
| Accumulated depreciation | **(13,270)** | **(1,993)** | **(15,263)** |
| Net carrying amount | **57,193** | **5,311** | **62,504** |
| At 1 January 2020, net of accumulated depreciation | **57,193** | **5,311** | **62,504** |
| Additions | **—** | **3,016** | **3,016** |
| Depreciation | **(1,272)** | **(245)** | **(1,517)** |
| At 31 December 2020, net of accumulated depreciation | **55,921** | **8,082** | **64,003** |
| At 31 December 2020: | | | |
| Cost | **70,463** | **10,320** | **80,783** |
| Accumulated depreciation | **(14,542)** | **(2,238)** | **(16,780)** |
| Net carrying amount | **55,921** | **8,082** | **64,003** |

| | BUILDINGS RMB'000 | LAND USE RIGHT RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| **31 DECEMBER 2019** | | | |
| At 1 January 2019: | | | |
| Cost | 70,463 | 7,304 | 77,767 |
| Accumulated depreciation | (11,998) | (1,826) | (13,824) |
| Net carrying amount | 58,465 | 5,478 | 63,943 |
| At 1 January 2019, net of accumulated depreciation | 58,465 | 5,478 | 63,943 |
| Depreciation | (1,272) | (167) | (1,439) |
| At 31 December 2019, net of accumulated depreciation | 57,193 | 5,311 | 62,504 |
| At 31 December 2019: | | | |
| Cost | 70,463 | 7,304 | 77,767 |
| Accumulated depreciation | (13,270) | (1,993) | (15,263) |
| Net carrying amount | 57,193 | 5,311 | 62,504 |

## 17. INVESTMENT PROPERTIES (continued)

The Group's investment properties consist of land use right and buildings in Zhuhai, Guangdong. As at 31 December 2020, the fair value of the buildings and the land use right was approximately RMB214 million (2019: RMB225 million) which was estimated based on the income approach model.

## 18. LEASES

**The Group as a lessee**

The Group has lease contracts for various items of buildings and equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 to 70 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between several months and 6 years, while equipment generally has lease terms of 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | LEASEHOLD LAND RMB'000 | BUILDINGS RMB'000 | EQUIPMENT RMB'000 | TOTAL RMB'000 |
|---|---|---|---|---|
| As at 1 January 2019 | 293,252 | 36,018 | — | 329,270 |
| Additions | — | 121,430 | 32 | 121,462 |
| Impairment of right-of-use assets (note 7) | — | (3,054) | — | (3,054) |
| Depreciation charge: | | | | |
| Depreciation in profit or loss (note 7) | (4,980) | (18,383) | (3) | (23,366) |
| Capitalised depreciation | — | (6,311) | — | (6,311) |
| Reduction* | — | (14,325) | — | (14,325) |
| Exchange realignment | — | 61 | — | 61 |
| As at 31 December 2019 and 1 January 2020 | **288,272** | **115,436** | **29** | **403,737** |
| Additions | **9,084** | **475,474** | | **484,558** |
| Reduction* | **(2,770)** | **(44,807)** | **—** | **(47,577)** |
| Additions as a result of acquisition of a subsidiary (note 40) | **—** | **9,347** | **—** | **9,347** |
| Deemed disposal of a subsidiary (note 13) | **—** | **(271,903)** | **—** | **(271,903)** |
| Depreciation charge | **(5,225)** | **(67,657)** | **(6)** | **(72,888)** |
| Exchange realignment | **—** | **(303)** | **—** | **(303)** |
| As at 31 December 2020 | **289,361** | **215,587** | **23** | **504,971** |

## 18. LEASES (continued)

### The Group as a lessee (continued)

*(b) Lease liabilities*

The carrying amounts of lease liabilities and the movements during the year are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **(116,049)** | (35,919) |
| New leases | **(475,474)** | (112,304) |
| Additions as a result of acquisition of a subsidiary (note 40) | **(9,347)** | — |
| Deemed disposal of a subsidiary (note 13) | **279,770** | — |
| Accretion of interest recognised during the year: | | |
| Interest recognised in profit or loss | **(17,389)** | (1,399) |
| Capitalised interest | **—** | (4,256) |
| COVID-19-related rent concessions from lessors | **118** | — |
| Payments | **70,973** | 23,525 |
| Reduction* | **44,646** | 14,325 |
| Exchange realignment | **235** | (21) |
| Carrying amount at 31 December | **(222,517)** | (116,049) |
| Analysed into: | | |
| Current portion | **(52,758)** | (18,260) |
| Non-current potion | **(169,759)** | (97,789) |

* The reduction of right-of-use assets and lease liabilities during the years ended 31 December 2020 and 2019 was mainly arising from the early termination and modification of lease contracts.

The maturity analysis of lease liabilities is disclosed in note 47 to the financial statements.

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to IFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain buildings during the year.

*(c) The amounts recognised in profit or loss in relation to leases from continuing operations are as follows:*

| | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|
| Interest on lease liabilities | **11,365** | 918 |
| Depreciation charge of right-of-use assets | **58,274** | 21,261 |
| Expense relating to leases of low-value assets, short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales, selling and distribution expenses, administrative expenses, and research and development costs) | **18,734** | 24,390 |
| COVID-19-related rent concessions from lessors | **(118)** | — |
| Impairment of right-of-use assets | **—** | 3,054 |
| Total amount recognised in profit or loss | **88,255** | 49,623 |

## 18. LEASES (continued)

### The Group as a lessee (continued)

(d) *The total cash outflow for leases and future cash outflows relating to leases that have not commenced are disclosed in notes 42(c) and 43(b), respectively, to the financial statements.*

### The Group as a lessor

The Group leases its investment properties (note 17) consisting of a land use right and buildings in Zhuhai, Guangdong under operating lease arrangements. The term of the lease also requires the tenant to pay security deposits and provide for periodic rent as stipulated in the contract. Rental income recognised by the Group during the year was RMB25,922,000 (2019: RMB26,521,000), details of which are included in note 5 to the financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Within one year | **20,795** | 16,833 |
| After one year but within two years | **21,679** | 17,674 |
| After two years but within three years | **22,607** | 18,558 |
| After three years but within four years | **23,581** | 19,486 |
| After four years but within five years | **23,564** | 20,460 |
| After five years | **54,265** | 75,749 |
| | **166,491** | 168,760 |

## 19. GOODWILL

| | NOTE | RMB'000 |
|---|---|---|
| At 1 January 2019: | | |
| Cost | | 9,559 |
| Accumulated impairment | | (9,559) |
| Net carrying amount | | — |
| Cost at 1 January 2019, net of accumulated impairment | | 9,559 |
| Impairment during the year | | (9,559) |
| At 31 December 2019 | | — |
| At 31 December 2019: | | |
| Cost | | 9,559 |
| Accumulated impairment | | (9,559) |
| Net carrying amount | | — |
| Cost at 1 January 2020, net of accumulated impairment | | **—** |
| Acquisition of a subsidiary | 40 | **185,564** |
| Cost and net carrying amount at 31 December 2020 | | **185,564** |
| At 31 December 2020: | | |
| Cost | | **185,564** |
| Accumulated impairment | | **—** |
| Net carrying amount | | **185,564** |

### Impairment testing of goodwill

The goodwill as at 31 December 2019 was acquired through two business combinations taken place in the prior year by the discontinued operation of the Group, which was fully impaired as at 31 December 2019.

Goodwill acquired through the business combination in 2020 is allocated to the office software and services cash-generating unit for impairment testing.

The recoverable amount of the office software and services cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 19%. The growth rate used to extrapolate the cash flows of the office software and services unit beyond the five-year period is 3%.

## 19. GOODWILL (continued)

### Impairment testing of goodwill (continued)

The key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill are as follows: (i) budgeted revenue, determined based on the revenue achieved in the year immediately before the budget year and expected market development; and (ii) discount rate, before tax and reflects specific risks relating to the relevant unit. The values assigned to the key assumptions are consistent with external information sources.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision was considered necessary as at 31 December 2020.

## 20. OTHER INTANGIBLE ASSETS

| | PURCHASED SOFTWARE RMB'000 | CAPITALISED SOFTWARE COSTS RMB'000 | TECHNOLOGY RMB'000 | CUSTOMER RELATIONSHIP RMB'000 | TOTAL RMB'000 |
|---|---|---|---|---|---|
| **31 DECEMBER 2020** | | | | | |
| Cost at 1 January 2020, net of accumulated amortisation | **30,938** | **—** | **—** | **—** | **30,938** |
| Additions | **9,549** | **—** | **—** | **—** | **9,549** |
| Acquisition of a subsidiary (note 40) | **801** | **—** | **27,300** | **19,800** | **47,901** |
| Amortisation provided during the year | **(10,208)** | **—** | **(1,524)** | **(1,775)** | **(13,507)** |
| Deemed disposal of a subsidiary (note 13) | **(7,517)** | **—** | **—** | **—** | **(7,517)** |
| Exchange realignment | **(189)** | **—** | **—** | **—** | **(189)** |
| At 31 December 2020, net of accumulated amortisation | **23,374** | **—** | **25,776** | **18,025** | **67,175** |
| At 31 December 2020: | | | | | |
| Cost | **179,798** | **27,229** | **27,300** | **19,800** | **254,127** |
| Accumulated amortisation | **(156,424)** | **(27,229)** | **(1,524)** | **(1,775)** | **(186,952)** |
| Net carrying amount | **23,374** | **—** | **25,776** | **18,025** | **67,175** |

## 20. OTHER INTANGIBLE ASSETS (continued)

| | PURCHASED SOFTWARE RMB'000 | LICENCE RIGHTS FOR GAMES RMB'000 | CAPITALISED SOFTWARE COSTS RMB'000 | OTHERS RMB'000 | TOTAL RMB'000 |
|---|---|---|---|---|---|
| **31 DECEMBER 2019** | | | | | |
| At 1 January 2019: | | | | | |
| Cost | 167,400 | 360 | 27,229 | 5,300 | 200,289 |
| Accumulated amortisation | (111,018) | (360) | (27,229) | (5,300) | (143,907) |
| Net carrying amount | 56,382 | — | — | — | 56,382 |
| Cost at 1 January 2019, net of accumulated amortisation | 56,382 | — | — | — | 56,382 |
| Additions | 6,924 | — | — | — | 6,924 |
| Amortisation provided during the year | (30,451) | — | — | — | (30,451) |
| Deemed disposal of a subsidiary (note 41) | (2,035) | — | — | — | (2,035) |
| Exchange realignment | 118 | — | — | — | 118 |
| At 31 December 2019, net of accumulated amortisation | 30,938 | — | — | — | 30,938 |
| At 31 December 2019: | | | | | |
| Cost | 172,328 | — | 27,229 | — | 199,557 |
| Accumulated amortisation | (141,390) | — | (27,229) | — | (168,619) |
| Net carrying amount | 30,938 | — | — | — | 30,938 |

## 21. INVESTMENTS IN JOINT VENTURES

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Share of net assets | **182,449** | 184,396 |
| Goodwill on acquisition | **75,893** | 121,664 |
| | **258,342** | 306,060 |
| Provision for impairment | **(77,422)** | (35,757) |
| | **180,920** | 270,303 |

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

## 21. INVESTMENTS IN JOINT VENTURES (continued)

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

| | 2020 RMB'000 | 2019 RMB'000 (RESTATED) |
|---|---|---|
| Share of the joint ventures' profit/(loss) for the year from continuing operations | **(25,929)** | 17,524 |
| Share of the joint ventures' post-tax loss from a discontinued operation | **(1,450)** | (2,585) |
| Share of the joint ventures' total comprehensive income/(loss) | **(27,379)** | 14,939 |
| Aggregate carrying amount of the Group's investments in the joint ventures | **180,920** | 270,303 |

(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 nil (2019: RMB798,000) and RMB11,552,000 (2019: RMB11,552,000), respectively.

(ii) During the year ended 31 December 2020, the Group recognised an impairment loss amounting to RMB48,098,000 for its investments in joint ventures (2019: nil).

(iii) The Group's balances of trade payables, other receivables and loans with the joint ventures are disclosed in notes 30 and 44(b) to the financial statements, respectively.

## 22. INVESTMENTS IN ASSOCIATES

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Share of net assets | **6,507,729** | 2,189,527 |
| Goodwill on acquisition | **7,507,561** | 1,553,719 |
| | **14,015,290** | 3,743,246 |
| Provision for impairment | **(1,263,233)** | (1,305,724) |
| | **12,752,057** | 2,437,522 |

The Group's shareholdings in the associates all comprise equity shares held by the Company's subsidiaries except for the investments in Cheetah Mobile Inc. ("Cheetah Mobile") and Kingsoft Cloud, the shareholdings in which are held through the Company.

## 22. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the Group's material associate 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 |
|---|---|---|---|---|---|---|
| Kingsoft Cloud* | Ordinary shares | Cayman Islands | 43 | 40 | 43 | Investment holding |

* As disclosed in note 13, Kingsoft Cloud became one of the Group's associates and has been accounted for using the equity method since the deemed disposal on 8 May 2020.

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

| | 2020 RMB'000 |
|---|---|
| Current assets | **9,544,536** |
| Non-current assets, excluding goodwill | **6,566,961** |
| Goodwill on acquisition of the associate | **6,051,054** |
| Current liabilities | **3,495,797** |
| Non-current liabilities | **849,909** |
| Non-controlling interests | **61** |
| Net assets | **17,816,784** |
| Net assets, excluding goodwill | **11,765,730** |
| Reconciliation to the Group's interest in the associate: | |
| Proportion of the Group's ownership | **43%** |
| Group's share of net assets of the associate, excluding goodwill* | **4,926,731** |
| Goodwill on acquisition | **6,051,054** |
| Carrying amount of the investment | **10,977,785** |
| Revenue** | **4,757,588** |
| Loss for the period** | **(855,888)** |
| Other comprehensive income** | **(603,031)** |
| Total comprehensive loss for the period** | **(1,458,919)** |

* The amount excludes the Group's share of reserves of the associate not included in the associate's comprehensive income.

** These figures represent the operating results for the period of Kingsoft Cloud after the deemed disposal on 8 May 2020.

## 22. INVESTMENTS IN ASSOCIATES (continued)

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

| | 2020<br>RMB'000 | 2019<br>RMB'000<br>(RESTATED) |
|---|---|---|
| Share of the associates' profit/(loss) for the year from continuing operations | **137,539** | (409,874) |
| Share of the associates' post-tax loss from a discontinued operation | **(819)** | (3,099) |
| Share of the associates' other comprehensive income/(loss) from continuing operations | **(51,203)** | 20,344 |
| Share of the associates' total comprehensive income/(loss) | **85,517** | (392,629) |
| Aggregate carrying amount of the Group's investments in the associates | **1,774,272** | 2,437,522 |

(i) The Group has discontinued the recognition of its share of losses of an associate because the share of losses of this associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were nil (2019: RMB45,000 (restated)) and RMB45,000 (2019: RMB45,000 (restated)), respectively.

(ii) The Group's balances of trade receivables, trade payables and loans with the associates are disclosed in notes 27, 30 and 44(b) to the financial statements, respectively.

(iii) During the year ended 31 December 2020, the Group recognised an impairment loss amounting to RMB3,932,000 for the investments in associates (2019: RMB1,300,000,000).

As at 31 December 2020 and 2019, the Group held certain ordinary shares in Cheetah Mobile which are listed on the New York Stock Exchange in the form of American depositary shares. As the share price of Cheetah Mobile has been struggled with sluggish performance and traded below the carrying value in book of the Company for a certain period of time, the Group performed an impairment assessment on its investment in Cheetah Moblie.

The recoverable amount of investment in Cheetah Mobile was determined based on a value in use calculation using expected cash flow projections approved by senior management covering a period of five years. The discount rate applied to the expected cash flow projections was 20% (2019: 21%), which was determined with reference to the average rate for companies in relevant industry with similar business risk, and the cash flow projections beyond the five-year period were extrapolated using a growth rate of 3% (2019: 3%), which was the same as the long term average growth rate of the industry.

The following describes each key assumption on which management has based its expected cash flow projections to undertake impairment testing:

Revenue growth rate — The basis used to determine the revenue growth rate is the historical revenue growth rate, adjusted for expected market development and Cheetah Mobile's business plan.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant business.

The values assigned to the key assumptions are consistent with external information sources.

## 22. INVESTMENTS IN ASSOCIATES (continued)

Based on the result of the impairment testing of investment in Cheetah Mobile, in the opinion of the directors, an impairment provision of RMB1,300,000,000 was recognised for the year ended 31 December 2019. No further impairment provision was considered necessary as at 31 December 2020.

## 23. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| **Equity investments designated at fair value through other comprehensive income** | | |
| Listed equity investments, at fair value | — | 739,705 |
| Unlisted equity investments, at fair value | **10,725** | 17,287 |
| | **10,725** | 756,992 |
| Current portion | — | (10,000) |
| Non-current portion | **10,725** | 746,992 |

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

In 2020, all listed equity investments were sold or disposed of by the Group, the accumulated losses recognised in other comprehensive income was transferred to retained profits.

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | NOTES | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Ordinary share subscription option | (i) | **28,914** | 79,920 |
| Convertible bonds issued by an associate | (ii) | **—** | 21,628 |
| Wealth management products | (iii) | **3,881,640** | — |
| Others | | **198,952** | 37,686 |
| | | **4,109,506** | 139,234 |
| Current portion | | **3,910,553** | 89,920 |
| Non-current portion | | **198,953** | 49,314 |
| | | **4,109,506** | 139,234 |

(i) The ordinary share subscription option represents the rights to subscribe for an aggregate of 1,032,917 ordinary shares of an independent third party game company in Vietnam, which could be exercised from time to time at the Group's full discretion on or before 31 December 2020. On 28 December 2020, the Group entered into an amendment agreement with this third party, pursuant to which, the exercise period of the ordinary share subscription option is extended to 31 December 2021.

(ii) On 5 March 2019, an associate issued a convertible promissory note amounting to US$3,000,000 (equivalent to RMB20,073,000) with a simple interest rate of 3.32% per annum to the Group.

(iii) The Group invests in wealth management products issued by reputable banks in Mainland China. The wealth management products were mandatory classified as financial assets at fair value through profit or loss as their contractual cash flows are not SPPI.

## 25. OTHER NON-CURRENT ASSETS

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Prepayments for purchase of equipment | **—** | 36,306 |
| Prepayments for land use rights | **31,281** | — |
| Others | **15,020** | 10,970 |
| | **46,301** | 47,276 |

## 26. INVENTORIES

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Packaging materials | **63** | 94 |
| Trading stocks | **19,022** | 16,284 |
| | **19,085** | 16,378 |

## 27. TRADE RECEIVABLES

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Trade receivables | **801,835** | 2,115,009 |
| Impairment | **(29,350)** | (55,978) |
| | **772,485** | 2,059,031 |

The Group's trading terms with its customers are mainly on credit, except for sales to individual customers or to certain agents, 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.

Included in the Group's trade receivables are amounts due from associates, a company whose parent has significant influence on the Company and a company controlled by a director of the Company of RMB42,034,000 (2019: RMB6,417,000), RMB174,804,000 (2019: RMB172,319,000) and RMB24,837,000 (2019: RMB84,170,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

## 27. TRADE RECEIVABLES (continued)

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| 0 to 30 days | **339,534** | 817,869 |
| 31 to 60 days | **127,072** | 377,336 |
| 61 to 90 days | **58,415** | 154,914 |
| 91 to 365 days | **187,915** | 631,294 |
| 1 to 2 years | **48,627** | 47,683 |
| Over 2 years | **10,922** | 29,935 |
| | **772,485** | 2,059,031 |

The movements in the loss allowance for impairment of trade receivables are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| At beginning of year | **55,978** | 61,533 |
| Impairment losses, net | **15,670** | 63,361 |
| Amounts written off as uncollectable | **(18,521)** | (68,997) |
| Deemed disposal of a subsidiary | **(23,553)** | — |
| Exchange realignment | **(224)** | 81 |
| At end of year | **29,350** | 55,978 |

An impairment analysis is performed at each reporting date individually or using a provision matrix to measure expected credit losses collectively. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., product type and customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

## 27. TRADE RECEIVABLES (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables:

**As at 31 December 2020**

| | | PAST DUE | | | | |
|---|---|---|---|---|---|---|
| | CURRENT | LESS THAN 1 YEAR | 1 TO 2 YEARS | 2 TO 3 YEARS | OVER 3 YEARS | TOTAL |
| Impairment for credit losses assessed by credit risk portfolio | | | | | | |
| Expected credit loss rate | **0%** | **2%** | **22%** | **39%** | **100%** | **2%** |
| Gross carrying amount (RMB'000) | **618,830** | **143,729** | **12,969** | **5,675** | **3,619** | **784,822** |
| Expected credit losses (RMB'000) | **464** | **3,228** | **2,815** | **2,211** | **3,619** | **12,337** |
| Impairment for credit losses assessed individually* | | | | | | |
| Expected credit loss rate | **—** | **100%** | **100%** | **100%** | **100%** | **100%** |
| Gross carrying amount (RMB'000) | **—** | **—** | **—** | **1,231** | **15,782** | **17,013** |
| Expected credit losses (RMB'000) | **—** | **—** | **—** | **1,231** | **15,782** | **17,013** |

**As at 31 December 2019**

| | | PAST DUE | | | | |
|---|---|---|---|---|---|---|
| | CURRENT | LESS THAN 1 YEAR | 1 TO 2 YEARS | 2 TO 3 YEARS | OVER 3 YEARS | TOTAL |
| Impairment for credit losses assessed by credit risk portfolio | | | | | | |
| Expected credit loss rate | 0% | 1% | 14% | 36% | 100% | 1% |
| Gross carrying amount (RMB'000) | 1,717,711 | 321,365 | 17,205 | 13,602 | 4,554 | 2,074,437 |
| Expected credit losses (RMB'000) | 516 | 3,037 | 2,470 | 4,829 | 4,554 | 15,406 |
| Impairment for credit losses assessed individually* | | | | | | |
| Expected credit loss rate | — | 100% | 100% | 100% | 100% | 100% |
| Gross carrying amount (RMB'000) | — | 7,618 | 14,590 | 9,564 | 8,800 | 40,572 |
| Expected credit losses (RMB'000) | — | 7,618 | 14,590 | 9,564 | 8,800 | 40,572 |

* The individually impaired trade receivables as at 31 December 2020 and 2019 related to customers that were credit-impaired or in default payments and no receivables are expected to be recovered. The full allowance for credit losses RMB17,013,000 (2019: RMB40,572,000) was provided for such individual trade receivables as at 31 December 2020.

## 28. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | NOTE | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Prepayments | | **130,857** | 122,831 |
| Deposits | | **13,803** | 17,039 |
| Due from related parties | 44(b) | **65,134** | 54,699 |
| Loans receivable | | **9,970** | 56,390 |
| Other receivables | | **754,896** | 1,121,592 |
| | | **974,660** | 1,372,551 |
| Impairment allowance | | **(7,288)** | (7,458) |
| | | **967,372** | 1,365,093 |

The movements in the loss allowance for impairment of prepayments, other receivables and other assets are as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| At beginning of year | **7,458** | 1,954 |
| Impairment losses, net | **861** | 5,676 |
| Amounts written off as uncollectable | **(1,031)** | (172) |
| | **7,288** | 7,458 |

Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2020, the loss allowance for impairment of prepayments, other receivables and other assets was recognised by the Group mainly for its loans receivable.

## 29. CASH AND BANK DEPOSITS AND RESTRICTED CASH

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Cash and bank balances | **1,471,825** | 3,248,496 |
| Non-pledged time deposits with original maturity of three months or less when acquired | **2,569,546** | 955,889 |
| Principal protected structure deposits with original maturity of three months or less when acquired | **413,900** | 3,125,460 |
| | **4,455,271** | 7,329,845 |
| Non-pledged time deposits with original maturity of over three months when acquired | **2,749,999** | 264,788 |
| Principal protected structure deposits with original maturity of over three months when acquired | **6,843,799** | 6,197,484 |
| | **9,593,798** | 6,462,272 |
| Cash and bank deposits | **14,049,069** | 13,792,117 |
| Restricted cash | **13,079** | — |
| | **14,062,148** | 13,792,117 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of one day to 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 time deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2020, cash and bank balances amounting to RMB9,286,355,160 (2019: RMB10,599,052,000) were denominated in RMB. 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.

## 30. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| 0 to 30 days | **105,679** | 829,998 |
| 31 to 60 days | **60,335** | 295,064 |
| 61 to 90 days | **60,342** | 106,092 |
| 91 to 365 days | **44,696** | 167,157 |
| Over 1 year | **19,803** | 103,293 |
| | **290,855** | 1,501,604 |

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 due to a company controlled by a director of the Company, a company whose parent has significant influence on the Company, a joint venture and associates of the Group of RMB50,310,000 (2019: RMB28,151,000), RMB11,000 (2019: RMB10,000), RMB63,164,000 (2019: RMB89,376,000) and RMB18,411,000 (2019: RMB139,000), respectively, which are repayable on credit terms similar to those offered by the counterparty.

## 31. OTHER PAYABLES AND ACCRUALS

| | NOTES | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Deposits received from customers | | **28,379** | 18,974 |
| Advances received from customers | 33 | **221,688** | 144,023 |
| Other payables | | **630,224** | 1,209,324 |
| Accruals | | **174,186** | 207,206 |
| Other taxes payable | | **243,985** | 110,265 |
| Due to related parties | 44(b) | **29,543** | 471 |
| | | **1,328,005** | 1,690,263 |

Other payables are non-interest-bearing and have an average term of not more than one year.

## 32. INTEREST-BEARING BANK LOANS

| | EFFECTIVE INTEREST RATE | MATURITY | PRINCIPAL AMOUNT RMB'000 |
|---|---|---|---|
| **AT 31 DECEMBER 2019** | | | |
| **CURRENT** | | | |
| Bank loan — unsecured | 2.75%–3.52% per annum | 2020 | 523,215 |
| Current portion of long term bank loans — unsecured | 4.28% per annum | 2020 | 100,000 |
| | | | 623,215 |
| **NON-CURRENT** | | | |
| Bank loans — unsecured | 4.28% per annum | 2021 | 74,351 |
| | | | 697,566 |

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Analysed into: | | |
| Within one year or on demand | — | 623,215 |
| In the second year | — | 74,351 |
| | — | 697,566 |

For the outstanding balances of interest-bearing bank loans as at 31 December 2019, the portion related to continuing operations was fully repaid during 2020 and the portion related to the discontinued operation was deemed disposed of on 8 May 2020.

As at 31 December 2019, interest-bearing bank loans amounting to RMB523,215,000 and RMB174,351,000 were denominated in US$ and RMB, respectively.

## 33. DEFERRED REVENUE

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Contract liabilities | **1,352,409** | 881,879 |
| Government grants | **100,991** | 49,505 |
| | **1,453,400** | 931,384 |
| Less: Current portion | **(1,306,207)** | (879,440) |
| Non-current portion | **147,193** | 51,944 |

The Group's contract liabilities are included in deferred revenue and other payables and accruals, details of contract liabilities as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 DECEMBER 2020 RMB'000 | 31 DECEMBER 2019 RMB'000 | 1 JANUARY 2019 RMB'000 |
|---|---|---|---|
| *Advances received from customers* | | | |
| Entertainment software | **613,490** | 515,145 | 548,223 |
| Office software | **960,607** | 434,336 | 194,083 |
| Discontinued operation | **—** | 76,421 | 35,887 |
| Total contract liabilities | **1,574,097** | 1,025,902 | 778,193 |
| Portion included in deferred revenue | **(1,352,409)** | (881,879) | (712,120) |
| Portion included in other payables and accruals | **221,688** | 144,023 | 66,073 |

Contract liabilities include advances received from customers for delivery of software products and rendering of services. The increase in contract liabilities for continuing operations in 2020 was mainly due to the increase in deferred revenue and advances received from customers in relation to the provision of office software.

## 34. CONVERTIBLE BONDS

On 29 April 2020, the Company issued five-year convertible bonds in the principal amount of HK$3,100,000,000 (equivalent to RMB2,827,820,000) which bear interest at a rate of 0.625% per annum payable semi-annually (the "2020 Convertible Bonds"). The 2020 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 9 June 2020 to the date falling 10 days prior to the maturity date, at a price of HK$35.7637 per share, subject to adjustments. The Company may redeem under certain circumstances the outstanding 2020 Convertible Bonds at a predetermined amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days' prior notice. On the maturity date, any 2020 Convertible Bonds not converted will be redeemed by the Company at 105.85% of the principal amount together with accrued and unpaid interest thereon. There was no conversion or redemption of the 2020 Convertible Bonds during the year ended 31 December 2020.

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

The 2020 Convertible Bonds have been split into the liability and equity components as follows:

| | RMB'000 |
|---|---|
| Nominal value of the convertible bonds issued during the year | **2,827,820** |
| Equity component | **(468,700)** |
| Direct transaction costs attributable to the liability component | **(60,256)** |
| Liability component at the issuance date | **2,298,864** |
| Interest expenses | **91,058** |
| Interest paid | **(8,399)** |
| Exchange realignment | **(182,120)** |
| Carrying amount as at 31 December 2020 | **2,199,403** |
| Portion included in other payables | **(2,808)** |
| Portion included in liability component of convertible bonds | **2,196,595** |

## 35. DEFERRED TAX

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

**Deferred tax liabilities**

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | GAIN ON DEEMED DISPOSAL OF A SUBSIDIARY RMB'000 | INTEREST RECEIVABLES RMB'000 | OTHERS RMB'000 | TOTAL RMB'000 |
| At 1 January 2020 | 241 | 337 | 29,420 | — | 11,373 | 9,320 | 50,691 |
| Acquisition of a subsidiary (note 40) | — | 7,065 | — | — | — | — | 7,065 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12) | 250 | (685) | 1,525 | 1,008,427 | 6,844 | 5,094 | 1,021,455 |
| Deemed disposal of a subsidiary (note 13) | — | (147) | — | — | — | — | (147) |
| Gross deferred tax liabilities at 31 December 2020 | 491 | 6,570 | 30,945 | 1,008,427 | 18,217 | 14,414 | 1,079,064 |

## 35. DEFERRED TAX (continued)

### Deferred tax assets

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | DEFERRED REVENUE RMB'000 | ACCRUALS RMB'000 | GOVERNMENT GRANTS RMB'000 | PROVISIONS RMB'000 | PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS RMB'000 | TOTAL RMB'000 |
| At 1 January 2020 | **70,956** | **17,852** | **2,254** | **12,206** | **3,770** | **107,038** |
| Acquisition of a subsidiary (note 40) | **—** | **139** | **—** | **—** | **—** | **139** |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 12) | **13,334** | **5,417** | **7,379** | **4,697** | **(1,049)** | **29,778** |
| Gross deferred tax assets at 31 December 2020 | **84,290** | **23,408** | **9,633** | **16,903** | **2,721** | **136,955** |

### Deferred tax liabilities

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | INTEREST RECEIVABLES RMB'000 | OTHERS RMB'000 | TOTAL RMB'000 |
| At 1 January 2019 | 357 | 601 | 5,000 | 4,462 | 9,164 | 19,584 |
| Deferred tax (credited)/charged to the statement of profit or loss during the year (note 12) | (116) | (264) | 24,420 | 6,911 | 156 | 31,107 |
| Gross deferred tax liabilities at 31 December 2019 | 241 | 337 | 29,420 | 11,373 | 9,320 | 50,691 |

## 35. DEFERRED TAX (continued)

### Deferred tax assets

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | DEFERRED REVENUE RMB'000 | ACCRUALS RMB'000 | GOVERNMENT GRANTS RMB'000 | PROVISIONS RMB'000 | PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS RMB'000 | TOTAL RMB'000 |
| At 1 January 2019 | 66,597 | 13,793 | 1,000 | 10,322 | 4,815 | 96,527 |
| Deferred tax credited/(charged) to the statement of profit or loss during the year (note 12) | 4,359 | 4,059 | 1,254 | 1,884 | (1,045) | 10,511 |
| Gross deferred tax assets at 31 December 2019 | 70,956 | 17,852 | 2,254 | 12,206 | 3,770 | 107,038 |

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | 2020 RMB'000 |
|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | **116,981** |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **(1,059,090)** |
| | **(942,109)** |

The Group has tax losses arising in Mainland China of RMB1,434,230,000 as at 31 December 2020 (2019: RMB4,807,224,000) that will expire in one to five years for offsetting against future taxable profits.

## 35. DEFERRED TAX (continued)

The amounts and expiration dates of the tax losses carried forward at 31 December 2020 and 2019 are listed below:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Expiration date | | |
| 31 December 2020 | **—** | 215,095 |
| 31 December 2021 | **120,696** | 502,716 |
| 31 December 2022 | **153,530** | 714,069 |
| 31 December 2023 | **429,179** | 1,944,066 |
| 31 December 2024 | **394,025** | 1,431,278 |
| 31 December 2025 | **336,800** | — |

The Group also has tax losses arising in Hong Kong of RMB55,503,000 (2019: RMB161,691,000) 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:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Tax losses | **1,513,157** | 4,983,004 |
| Deductible temporary differences | **4,479** | — |
| | **1,517,636** | 4,983,004 |

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 with 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 RMB9,979 million at 31 December 2020 (2019: RMB8,596 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 | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Authorised: | | |
| 2,400,000,000 (2019: 2,400,000,000) ordinary shares of US$0.0005 each | **9,260** | 9,260 |
| Issued and fully paid: | | |
| 1,372,728,717 (2019: 1,372,728,717) ordinary shares of US$0.0005 each | **5,316** | 5,316 |

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

| | NOTES | NUMBER OF SHARES IN ISSUE | ISSUED CAPITAL RMB'000 | SHARE PREMIUM ACCOUNT RMB'000 | TREASURY SHARES RMB'000 | TOTAL RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2019 | | 1,365,064,780 | 5,316 | 2,972,969 | (18,089) | 2,960,196 |
| Vesting of awarded shares | 37 | 1,487,800 | — | 22,636 | 3,458 | 26,094 |
| At 31 December 2019 and 1 January 2020 | | 1,366,552,580* | 5,316 | 2,995,605 | (14,631) | 2,986,290 |
| Final 2019 dividend approved and paid | 14 | — | — | (124,861) | — | (124,861) |
| Other distributions | 14 | — | — | (130,033) | — | (130,033) |
| Vesting of awarded shares | 37 | 1,489,960 | — | 21,531 | 3,450 | 24,981 |
| At 31 December 2020 | | 1,368,042,540* | 5,316 | 2,762,242 | (11,181) | 2,756,377 |

* Excluding 4,686,177 (2019: 6,176,137) shares held by the share award scheme trust as at 31 December 2020.

No share options were exercised during the years ended 31 December 2020 and 2019. During the year ended 31 December 2020, 1,489,960 awarded shares (2019: 1,487,800) were vested.

### Share-based compensation

Details of the Company's share-based compensation schemes and the related instruments 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 2011 Share Option Scheme*

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

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

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

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

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

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

## 37. SHARE-BASED COMPENSATION COSTS (continued)

### Share Option Schemes (continued)

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

The following share options were outstanding under the 2011 Share Option Scheme during the year:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | NUMBER OF SHARE OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE HK$ PER SHARE | NUMBER OF SHARE OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE HK$ PER SHARE |
| Outstanding at 1 January and 31 December | **4,600,000** | **20.58** | 4,600,000 | 20.58 |
| Exercisable at 31 December | **3,560,000** | **20.50** | 2,640,000 | 20.48 |

There was no exercise of the options under 2011 Share Option Scheme during the years ended 31 December 2020 and 2019.

The date of grant, exercise prices and exercise periods of the share options outstanding under the 2011 Share Option Scheme are as follows:

| | AT 31 DECEMBER 2019 AND 2020 | DATE OF GRANT OF SHARE OPTIONS | EXERCISE PRICE HK$ PER SHARE |
|---|---|---|---|
| Executive directors | | | |
| Tao Zou | **4,000,000** | **21 April 2017** | **20.25** |
| Yuk Keung Ng | **600,000** | **23 November 2017** | **22.75** |
| | **4,600,000** | | |

The vesting periods of these share options varied from 1 to 5 years. The exercise period of the share options granted under the 2011 Share Option Scheme shall be any time after the end of the vesting period and before the tenth anniversary of the grant date.

The weighted average remaining contractual life for the Company's share options outstanding under the 2011 Share Option Scheme as at 31 December 2020 was 6.38 years (2019: 7.38 years).

The total expense in respect of the 2011 Share Option Scheme for the year ended 31 December 2020 was RMB4,809,000 (2019: RMB8,318,000).

At the end of the reporting period, the Company had 4,600,000 share options outstanding under the 2011 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 4,600,000 additional ordinary shares of the Company and additional share capital of RMB15,000 and share premium of RMB79,646,000 (before issue expenses).

## 37. SHARE-BASED COMPENSATION COSTS (continued)

### Share Option Schemes (continued)

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

At the date of approval of these financial statements, the Company had 4,600,000 share options outstanding under the 2011 Share Option Scheme, which represented approximately 0.34% of the Company's shares in issue as at that date.

(b) *Seasun Holdings Share Option Scheme*

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

The following share options were outstanding under the Seasun Holdings Share Option Scheme during the year:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | NUMBER OF SHARE OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE RMB PER SHARE | NUMBER OF SHARE OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE RMB PER SHARE |
| Outstanding at 1 January | **22,541,500** | **4.77** | 21,709,111 | 4.24 |
| Granted during the year | **—** | **—** | 2,160,000 | 8.68 |
| Forfeited during the year | **(264,000)** | **5.37** | (727,611) | 4.88 |
| Cancelled during the year | **—** | **—** | (600,000) | 1.82 |
| Outstanding at 31 December | **22,277,500** | **4.30** | 22,541,500 | 4.77 |
| Exercisable at 31 December | **9,160,000** | **1.83** | 7,210,400 | 1.65 |

There was no exercise of the options under the Seasun Holdings Share Option Scheme during the years ended 31 December 2020 and 2019.

The share options outstanding as at the end of the reporting period were granted during 2013 to 2019 and the vesting periods of these share options varied from 4 to 5 years. The exercise period of the share options granted under the Seasun Holdings Share Option Scheme shall be any time after the end of the vesting period and before the tenth anniversary of the grant date.

The exercise prices of the share options outstanding as at the end of the reporting period are from RMB1.00 per share to RMB2.44 per share or from US$0.90 per share to US$1.26 per share.

## 37. SHARE-BASED COMPENSATION COSTS (continued)

### Share Option Schemes (continued)

(b) *Seasun Holdings Share Option Scheme (continued)*

The weighted average fair value of the share options granted under the Seasun Holdings Share Option Scheme during the year ended 31 December 2019 was US$0.33 per share.

The fair value of the share options of Seasun Holdings granted during the year 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:

| | **2019** |
|---|---|
| Dividend yield (%) | 9 |
| Expected volatility (%) | 44–55 |
| Risk-free interest rate (%) | 1.46–1.56 |
| Expected forfeiture rate (%) | 6 |
| Weighted average share price (RMB per share) | 7.74 |

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

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

The total expense in respect of the Seasun Holdings Share Option Scheme for the year ended 31 December 2020 was RMB16,209,000 (2019: RMB15,928,000).

### Share Award Schemes

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

On 31 March 2008, the directors of the Company approved and adopted the Share Award Scheme in which selected employees of the Group are entitled to participate. Unless early terminated by the directors of the Company, the Share Award Scheme is valid and effective for a term of five years commencing from 31 March 2008. On 25 November 2010, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2013 to 30 March 2017. On 19 November 2016, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2017 to 30 March 2022. The directors will not grant any awarded shares which would result in the total number of shares (but not counting those which have lapsed or have been forfeited), in aggregate, over 10% of the issued shares 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 year:

| | 2020 NUMBER OF AWARDED SHARES | 2019 NUMBER OF AWARDED SHARES |
|---|---|---|
| At 1 January | **3,462,200** | 4,372,900 |
| Granted during the year | **810,000** | 600,000 |
| Forfeited during the year | **(46,960)** | (22,900) |
| Vested during the year | **(1,489,960)** | (1,487,800) |
| At 31 December | **2,735,280** | 3,462,200 |

The date of grant and movements of the awarded shares outstanding under the Share Award Scheme adopted by the Company are as follows:

2020

| | NUMBER OF AWARDED SHARES | | | |
|---|---|---|---|---|
| | AT 1 JANUARY | VESTED DURING THE YEAR | AT 31 DECEMBER | GRANT DATE |
| Executive directors | | | | |
| Yuk Keung Ng | **360,000** | **(120,000)** | **240,000** | **23 November 2017** |
| Tao Zou | **1,200,000** | **(600,000)** | **600,000** | **21 April 2017** |
| | **1,560,000** | **(720,000)** | **840,000** | |

## 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 | GRANTED DURING THE YEAR | FORFEITED DURING THE YEAR | VESTED DURING THE YEAR | AT 31 DECEMBER | GRANT DATE |
| Other employees | | | | | | |
| | 500 | — | — | (500) | — | 19 March 2014 |
| | 12,000 | — | — | (12,000) | — | 31 March 2015 |
| | 10,800 | — | (1,200) | (5,400) | 4,200 | 19 February 2016 |
| | 810,000 | — | — | (270,000) | 540,000 | 1 January 2017 |
| | 18,900 | — | — | (6,300) | 12,600 | 22 April 2017 |
| | 240,000 | — | — | (80,000) | 160,000 | 25 May 2017 |
| | 60,000 | — | (40,000) | (20,000) | — | 24 July 2017 |
| | 30,000 | — | — | (10,000) | 20,000 | 1 August 2017 |
| | 360,000 | — | — | (90,000) | 270,000 | 16 April 2018 |
| | 360,000 | — | — | (120,000) | 240,000 | 18 September 2019 |
| | — | 32,000 | (5,760) | (5,760) | 20,480 | 23 May 2020 |
| | — | 750,000 | — | (150,000) | 600,000 | 30 August 2020 |
| | — | 28,000 | — | — | 28,000 | 24 April 2020 |
| | 1,902,200 | 810,000 | (46,960) | (769,960) | 1,895,280 | |
| | 3,462,200 | 810,000 | (46,960) | (1,489,960) | 2,735,280 | |

## 37. SHARE-BASED COMPENSATION COSTS (continued)

### Share Award Schemes (continued)

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

2019

| | NUMBER OF AWARDED SHARES AT 1 JANUARY | VESTED DURING THE YEAR | AT 31 DECEMBER | GRANT DATE |
|---|---|---|---|---|
| Executive directors | | | | |
| Yuk Keung Ng | 480,000 | (120,000) | 360,000 | 23 November 2017 |
| Tao Zou | 1,800,000 | (600,000) | 1,200,000 | 21 April 2017 |
| | 2,280,000 | (720,000) | 1,560,000 | |

| | NUMBER OF AWARDED SHARES AT 1 JANUARY | GRANTED DURING THE YEAR | FORFEITED DURING THE YEAR | VESTED DURING THE YEAR | AT 31 DECEMBER | GRANT DATE |
|---|---|---|---|---|---|---|
| Other employees | | | | | | |
| | 12,500 | — | — | (12,000) | 500 | 19 March 2014 |
| | 6,000 | — | — | (6,000) | — | 29 May 2014 |
| | 30,000 | — | (15,000) | (15,000) | — | 8 January 2015 |
| | 25,200 | — | (600) | (12,600) | 12,000 | 31 March 2015 |
| | 16,200 | — | — | (5,400) | 10,800 | 19 February 2016 |
| | 1,080,000 | — | — | (270,000) | 810,000 | 1 January 2017 |
| | 28,000 | — | (2,800) | (6,300) | 18,900 | 22 April 2017 |
| | 320,000 | — | — | (80,000) | 240,000 | 25 May 2017 |
| | 80,000 | — | — | (20,000) | 60,000 | 24 July 2017 |
| | 40,000 | — | — | (10,000) | 30,000 | 1 August 2017 |
| | 455,000 | — | (4,500) | (90,500) | 360,000 | 16 April 2018 |
| | — | 600,000 | — | (240,000) | 360,000 | 18 September 2019 |
| | 2,092,900 | 600,000 | (22,900) | (767,800) | 1,902,200 | |
| | 4,372,900 | 600,000 | (22,900) | (1,487,800) | 3,462,200 | |

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 2020 was RMB23.89 per share (2019: RMB16.63 per share).

The total expense recognised in respect of the Share Award Scheme adopted by the Company for the year ended 31 December 2020 was RMB17,274,000 (2019: RMB24,214,000 (restated)).

## 37. SHARE-BASED COMPENSATION COSTS (continued)

### Share Award Schemes (continued)

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

As at 31 December 2020, 1,950,897 (2019: 2,713,937) forfeited or unawarded shares were held by the share award scheme trust and would be granted in future.

At the date of approval of these financial statements, the Company had 2,461,080 awarded shares outstanding under the Share Award Scheme, which represented approximately 0.18% of the Company's shares in issue as at that date.

(b) *Seasun Holdings Share Award Scheme adopted by Seasun Holdings*

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

The following awarded shares were outstanding under the Seasun Holdings Share Award Scheme during the year:

| | 2020 NUMBER OF AWARDED SHARES | 2019 NUMBER OF AWARDED SHARES |
|---|---|---|
| Outstanding at 1 January | **43,162,049** | 43,044,438 |
| Granted during the year | **—** | 1,200,000 |
| Forfeited during the year | **(25,250)** | (1,082,389) |
| Outstanding at 31 December | **43,136,799** | 43,162,049 |

The date of grant and movements of the awarded shares outstanding under the Seasun Holdings Share Award Scheme adopted by Seasun Holdings are as follows:

2020

| | NUMBER OF AWARDED SHARES AT 1 JANUARY | NUMBER OF AWARDED SHARES AT 31 DECEMBER | GRANT DATE |
|---|---|---|---|
| Executive director | | | |
| Tao Zou | **18,123,462** | **18,123,462** | **22 April 2017** |

## 37. SHARE-BASED COMPENSATION COSTS (continued)

### Share Award Schemes (continued)

(b) *Seasun Holdings Share Award Scheme adopted by Seasun Holdings (continued)*

| | NUMBER OF AWARDED SHARES | | | |
|---|---|---|---|---|
| | AT 1 JANUARY | FORFEITED DURING THE YEAR | AT 31 DECEMBER | GRANT DATE |
| Other employees | | | | |
| | **21,103,751** | **(15,250)** | **21,088,501** | **22 April 2017** |
| | **1,400,000** | **—** | **1,400,000** | **18 January 2018** |
| | **574,836** | **—** | **574,836** | **22 March 2018** |
| | **1,060,000** | **(10,000)** | **1,050,000** | **1 June 2018** |
| | **900,000** | **—** | **900,000** | **26 March 2019** |
| | **25,038,587** | **(25,250)** | **25,013,337** | |
| | **43,162,049** | **(25,250)** | **43,136,799** | |

2019

| | NUMBER OF AWARDED SHARES | | |
|---|---|---|---|
| | AT 1 JANUARY | AT 31 DECEMBER | GRANT DATE |
| Executive director | | | |
| Tao Zou | 18,123,462 | 18,123,462 | 22 April 2017 |

| | NUMBER OF AWARDED SHARES | | | | |
|---|---|---|---|---|---|
| | AT 1 JANUARY | GRANTED DURING THE YEAR | FORFEITED DURING THE YEAR | AT 31 DECEMBER | GRANT DATE |
| Other employees | | | | | |
| | 21,326,140 | — | (222,389) | 21,103,751 | 22 April 2017 |
| | 1,900,000 | — | (500,000) | 1,400,000 | 18 January 2018 |
| | 574,836 | — | — | 574,836 | 22 March 2018 |
| | 1,120,000 | — | (60,000) | 1,060,000 | 1 June 2018 |
| | — | 1,200,000 | (300,000) | 900,000 | 26 March 2019 |
| | 24,920,976 | 1,200,000 | (1,082,389) | 25,038,587 | |
| | 43,044,438 | 1,200,000 | (1,082,389) | 43,162,049 | |

## 37. SHARE-BASED COMPENSATION COSTS (continued)

### Share Award Schemes (continued)

*(b) Seasun Holdings Share Award Scheme adopted by Seasun Holdings (continued)*

The fair value of the awarded shares was estimated by an external valuer on the grant date, with reference to the fair values of Seasun Holdings' ordinary shares using a discounted cash flow method. The weighted average fair value of the awarded shares granted during the year ended 31 December 2019 was RMB7.72 per share.

The total expense in respect of the Seasun Holdings Share Award Scheme for the year ended 31 December 2020 was RMB83,046,000 (2019: RMB82,401,000).

### Other Share Award Scheme adopted by Beijing Kingsoft Office

On 3 December 2012, the directors of the Company and Kingsoft Office Software Holdings Limited ("KOS Holdings") approved and adopted the share award scheme of KOS Holdings (the "KOS Share Award Scheme"), in which selected employees of KOS Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of KOS Holdings, the KOS Share Award Scheme shall be valid and effective for a term of ten years from 3 December 2012. In November 2015, pursuant to the approval of the directors and the shareholders of KOS Holdings and a series of agreements, all the outstanding awarded shares under the KOS Share Award Scheme were replaced by the restricted shares of Beijing Kingsoft Office held through certain limited partnerships. The limited partnerships were set up for the purpose of holding the shares of Beijing Kingsoft Office, which is a similar arrangement for the benefit of employees as the KOS Share Award Scheme.

The following awarded shares were outstanding under Other Share Award Scheme adopted by Beijing Kingsoft Office during the year:

| | 2020 NUMBER OF AWARDED SHARES | 2019 NUMBER OF AWARDED SHARES |
|---|---|---|
| Outstanding as at 1 January | **8,441,832** | 24,176,822 |
| Granted during the year | **183,000** | — |
| Vested during the year | **(3,011,001)** | (15,734,990) |
| Forfeited during the year | **(183,000)** | — |
| Outstanding as at 31 December | **5,430,831** | 8,441,832 |

The fair value of the awarded shares was determined based on the market value of Beijing Kingsoft Office's shares at the grant date. The weighted average fair value of the awarded shares granted during the year ended 31 December 2020 was RMB411 per share.

The total expense recognised in respect of Other Share Award Scheme adopted by Beijing Kingsoft Office for the year ended 31 December 2020 was RMB58,034,000 (2019: RMB17,851,000).

## 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.

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 interests in subsidiaries 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 "other capital reserve" in the consolidated statement of changes in equity of the financial statements.

On 18 November 2019, Beijing Kingsoft Office, a subsidiary of the Company, completed its initial public offering ("IPO") on the science and technology innovation board of the Shanghai Stock Exchange ("SSE STAR Market"), with 101,000,000 ordinary shares issued to the public shareholders. Upon completion, the equity interest of Beijing Kingsoft Office held by the Group decreased from 72% to 55%. The total proceeds net of direct transaction cost of RMB4,474,805,000 was recorded in other capital reserve and non-controlling interests amounting to RMB2,478,570,000 and RMB1,996,235,000, respectively.

## 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:

| | **2020** | **2019** |
|---|---|---|
| Percentage of equity interest held by non-controlling interests: | | |
| Beijing Kingsoft Office | **47%** | 46% |
| Seasun Holdings | **28%** | 28% |

| | **2020**<br>**RMB'000** | **2019**<br>**RMB'000** |
|---|---|---|
| Profit for the year allocated to non-controlling interests: | | |
| Beijing Kingsoft Office | **394,276** | 123,700 |
| Seasun Holdings | **111,636** | 69,729 |
| Dividends paid to non-controlling interests of: | | |
| Beijing Kingsoft Office | **62,997** | — |
| Seasun Holdings | **163,558** | 13,996 |
| Accumulated balances of non-controlling interests at the reporting date: | | |
| Beijing Kingsoft Office | **3,203,474** | 2,824,257 |
| Seasun Holdings | **286,302** | 310,287 |

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

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

| | BEIJING KINGSOFT OFFICE RMB'000 | SEASUN HOLDINGS RMB'000 |
|---|---|---|
| 2020 | | |
| Revenue | **2,258,604** | **3,266,333** |
| Total expenses | **(1,408,258)** | **(2,872,975)** |
| Profit for the year | **850,346** | **393,358** |
| Total comprehensive income for the year | **843,147** | **367,005** |
| Current assets | **8,216,797** | **2,653,714** |
| Non-current assets | **518,376** | **441,139** |
| Current liabilities | **(1,643,239)** | **(1,979,591)** |
| Non-current liabilities | **(193,530)** | **(70,043)** |
| Net assets | **6,898,404** | **1,045,219** |
| Net cash flows from operating activities | **1,864,756** | **1,103,367** |
| Net cash flows used in investing activities | **(3,482,140)** | **(764,507)** |
| Net cash flows used in financing activities | **(154,492)** | **(1,000,678)** |
| Net decrease in cash and cash equivalents | **(1,771,876)** | **(661,818)** |

| | BEIJING KINGSOFT OFFICE RMB'000 | SEASUN HOLDINGS RMB'000 |
|---|---|---|
| 2019 | | |
| Revenue | 1,578,242 | 2,749,955 |
| Total expenses | (1,189,196) | (2,504,259) |
| Profit for the year | 389,046 | 245,696 |
| Total comprehensive income for the year | 391,525 | 248,649 |
| Current assets | 6,694,568 | 2,964,271 |
| Non-current assets | 183,967 | 480,102 |
| Current liabilities | (742,219) | (2,276,554) |
| Non-current liabilities | (42,808) | (41,948) |
| Net assets | 6,093,508 | 1,125,871 |
| Net cash flows from operating activities | 610,904 | 305,957 |
| Net cash flows (used in)/from investing activities | (2,710,499) | 70,019 |
| Net cash flows from/(used in) financing activities | 4,444,831 | (22,832) |
| Net increase in cash and cash equivalents | 2,345,236 | 353,144 |

## 40. BUSINESS COMBINATION

As at 31 December 2019, the Group held 30% equity interests in Beijing Shuke Wangwei Technology Co., Ltd. ("Shuke"), which was accounted for as an investment in an associate. On 14 September 2020, the Group acquired additional 38.86% equity interests in Shuke from two third parties for a total cash consideration of RMB153,063,000. After the acquisition, the Group accounted for the investment in 68.86% equity interests in Shuke as an investment in a subsidiary. The acquisitions were made as part of the Group's strategy to expand its product portfolio in the application software market.

The Group has elected to measure the non-controlling interests in Shuke at the non-controlling interests' proportionate share of Shuke's identifiable net assets.

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

| | NOTES | FAIR VALUE RECOGNISED ON ACQUISITION RMB'000 |
|---|---|---|
| Intangible assets | 20 | 47,901 |
| Property, plant and equipment | 16 | 1,029 |
| Right-of-use assets | 18 | 9,347 |
| Deferred tax assets | 35 | 139 |
| Other non-current assets | | 1,230 |
| Cash and cash equivalents | | 2,148 |
| Financial assets at fair value through profit or loss | | 22,846 |
| Inventories | | 78 |
| Trade receivables | | 23,069 |
| Prepayments and other receivables | | 18,624 |
| Trade payables | | (2,547) |
| Other payables and accruals | | (9,483) |
| Deferred revenue | | (1,288) |
| Deferred tax liabilities | 35 | (7,065) |
| Lease liabilities | 18 | (9,347) |
| Total identifiable net assets at fair value | | 96,681 |
| Non-controlling interests | | (30,108) |
| Goodwill on acquisition | 19 | 185,564 |
| | | 252,137 |
| Satisfied by: | | |
| Cash | | 153,063 |
| Fair value of equity interests previously held as investment in an associate* | | 96,014 |
| Fair value of financial assets at fair value through profit or loss** | | 3,060 |
| | | 252,137 |

* As a result of the remeasurement of the previously held equity interests in Shuke from its carrying amount immediately before the acquisition of RMB14,673,000 to its fair value of RMB96,014,000, a gain of RMB81,341,000 was recognised in the consolidated statement of profit or loss for the year ended 31 December 2020.

** Being the warrant and redemption right held by the Group prior to the acquisition.

## 40. BUSINESS COMBINATION (continued)

The fair values of the trade receivables and prepayments and other receivables as at the date of acquisition amounted to RMB23,069,000 and RMB18,624,000, respectively. The gross contractual amounts of trade receivables and prepayments and other receivables were RMB23,069,000 and RMB18,624,000, respectively.

No material transaction costs were incurred in this acquisition.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted to reflect the favourable terms of the leases relative to market terms.

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

| | **RMB'000** |
|---|---|
| Cash consideration | (153,063) |
| Cash and cash equivalents acquired | 2,148 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (150,915) |

Since the acquisition, Shuke contributed RMB81,632,000 to the Group's revenue and RMB29,513,000 to the consolidated profit for the year ended 31 December 2020.

Had the acquisition taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year ended 31 December 2020 would have been RMB5,708,400,000 and RMB10,272,392,000, respectively.

## 41. DEEMED DISPOSAL OF SUBSIDIARIES

### Deemed disposal of Kingsoft Cloud

As disclosed in note 13 to the financial statements, Kingsoft Cloud was deemed disposed of by the Group and has ceased to be a subsidiary of the Company since 8 May 2020 (New York time).

### Deemed disposal of Wuhan Xiteng Technology Co., Ltd ("Xiteng")

During the year ended 31 December 2019, the Group, Xiteng and a company whose parent has significant influence on the Company entered into a capital injection agreement. Pursuant to the agreement, the company whose parent has significant influence on the Company made a capital injection of RMB70,000,000 to obtain 50% equity interests in Xiteng and the Group lost control over Xiteng, which was changed from a subsidiary to a joint venture of the Company. Xiteng is primarily engaged in the research and development of games.

| | NOTES | 2019<br>RMB'000 |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment | 16 | 436 |
| Other intangible assets | 20 | 2,035 |
| Prepayments, other receivables and other assets | | 12,382 |
| Cash and bank balances | | 134 |
| Other payables and accruals | | (8,192) |
| Gain on deemed disposal of a subsidiary | 6 | 61,706 |
| Investment in a joint venture | | 68,501 |

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

| | 2019<br>RMB'000 |
|---|---|
| Cash consideration | — |
| Cash and cash equivalents disposed of | (134) |
| Net cash outflows from the deemed disposal of a subsidiary | (134) |

## 42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB475,474,000 (2019: RMB121,462,000) and RMB475,474,000 (2019: RMB112,304,000), respectively, in respect of lease arrangements for buildings and equipment.

### (b) Changes in liabilities arising from financing activities

*2020*

| | BANK LOANS RMB'000 | LEASE LIABILITIES RMB'000 | CONVERTIBLE BONDS RMB'000 | REDEEMABLE CONVERTIBLE PREFERRED SHARES RMB'000 |
|---|---|---|---|---|
| At 1 January 2020 | **697,566** | **116,049** | **—** | **3,583,019** |
| Changes from financing cash flows | **(538,093)** | **(70,973)** | **2,759,165** | **138,900** |
| Decrease in receivable | **—** | **—** | **—** | **(138,900)** |
| Decrease/(increase) in other payables | **2,339** | **—** | **(2,808)** | **—** |
| Equity component of convertible bonds | **—** | **—** | **(468,700)** | **—** |
| New leases | **—** | **475,474** | **—** | **—** |
| Foreign exchange movement | **7,448** | **(235)** | **(182,120)** | **32,997** |
| Interest expense | **5,091** | **17,389** | **91,058** | **169,700** |
| COVID-19-related rent concessions from lessors | **—** | **(118)** | **—** | **—** |
| Increase arising from acquisition of a subsidiary | **—** | **9,347** | **—** | **—** |
| Decrease arising from termination and modification | **—** | **(44,646)** | **—** | **—** |
| Decrease arising from deemed disposal of a subsidiary | **(174,351)** | **(279,770)** | **—** | **(3,785,716)** |
| At 31 December 2020 | **—** | **222,517** | **2,196,595** | **—** |

## 42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

### (b) Changes in liabilities arising from financing activities (continued)

*2019*

| | BANK LOANS RMB'000 | LEASE LIABILITIES RMB'000 | CONVERTIBLE BONDS RMB'000 | REDEEMABLE CONVERTIBLE PREFERRED SHARES RMB'000 |
|---|---|---|---|---|
| At 1 January 2019 | 1,284,617 | 35,919 | 40,171 | 2,741,771 |
| Changes from financing cash flows | (619,876) | (23,525) | (40,769) | 349,395 |
| Increase in receivable | — | — | — | 125,370 |
| Increase in other payables | 17,921 | — | 247 | — |
| Equity component of redeemable convertible preferred shares | — | — | — | (34,325) |
| Derivative financial instruments | — | — | — | (15,645) |
| New leases | — | 112,304 | — | — |
| Foreign exchange movement | (3,577) | 21 | 78 | 48,181 |
| Interest expense | 18,481 | 5,655 | 273 | 368,272 |
| Decrease arising from termination and modification | — | (14,325) | — | — |
| At 31 December 2019 | 697,566 | 116,049 | — | 3,583,019 |

### (c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Within operating activities | **18,734** | 32,058 |
| Within investing activities | **9,084** | — |
| Within financing activities | **70,973** | 23,525 |
| | **98,791** | 55,583 |

## 43. COMMITMENTS

**(a)** The Group had the following capital commitments at the end of the reporting period:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Development of land and buildings | **190,892** | 268,304 |
| Purchase of property, plant and equipment | **559** | 6,545 |
| | **191,451** | 274,849 |

As at 31 December 2020, the Group's capital commitments for the development of a piece of land in Zhuhai, leasehold improvements and construction of an exhibition hall were RMB188,318,000, RMB2,574,000 and nil, respectively (31 December 2019: RMB227,335,000, RMB19,323,000 and RMB21,646,000, respectively).

**(b)** The Group had no lease contracts that have not yet commenced as at 31 December 2020.

## 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 | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Provision of services to a company controlled by a director of the Company* | (i) | **192,431** | 611,465 |
| Sale of products to a company controlled by a director of the Company* | | **—** | 120 |
| Purchases of products from a company controlled by a director of the Company | (ii) | **2,686** | 6,359 |
| Purchase of services from a company controlled by a director of the Company | (iii) | **27,600** | 19,141 |
| Licence fee from a company whose parent has significant influence on the Company | (iv) | **407,634** | 469,496 |
| Licence fee to a joint venture | (v) | **148,766** | 176,293 |
| Provision of services to an associate | (vi) | **15,636** | 14,629 |
| Licence fee from an associate | (vii) | **9,945** | 9,612 |
| Rental expenses to a company controlled by a director of the Company* | (viii) | **58,428** | 9,345 |
| Purchases of cloud services from an associate | (ix) | **81,697** | — |
| Interest income from loans to related parties | 44(b) | **1,428** | 1,440 |

* The amounts for the year ended 31 December 2020 included the transactions from the discontinued operation prior to the deemed disposal on 8 May 2020.

(i) In prior years, the Group entered into framework agreements with a company controlled by a director of the Company. Pursuant to the framework agreements, the Group provides various services, mainly including cloud storage services and promotion services, to this related company and its affiliates at the prevailing fair market price in the same industry for similar transactions.

(ii) In prior years, the Group entered into framework agreements with a company controlled by a director of the Company. Pursuant to the framework agreements, the Group purchased hardware products, including but not limited to smart phones and phone accessories at market price from affiliates of this related company.

(iii) In prior years, the Group entered into framework agreements with a company controlled by a director of the Company. Pursuant to the framework agreements, affiliates of this related company provide various forms of promotion services to the Group through the internet platforms. The price is based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting similar transactions.

(iv) During 2015 to 2019, the Group entered into various licensing agreements with a company whose parent has significant influence on the Company to operate the Group's online games with this related company at the prevailing fair market price.

(v) In 2015 and 2016, the Group entered into the game joint development and operation agreement with a joint venture to jointly develop and operate the Group's online games at the prevailing fair market price.

(vi) In 2017, the Group entered into agreements with an associate to provide technology support and leasing services to it at the prevailing fair market price.

## 44. RELATED PARTY TRANSACTIONS (continued)

### (a) (continued)

(vii) In 2017, the Group entered into an exclusive licensing agreement with an associate to grant the exclusive right to use certain office software.

(viii) During 2018 to 2019, the Group entered into lease agreements with a company controlled by a director of the Company at the prevailing market rent of similar properties and business nature in nearby locations. As at 31 December 2020, the carrying amounts of right-of-use assets and lease liabilities in respect with the lease agreements were RMB185,082,000 (2019: RMB88,470,000) and RMB190,475,000 (2019: RMB87,254,000), respectively.

(ix) During 2014 to 2020, the continuing operations of the Group entered into cloud service agreements with Kingsoft Cloud Group. Pursuant to the agreements, Kingsoft Cloud Group provides cloud services to the continuing operations at market price. After 8 May 2020, Kingsoft Cloud has become an associate of the Group and the transactions with Kingsoft Cloud Group are disclosed as related party transactions thereafter.

(x) In 2014 and 2016, the Group entered into framework agreements with a company controlled by a director of the Company. Pursuant to the framework agreements, the Group jointly operates the Group's online games operations with an affiliate of this related company by ways of exclusive and non-exclusive licensing arrangements. The Company received licensing fee from the affiliate of the related company under the exclusive licensing arrangements. Besides, the affiliate of this related company also acted as a distribution platform to collect payments from players on behalf of the Group and charged the Group with commission under the non-exclusive licensing arrangements. The total amount remitted to the Group for the year amounted to RMB7,851,000 (2019: RMB13,988,000), including the licensing fee, and the payment collected on behalf of the Group after deduction of commission. The licensing fee and commission were charged at the prevailing market price.

(xi) In 2019, an associate entered into a capital injection and share transfer agreement with a joint venture of the Group, and its existing shareholders, pursuant to which, the associate made a capital injection of RMB10,000,000 to the joint venture to obtain 9.09% equity interests in the joint venture and the Group transferred 4.54% equity interests to the associate for a consideration of RMB5,000,000. The share transfer transaction was completed in November 2019 and the Group recognised a deemed disposal gain of RMB2,018,000 in the statement of profit or loss.

## 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 | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| Due from related parties: | | | |
| Loans to non-controlling shareholders of Beijing Kingsoft Office | (i) | **917** | 34,148 |
| Loans to associates | (ii) | **15,650** | 11,826 |
| Loans to joint ventures | (iii) | **8,124** | 7,200 |
| Other receivables from a joint venture | | **815** | 837 |
| Other receivables from associates | | **39,154** | — |
| Other receivables from a company controlled by a director of the Company | | **474** | 688 |
| | 28 | **65,134** | 54,699 |
| Trade receivables from associates | 27 | **42,034** | 6,417 |
| Trade receivables from a company whose parent has significant influence on of the Company | 27 | **174,804** | 172,319 |
| Trade receivables from a company controlled by a director of Company | 27 | **24,837** | 84,170 |
| Due to related parties: | | | |
| Advance from a company controlled by a member of the key management personnel of the Company | | **301** | 301 |
| Advance from an associate | | **34** | 34 |
| Advance from a non-controlling shareholder of Seasun Holdings | | **—** | 136 |
| Payables to an associate | | **29,208** | — |
| | 31 | **29,543** | 471 |
| Trade payables to a company controlled by a director of the Company | 30 | **50,310** | 28,151 |
| Trade payables to a company whose parent has significant influence on the Company | 30 | **11** | 10 |
| Trade payables to a joint venture | 30 | **63,164** | 89,376 |
| Trade payables to associates | 30 | **18,411** | 139 |
| Lease liabilities to a company controlled by a director of the Company | (a)(viii) | **190,475** | 87,254 |

(i) In 2015 and 2016, the Group entered into loan agreements with certain non-controlling shareholders of Beijing Kingsoft Office, pursuant to which, the Group has provided loans of RMB3,350,000 and RMB26,080,000, respectively, with an interest rate of 4.75% per annum to the non-controlling shareholders for the subscription of shares of Beijing Kingsoft Office. The loans were secured by the shares of Beijing Kingsoft Office 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 balances included accumulated unpaid principal and interests receivable of RMB901,000 (2019: RMB28,984,000) and RMB16,000 (2019: RMB5,164,000), respectively, as at 31 December 2020. The interest income from non-controlling shareholders of Beijing Kingsoft Office during the year was approximately RMB795,000 (2019: RMB1,299,000).

## 44. RELATED PARTY TRANSACTIONS (continued)

### (b) (continued)

(ii) In 2019, the Group entered into two loan agreements with an associate, pursuant to which, the Group provided loans of US$600,000 (equivalent to RMB4,192,000) and US$350,000 (equivalent to RMB2,446,000) with an interest rate of 3.32% per annum. In 2020, the Group entered into three loan agreements with the associate, pursuant to which, the Group provided loans of US$450,000 (equivalent to RMB3,153,000), US$450,000 (equivalent to RMB3,127,000) and US$474,500 (equivalent to RMB3,343,000) with an interest rate of 3.32% per annum. The outstanding balances from the associate were fully impaired in 2020.

In 2019 and 2020, the Group entered into two loan agreements with an associate, pursuant to which, the Group provided loans of RMB5,000,000 and RMB10,000,000 to this associate, respectively, with interest rates of 4.35% and 4.35% per annum, respectively. The outstanding balances included accumulated unpaid principal and interests receivable of RMB15,000,000 (2019: RMB5,000,000) and RMB650,000 (2019: RMB141,000) as at 31 December 2020. The interest income from the associate during the year was approximately RMB509,000 (2019: RMB141,000).

(iii) In 2019, the Group entered into two loan agreements with a joint venture, pursuant to which, the Group shall provide loans to this joint venture up to a total amount of RMB8,400,000 with interest rates ranging from 4.35% to 4.90% per annum. As at 31 December 2020 and 2019, the joint venture withdrew RMB7,200,000, which was fully impaired in 2020.

In 2020, the Group entered into a loan agreement with another joint venture, pursuant to which, the Group provided a loan of RMB8,000,000 to this joint venture, with interest rates of 3.85% per annum. The outstanding balances included accumulated unpaid principal and interests receivable of RMB8,000,000 and RMB124,000 as at 31 December 2020. The interest income from the joint venture during the year was approximately RMB124,000 (2019: nil).

### (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:

| | 2020<br>RMB'000 | 2019<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **1,185** | 1,965 |
| Pension plan contributions | **15** | 130 |
| Share-based compensation costs | **42,819** | 48,954 |
| Total compensation paid to key management personnel | **44,019** | 51,049 |

(d) Since 2016, the Group has guaranteed the non-revolving banking facilities granted to Kingsoft Cloud Group amounting to RMB400,000,000, of which RMB335,137,000 was utilised by Kingsoft Cloud Group in prior years. After 8 May 2020, Kingsoft Cloud became an associate of the Group and the guarantee is disclosed as a related party transaction thereafter. As at 31 December 2020, the facilities not yet drawn by Kingsoft Cloud Group and the outstanding bank loans of Kingsoft Cloud under the facilities were RMB64,863,000 and RMB74,351,000, respectively.

## 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:

**2020**

| FINANCIAL ASSETS | MANDATORILY DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS RMB'000 | EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPRE-HENSIVE INCOME RMB'000 | FINANCIAL ASSETS AT AMORTISED COST RMB'000 | TOTAL RMB'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 4,109,506 | — | — | 4,109,506 |
| Equity investments at fair value through other comprehensive income | — | 10,725 | — | 10,725 |
| Financial assets included in other non-current assets | 4,584 | — | — | 4,584 |
| Trade receivables | — | — | 772,485 | 772,485 |
| Financial assets included in prepayments, other receivables and other assets | — | — | 836,515 | 836,515 |
| Restricted cash | — | — | 13,079 | 13,079 |
| Cash and bank deposits | — | — | 14,049,069 | 14,049,069 |
| Total | 4,114,090 | 10,725 | 15,671,148 | 19,795,963 |

| FINANCIAL LIABILITIES | HELD FOR TRADING RMB'000 | FINANCIAL LIABILITIES AT AMORTISED COST RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| Trade payables | — | 290,855 | 290,855 |
| Financial liabilities included in other payables and accruals | — | 862,332 | 862,332 |
| Lease liabilities | — | 222,517 | 222,517 |
| Liability component of convertible bonds | — | 2,196,595 | 2,196,595 |
| Total | — | 3,572,299 | 3,572,299 |

## 45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

**2019**

| FINANCIAL ASSETS | MANDATORILY DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS RMB'000 | EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPRE-HENSIVE INCOME RMB'000 | FINANCIAL ASSETS AT AMORTISED COST RMB'000 | TOTAL RMB'000 |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 139,234 | — | — | 139,234 |
| Equity investments at fair value through other comprehensive income | — | 756,992 | — | 756,992 |
| Financial assets included in other non-current assets | — | — | 4,288 | 4,288 |
| Trade receivables | — | — | 2,059,031 | 2,059,031 |
| Financial assets included in prepayments, other receivables and other assets | — | — | 1,229,282 | 1,229,282 |
| Cash and bank deposits | — | — | 13,792,117 | 13,792,117 |
| Total | 139,234 | 756,992 | 17,084,718 | 17,980,944 |

| FINANCIAL LIABILITIES | HELD FOR TRADING RMB'000 | FINANCIAL LIABILITIES AT AMORTISED COST RMB'000 | TOTAL RMB'000 |
|---|---|---|---|
| Trade payables | — | 1,501,604 | 1,501,604 |
| Financial liabilities included in other payables and accruals | — | 1,435,975 | 1,435,975 |
| Interest-bearing bank loans | — | 697,566 | 697,566 |
| Lease liabilities | — | 116,049 | 116,049 |
| Derivative financial instruments | 128,236 | — | 128,236 |
| Liability component of redeemable convertible preferred shares | — | 3,583,019 | 3,583,019 |
| Total | 128,236 | 7,334,213 | 7,462,449 |

## 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 | |
|---|---|---|---|---|
| | 2020<br>RMB'000 | 2019<br>RMB'000 | 2020<br>RMB'000 | 2019<br>RMB'000 |
| **FINANCIAL ASSETS** | | | | |
| Loan receivables | **4,584** | 4,288 | **3,988** | 4,288 |
| Equity investments designated at fair value through other comprehensive income | **10,725** | 756,992 | **10,725** | 756,992 |
| Financial assets at fair value through profit or loss | **4,109,506** | 139,234 | **4,109,506** | 139,234 |
| | **4,124,815** | 900,514 | **4,124,219** | 900,514 |
| **FINANCIAL LIABILITIES** | | | | |
| Derivative financial instruments | **—** | 128,236 | **—** | 128,236 |
| Liability component of convertible bonds | **2,196,595** | — | **2,461,287** | — |
| Liability component of redeemable convertible preferred shares | **—** | 3,583,019 | **—** | 3,583,019 |
| Interest-bearing bank loans | **—** | 697,566 | **—** | 697,566 |
| | **2,196,595** | 4,408,821 | **2,461,287** | 4,408,821 |

Management has assessed that the fair values of cash and bank deposits, restricted cash, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer ("CFO") and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the CFO. 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 value of loans receivable has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bonds is 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.

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

The fair value of an unlisted equity investment designated at fair value through other comprehensive income has been estimated using a market-based valuation technique and equity valuation allocation model. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to revenue ("EV/Revenue") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investment to measure the fair value. The directors believe that the estimated fair value resulting from the valuation technique, which is recorded in the consolidated statement of financial position, and the related changes in fair value which are recorded in other comprehensive income, are reasonable, and that it was the most appropriate value at the end of the reporting period.

The fair values of financial assets at fair value through profit or loss have been estimated as follows: (i) for wealth management products, the fair values have been estimated by using discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks; (ii) for subscription options, the fair values have been estimated by using the Black Scholes Model. The valuation requires the directors to make estimates about the life of option, dividend yield and expected volatility; and (iii) for other financial assets at fair value through profit or loss, the fair values have been estimated by reference to market approach or discount cashflow approach, and using equity valuation allocation model. The valuation requires the directors to make estimates about the underlying equity value, expected volatility and risk-free rate. The estimation of the underlying equity value is based on estimation of price multiple or expected future cash flows. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from these valuation techniques, 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 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 profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

### 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 2020

| | 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 |
| Equity investments designated at fair value through other comprehensive income | — | — | 10,725 | 10,725 |
| Financial assets at fair value through profit or loss | — | — | 4,109,506 | 4,109,506 |
| | — | — | 4,120,231 | 4,120,231 |

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

**Fair value hierarchy (continued)**

*Assets measured at fair value: (continued)*

As at 31 December 2019

| | 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 |
| Equity investments designated at fair value through other comprehensive income | 749,705 | — | 7,287 | 756,992 |
| Financial assets at fair value through profit or loss | — | — | 139,234 | 139,234 |
| | 749,705 | — | 146,521 | 896,226 |

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

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| Equity investments designated at fair value through other comprehensive income/financial assets at fair value through profit or loss: | | |
| At 1 January | **146,521** | 84,084 |
| Transfer from Level 1 | **—** | 5,000 |
| Additions | **4,053,102** | 33,882 |
| Deemed disposal of a subsidiary | **(9,072)** | — |
| Total gains/(losses) recognised in profit or loss | **(53,367)** | 19,094 |
| Total gains/(losses) recognised in other comprehensive income | **(13,893)** | 4,461 |
| Others | **(3,060)** | — |
| At 31 December | **4,120,231** | 146,521 |

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

### Fair value hierarchy (continued)

*Assets measured at fair value: (continued)*

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020:

| | VALUATION TECHNIQUES | SIGNIFICANT UNOBSERVABLE INPUTS | SENSITIVITY OF FAIR VALUE TO THE INPUT |
|---|---|---|---|
| Financial assets at fair value through profit or loss | Black-Scholes Model | Fair value per share | 5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB3,168,000 (RMB(3,100,000)) |

*Liabilities measured at fair value:*

As at 31 December 2019

| | FAIR VALUE MEASUREMENT USING | | | |
|---|---|---|---|---|
| | QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 | SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 | SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 | TOTAL RMB'000 |
| Derivative financial instruments | — | — | 128,236 | 128,236 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2020. The outstanding balances as at 31 December 2019 related to the discontinued operation and were deemed disposed of on 8 May 2020.

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

**Fair value hierarchy (continued)**

*Liabilities measured at fair value: (continued)*

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

| | 2019<br>RMB'000 |
|---|---|
| Other financial liabilities at fair value through profit or loss: | |
| At 1 January | 164,765 |
| Additions | 15,645 |
| Settlement | (10,000) |
| Total gains recognised in profit or loss | (44,368) |
| Total losses recognised in other comprehensive income | 2,194 |
| At 31 December | 128,236 |

Except for transfers from level 1 to level 3 as disclosed above, there were no other 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 during the years ended 31 December 2019 and 2020.

*Assets for which fair values are disclosed:*

As at 31 December 2020

| | FAIR VALUE MEASUREMENT USING | | | |
|---|---|---|---|---|
| | QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)<br>RMB'000 | SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)<br>RMB'000 | SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)<br>RMB'000 | TOTAL<br>RMB'000 |
| Loans receivable | **—** | **4,584** | **—** | **4,584** |

As at 31 December 2019

| | FAIR VALUE MEASUREMENT USING | | | |
|---|---|---|---|---|
| | QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)<br>RMB'000 | SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)<br>RMB'000 | SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)<br>RMB'000 | TOTAL<br>RMB'000 |
| Loans receivable | — | 4,288 | — | 4,288 |

## 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 2020

| | 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 | **—** | **—** | **2,196,595** | **2,196,595** |

As at 31 December 2019

| | FAIR VALUE MEASUREMENT USING | | | |
|---|---|---|---|---|
| | QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000 | SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000 | SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000 | TOTAL RMB'000 |
| Liability component of redeemable convertible preferred shares | — | — | 3,583,019 | 3,583,019 |
| Interest-bearing bank loans | — | 697,566 | — | 697,566 |
| | — | 697,566 | 3,583,019 | 4,280,585 |

## 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise convertible bonds, cash and bank deposits and restricted cash. 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 foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

## 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 and monetary assets 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/(loss) before tax (due to changes in the fair values of monetary assets and liabilities) for the year:

| | INCREASE/ (DECREASE) IN PROFIT BEFORE TAX RMB'000 |
|---|---|
| **2020** | |
| If RMB strengthens 5% against HK$ | **42,374** |
| If RMB weakens 5% against HK$ | **(42,374)** |
| If RMB strengthens 5% against US$ | **(15,938)** |
| If RMB weakens 5% against US$ | **15,938** |

| | INCREASE/ (DECREASE) IN LOSS BEFORE TAX RMB'000 |
|---|---|
| **2019** | |
| If RMB strengthens 5% against HK$ | (19,505) |
| If RMB weakens 5% against HK$ | 19,505 |
| If RMB strengthens 5% against US$ | (152,874) |
| If RMB weakens 5% against US$ | 152,874 |

### 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.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 27 to the financial statements.

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

## 47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk (continued)

*Maximum exposure and year-end staging*

As at 31 December 2020

| | 12-MONTH ECLS | LIFETIME ECLS | | |
|---|---|---|---|---|
| | STAGE 1 RMB'000 | STAGE 2 RMB'000 | SIMPLIFIED APPROACH RMB'000 | TOTAL RMB'000 |
| Trade receivables* | **—** | **—** | **801,835** | **801,835** |
| Financial assets included in prepayments, other receivables and other assets | | | | |
| — Normal** | **835,799** | **—** | **—** | **835,799** |
| — Doubtful** | **—** | **8,004** | **—** | **8,004** |
| Financial assets included in other non-current assets | | | | |
| — Normal** | **4,584** | **—** | **—** | **4,584** |
| Cash and bank deposits | | | | |
| — Not yet past due | **14,049,069** | **—** | **—** | **14,049,069** |
| Restricted cash | | | | |
| — Not yet past due | **13,079** | **—** | **—** | **13,079** |
| Guarantees given to a bank in connection with facilities granted to an associate | | | | |
| — Facilities not yet drawn by an associate | **64,863** | **—** | **—** | **64,863** |
| — Facilities drawn by an associate | | | | |
| — Not yet past due | **74,351** | **—** | **—** | **74,351** |
| | **15,041,745** | **8,004** | **801,835** | **15,851,584** |

As at 31 December 2019

| | 12-MONTH ECLS | LIFETIME ECLS | | |
|---|---|---|---|---|
| | STAGE 1 RMB'000 | STAGE 2 RMB'000 | SIMPLIFIED APPROACH RMB'000 | TOTAL RMB'000 |
| Trade receivables* | — | — | 2,115,009 | 2,115,009 |
| Financial assets included in prepayments, other receivables and other assets | | | | |
| — Normal** | 1,237,763 | — | — | 1,237,763 |
| — Doubtful** | — | 11,957 | — | 11,957 |
| Financial assets included in other non-current assets | | | | |
| — Normal** | 4,288 | — | — | 4,288 |
| Cash and bank deposits | | | | |
| — Not yet past due | 13,792,117 | — | — | 13,792,117 |
| | 15,034,168 | 11,957 | 2,115,009 | 17,161,134 |

* For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 27 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

## 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 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:

| | 2020 | | | | |
|---|---|---|---|---|---|
| | ON DEMAND RMB'000 | LESS THAN 3 MONTHS RMB'000 | 3 TO LESS THAN 12 MONTHS RMB'000 | 1 TO 5 YEARS RMB'000 | TOTAL RMB'000 |
| Convertible bonds | — | — | 16,307 | 2,810,636 | 2,826,943 |
| Trade payables | — | 226,356 | 44,696 | 19,803 | 290,855 |
| Other payables and accruals | 800,301 | 7,710 | 24,794 | 29,527 | 862,332 |
| Lease liabilities | — | 23,387 | 27,390 | 180,877 | 231,654 |
| Guarantees given to a bank in connection with facilities granted to and drawn by an associate | 74,351 | — | — | — | 74,351 |
| | 874,652 | 257,453 | 113,187 | 3,040,843 | 4,286,135 |

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | ON DEMAND RMB'000 | LESS THAN 3 MONTHS RMB'000 | 3 TO LESS THAN 12 MONTHS RMB'000 | 1 TO 5 YEARS RMB'000 | OVER 5 YEARS RMB'000 | TOTAL RMB'000 |
| Redeemable convertible preferred shares | — | — | — | 4,004,004 | — | 4,004,004 |
| Interest-bearing bank loans | — | — | 531,517 | 182,530 | — | 714,047 |
| Trade payables | — | 1,231,154 | 167,157 | 103,293 | — | 1,501,604 |
| Other payables and accruals | 1,367,303 | 9,137 | 45,761 | 13,774 | — | 1,435,975 |
| Lease liabilities | — | 5,137 | 18,419 | 50,193 | 81,624 | 155,373 |
| | 1,367,303 | 1,245,428 | 762,854 | 4,353,794 | 81,624 | 7,811,003 |

## 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 2020 and 2019.

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

| | **2020**<br>**RMB'000** | **2019**<br>**RMB'000** |
|---|---|---|
| Total liabilities | **(6,816,285)** | (8,792,242) |
| Total assets | **35,044,195** | 24,401,623 |
| Asset-liability ratio | **19%** | 36% |

## 48. CONTINGENT LIABILITIES

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

## 49. COMPARATIVE AMOUNTS

The comparative statement of profit or loss has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 13).

## 50. 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:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | **1,101** | 18 |
| Right-of-use assets | **1,369** | — |
| Investments in subsidiaries | **504,432** | 3,723,087 |
| Investments in associates | **3,329,180** | 192,466 |
| Total non-current assets | **3,836,082** | 3,915,571 |
| **CURRENT ASSETS** | | |
| Prepayments, other receivables and other assets | **23,472** | 407 |
| Due from subsidiaries | **1,247,907** | 2,328,500 |
| Cash and bank deposits | **4,312,590** | 47,568 |
| Total current assets | **5,583,969** | 2,376,475 |
| **CURRENT LIABILITIES** | | |
| Other payables and accruals | **26,434** | 10,549 |
| Interest-bearing bank loans | **—** | 523,215 |
| Due to an associate | **34** | 34 |
| Lease liabilities | **654** | — |
| Due to subsidiaries | **1,348,843** | 1,527,123 |
| Income tax payable | **12,346** | 12,346 |
| Total current liabilities | **1,388,311** | 2,073,267 |
| **NET CURRENT ASSETS** | **4,195,658** | 303,208 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **8,031,740** | 4,218,779 |
| **NON-CURRENT LIABILITIES** | | |
| Lease liabilities | **825** | — |
| Liability component of convertible bonds | **2,196,595** | — |
| Total non-current liabilities | **2,197,420** | — |
| Net assets | **5,834,320** | 4,218,779 |
| **EQUITY** | | |
| Issued capital | **5,316** | 5,316 |
| Share premium account | **2,762,242** | 2,995,605 |
| Treasury shares | **(11,181)** | (14,631) |
| Equity component of convertible bonds | **468,700** | — |
| Other reserves | **2,609,243** | 1,232,489 |
| **TOTAL EQUITY** | **5,834,320** | 4,218,779 |

## 50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

A summary of the Company's reserves is as follows:

| | SHARE PREMIUM ACCOUNT RMB'000 | TREASURY SHARES RMB'000 | EQUITY COMPONENT OF CONVERTIBLE BONDS RMB'000 | SHARE-BASED COMPENSATION RESERVE RMB'000 | FOREIGN CURRENCY TRANSLATION RESERVE RMB'000 | RETAINED PROFITS RMB'000 | OTHER CAPITAL RESERVE RMB'000 | TOTAL RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **BALANCE AT 1 JANUARY 2019** | 2,972,969 | (18,089) | 1,274 | 216,351 | 243,644 | 437,124 | 27,085 | 3,880,358 |
| Total comprehensive income for the year | — | — | — | — | 88,038 | 204,572 | — | 292,610 |
| Share-based compensation costs | — | — | — | 40,495 | — | — | — | 40,495 |
| Vesting of awarded shares | 22,636 | 3,458 | — | (26,094) | — | — | — | — |
| Redemption of convertible bonds | — | — | (1,274) | — | (172) | — | 1,446 | — |
| **AT 31 DECEMBER 2019 AND 1 JANUARY 2020** | **2,995,605** | **(14,631)** | **—** | **230,752#** | **331,510#** | **641,696#** | **28,531#** | **4,213,463** |
| Total comprehensive income/(loss) for the year | **—** | **—** | **—** | **—** | **(400,252)** | **1,778,455** | **—** | **1,378,203** |
| Final 2019 dividend declared | **(124,861)** | **—** | **—** | **—** | **—** | **—** | **—** | **(124,861)** |
| Other distributions | **(130,033)** | **—** | **—** | **—** | **—** | **—** | **—** | **(130,033)** |
| Issue of convertible bonds | **—** | **—** | **468,700** | **—** | **—** | **—** | **—** | **468,700** |
| Share-based compensation costs | **—** | **—** | **—** | **23,532** | **—** | **—** | **—** | **23,532** |
| Vesting of awarded shares | **21,531** | **3,450** | **—** | **(24,981)** | **—** | **—** | **—** | **—** |
| At 31 December 2020 | **2,762,242** | **(11,181)** | **468,700** | **229,303#** | **(68,742)#** | **2,420,151#** | **28,531#** | **5,829,004** |

# These reserve accounts comprise other reserves of RMB2,609,243,000 (2019: RMB1,232,489,000) in the statement of financial position of the Company.

The Company operates a share option scheme and a share award scheme as part of the benefits to its employees during the year ended 31 December 2020. The share-based compensation reserve comprises the fair value of share options and awarded shares granted which are yet to be exercised or vested, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be transferred to the share premium account and treasury shares when the related share options are exercised or the related awarded shares are vested.

## 51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2021.

# TERMS AND GLOSSARIES

| | |
|---|---|
| "2011 Share Option Scheme" | the share option scheme adopted by the Company on 9 December 2011 |
| "2020 Convertible Bonds" | the convertible bonds issued by the Company on 29 April 2020 |
| "Articles of Association" | the articles of association of the Company |
| "Beijing Cloud Network" | Beijing Kingsoft Cloud Network Technology Co., Ltd.* (北京金山雲網絡技術有限公司) |
| "Beijing Cloud Technology" | Beijing Kingsoft Cloud Technology Co., Ltd.* (北京金山雲科技有限公司) |
| "Beijing Digital Entertainment" | Beijing Kingsoft Digital Entertainment Technology Co., Ltd.* (北京金山數字娛樂科技有限公司) |
| "Board" | the board of directors of the Company |
| "Code" | the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules |
| "Cheetah Mobile" | Cheetah Mobile Inc., an associated corporation of the Company and was listed on NYSE in May 2014 |
| "Cheetah Mobile Group" | Cheetah Mobile and its subsidiaries |
| "Chengdu Digital Entertainment" | Chengdu Kingsoft Digital Entertainment Technology Co., Ltd.* (成都金山數字娛樂科技有限公司) |
| "Chengdu Interactive Entertainment" | Chengdu Kingsoft Interactive Entertainment Co., Ltd.* (成都金山互動娛樂科技有限公司) |
| "Chengdu Seasun Shiyou" | Chengdu Seasun Shiyou Technology Co., Ltd.* (成都西山居世遊科技有限公司) |
| "Class A Cheetah Shares" | the class A ordinary shares of Cheetah Mobile, par value US$0.000025 per share |
| "Company" or "Kingsoft" | Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its shares listed on the Stock Exchange (stock code: 03888) |
| "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 until its separate listing on NASDAQ in May 2020 |
| "Kingsoft Cloud Group" | Kingsoft Cloud and its subsidiaries |
| "Kingsoft Office" | Beijing Kingsoft Office Software, Inc., a subsidiary of the Company and was listed on the SSE STAR Market in November 2019 |
| "Kingsoft Office Group" | Kingsoft office and its subsidiaries |
| "Kingsoft Qijian" | Beijing Kingsoft Qijian Digital Technology Co., Ltd.* (北京金山奇劍數碼科技有限公司) |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "MAU" | monthly active users |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules |
| "NASDAQ" | National Association of Securities Dealers Automated Quotations |
| "NYSE" | New York Stock Exchange |
| "PRC", "China" or "Mainland China" | the People's Republic of China excluding, for the purpose of this annual report only, Hong Kong, the Macau Special Administrative Region and Taiwan |
| "R&D" | research and development |
| "Reporting Period" | the year ended 31 December 2020 |
| "RMB" or "Renminbi" | the lawful currency of the PRC |
| "Seasun Holdings" | Seasun Holdings Limited, a subsidiary of the Company |
| "Seasun Holdings Share Award Schemes" | the share award schemes approved by the shareholders and directors of Seasun Holdings on 21 March 2017 including the general share award scheme, the special share award scheme (A) and the special share award scheme (B) |
| "Seasun Holdings Share Option Scheme" | the share option scheme approved by the shareholders of the Company and Seasun Holdings on 27 June 2013 |

| | |
|---|---|
| "SFO" | the Securities and Future Ordinance, Chapter 571 of the Laws of Hong Kong |
| "Share Award Scheme" | the share award scheme of the Company adopted by the Board on 31 March 2008 |
| "SSE STAR Market" | the science and technology innovation board of the Shanghai Stock Exchange |
| "Stock Exchange" | the Stock Exchange of Hong Kong Limited |
| "US$" | United States dollars, the lawful currency of the United States of America |
| "Xiaomi" | Xiaomi Corporation (Stock Code: 1810), a limited liability company organized under the laws of Cayman Islands and listed on the Stock Exchange |
| "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 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) |
| "%" | percent |