KINGSOFT®

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

KINGSOFT CORPORATION LIMITED
2019 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
Wuhan / Hongkong / America / Malaysia

Kingsoft Corporation Limited

Contents

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

Kingsoft Tower

No. 33 Xiaoying West Road

Haidian District

Beijing 100085

PRC

Principal Place of Business in Hong Kong

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

Registered Office

PO Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

Executive Directors

Mr. Tao ZOU

Mr. Yuk Keung NG

Non-executive Directors

Mr. Jun LEI (Chairman)

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

Independent Non-executive Directors

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Audit Committee

Ms. Wenjie WU (Chairman)

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Remuneration Committee

Mr. Shun Tak WONG (Chairman)

Mr. Jun LEI

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Nomination Committee

Mr. Shun Tak WONG (Chairman)

Mr. Chi Ping LAU

Ms. Wenjie WU

Board Secretary/Company Secretary

Mr. Yuk Keung NG

Ms. Hongyu LV

Authorised Representatives

Mr. Tao ZOU

Mr. Yuk Keung NG

Principal Share Registrar and Transfer Office

Ocorian Trust (Cayman) Limited

PO Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17/F. Hopewell Centre

183 Queen's Road East

Hong Kong

Auditor

Ernst & Young

Certified Public Accountants

22th Floor, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

Legal 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.

Industrial and Commercial Bank of China Limited

The Hongkong and Shanghai Banking Corp., Ltd.

Bank of Beijing Co., Ltd.

Shanghai Pudong Development Bank Co., Ltd.

Bank of Communications Co., Ltd.

Hang Seng Bank Limited

China Guangfa Bank Co., Ltd.

The Bank of East Asia (China) Limited

China Minsheng Banking Corp., Ltd.

Bank of Hangzhou Co., Ltd.

China Everbright Bank Company Limited

Bank of Nanjing Co., Ltd.

China Zheshang Bank Co., Ltd.

HUA XIA BANK CO., Limited

CHINA CONSTRUCTION BANK CORPORATION

Investor and Media Relations

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FINANCIAL HIGHLIGHTS

Consolidated Statement of Profit or Loss (Restated)

	Year ended 31 December				
	2015 RMB'000	**2016 RMB'000**	**2017 RMB'000**	**2018 RMB'000**	**2019 RMB'000**
Continuing Operations					
Revenue:					
Online games	1,368,811	2,545,671	3,120,186	2,551,715	**2,748,738**
Cloud services	272,512	737,196	1,332,522	2,217,507	**3,847,176**
Office software and services and others	374,735	550,670	728,582	1,136,965	**1,622,349**
	2,016,058	3,833,537	5,181,290	5,906,187	**8,218,263**
Cost of revenue	(494,238)	(1,292,448)	(2,168,907)	(3,169,429)	**(4,741,390)**
Gross profit	1,521,820	2,541,089	3,012,383	2,736,758	**3,476,873**
Research and development costs, net	(803,093)	(1,084,510)	(1,446,044)	(1,838,658)	**(2,084,654)**
Selling and distribution expenses	(295,427)	(323,263)	(544,957)	(727,381)	**(983,756)**
Administrative expenses	(166,597)	(196,903)	(256,847)	(449,498)	**(529,250)**
Share-based compensation costs	(40,600)	(54,872)	(235,194)	(211,936)	**(244,820)**
Other income	43,602	51,310	294,036	277,891	**250,239**
Other expenses	(15,011)	(7,718)	(9,465)	(89,496)	**(78,122)**
Operating profit/(loss)	244,694	925,133	813,912	(302,320)	**(193,490)**
Other gains/(losses), net	(21,361)	(1,152,235)	(156,489)	(145,618)	**(1,240,439)**
Finance income	179,414	158,043	194,967	326,156	**299,143**
Finance costs	(77,520)	(107,105)	(112,391)	(326,966)	**(388,426)**
Share of profits and losses of:					
Joint ventures	(17,560)	101,291	121,039	49,898	**14,939**
Associates	(7,152)	(6,683)	51,076	373,833	**(412,972)**
Profit/(loss) before tax from continuing operations	300,515	(81,556)	912,114	(25,017)	**(1,921,245)**
Income tax expense	(148,092)	(177,156)	(133,834)	(140,225)	**(161,454)**
Profit/(loss) for the year from continuing operations	152,423	(258,712)	778,280	(165,242)	**(2,082,699)**
Discontinued Operation					
Profit/(loss) for the year from discontinued operation	189,281	(33,563)	2,518,349	—	**—**
Profit/(loss) for the year	341,704	(292,275)	3,296,629	(165,242)	**(2,082,699)**
Attributable to:					
Owners of the parent	369,178	(270,732)	3,201,837	389,214	**(1,546,385)**
Non-controlling interests	(27,474)	(21,543)	94,792	(554,456)	**(536,314)**
	341,704	(292,275)	3,296,629	(165,242)	**(2,082,699)**
Proposed final dividends	107,895	115,676	122,428	—	**122,413**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**
Earnings per share attributable to ordinary equity holders of the parent					
Basic	0.29	(0.21)	2.46	0.29	**(1.13)**
Diluted	0.29	(0.21)	2.36	0.27	**(1.15)**

Consolidated Statement of Financial Position (Selected items)

	As at 31 December				
	2015 RMB'000	**2016 RMB'000**	**2017 RMB'000**	**2018 RMB'000**	**2019 RMB'000**
Cash and bank deposits	8,606,434	9,825,494	8,505,984	9,868,809	**13,792,117**
Pledged deposits	46,657	69,370	—	—	**—**
Restricted cash	130,187	98,381	93,400	98,102	**—**
Total assets	15,484,877	17,578,952	17,762,390	20,049,812	**24,401,623**
Total equity	9,911,355	10,001,724	12,552,971	12,921,599	**15,609,381**

Consolidated Statement of Cash Flows (Selected Items)

	As at 31 December				
	2015 RMB'000	**2016 RMB'000**	**2017 RMB'000**	**2018 RMB'000**	**2019 RMB'000**
Net cash flows from operating activities	1,435,334	1,393,218	1,890,385	769,509	**824,968**
Net cash flows used in investing activities	(471,910)	(3,127,785)	(4,108,113)	(779,523)	**(2,219,766)**
Net cash flows from/(used in) financing activities	2,233,959	600,815	(266,388)	1,509,907	**4,169,622**
Net increase/(decrease) in cash and cash equivalents	3,197,383	(1,133,752)	(2,484,116)	1,499,893	**2,774,824**

CHAIRMAN'S STATEMENT

BUSINESS REVIEW AND PROSPECTS

Our business sustained positive momentum during the fourth quarter of 2019. Our online games business delivered stable growth in both PC and mobile segments, while office software and services and cloud services continued to achieve robust revenue growth with accelerated deployment across industries. Meanwhile, we have completed the listing of our office software and services business, Beijing Office Software on 18 November 2019 on the SSE STAR Market. Overall, we made solid progress in 2019, and we are confident in a robust operating outlook and sustained growth for 2020.

Our revenue for the fourth quarter of 2019 was RMB2,594.7 million, up 48% year-on-year and 28% quarter-on-quarter. Revenue of 2019 was RMB8,218.3 million, increasing 39% year-on-year. Our revenue maintained stable growth against the backdrop of a dynamic environment thanks to our solid market competitiveness and execution capabilities. Meanwhile, annual revenue of cloud services and office software and services and others maintained a strong and rapid growth, with a year-on-year growth of 73% and 43%, respectively.

Both PC and mobile games recorded stable performance during the year, and revenue improved year-on-year. We have launched a new expansion pack for our flagship JX Online III PC game in the fourth quarter, resulting in a 24% jump in average daily active users (compared to 30 days prior to the launch) and a record-high monthly gross billing in December. Our classic PC game JX World achieved year-on-year growth in both number of gamers and revenue. The continued growth of the JX series demonstrated our resilience and strong capabilities in developing and operating long-term games and IP values. For mobile games business, JX Online I continued to perform well during the year with a stable concurrent income. In addition, we have launched a new mobile game Double Life World (雙生視界) in Japan in September, followed by China in November, earning high praise at home and abroad. The newly launched mobile game was ranked as the number one in the iOS top free charts on its debut, and subsequently climbed to top five in the top grossing charts. The successful launch of Double Life World (雙生視界) has further strengthened our diversified product strategy. We will seize market opportunities and achieve further breakthroughs in product diversification. In view of the dynamic market and regulatory environment in China, we will continue to expand our overseas presence to further drive the growth of our games business.

Kingsoft Cloud Group strengthened its industry leading position in the internet and video sectors, continued to focus on technology innovation and further promoted the integration and implementation of cutting-edge technologies such as edge computing, smart high definition and artificial intelligence ("**AI**") etc. As a leading cloud service provider, Kingsoft Cloud Group made strong inroads in terms of government and enterprise services, financial services and artificial intelligence of things ("**AIoT**"). Key highlights include:

— Beijing government's cloud project was recognized as one of the "Outstanding Innovation Case Studies" in "2019 Innovation Case Studies of Government Digital Applications".

— Kingsoft Cloud Group was awarded the "Outstanding Contribution Award for Fintech Product Innovation".

Meanwhile, the Company is considering a possible spin-off and separate listing of Kingsoft Cloud. On 20 December 2019 (New York time), Kingsoft Cloud submitted on a confidential basis to SEC a draft registration statement for a possible offering of shares in Kingsoft Cloud represented by the American Depositary Share(s) in the United States to be registered with SEC (the "**IPO**"). Going forward, Kingsoft Cloud Group remains committed to strengthening the strategic cooperation with Xiaomi's AIoT, increasing the in-depth service of oversea business, leading the integration of cloud computing, big data, AI and other cutting-edge technologies with various industry scenarios, striving for cost optimization, and empowering enterprise clients in their digital transformations.

For the fourth quarter of 2019, our office software and services sector made its debut in the capital market, gaining momentum for further development. On 18 November 2019, Beijing Office Software was listed on the SSE STAR Market, raising RMB4.459 billion for four key aspects: development and upgrade of WPS Office software, construction of an AI infrastructure R&D center for office software, Internet cloud services for office products, and internationalization of office software. During the period, we continued to make encouraging progress in working with our key government clients and entered into agreements with leading clients in the fields including energy and finance for comprehensive cooperation in office software. In October 2019, WPS Office's overseas monthly active users exceeded 100 million as we actively seized the opportunities from the Belt and Road Initiative. With the proactive promotion of its cloud office strategy, WPS Office subscription services achieved significant growth during the quarter. At the beginning of 2020, the demand for cloud office and remote office work by various enterprises has significantly increased, driving the rapid development of online collaboration products like Kingsoft Docs. As at 2 March 2020, the number of MAU of Kingsoft Docs has exceeded 239 million. This trend also further foster user habits and boost market demand, expanding the potential growth in WPS Office's personal and enterprises subscription services in the future.

Amidst a turbulent economic environment, we managed to achieve a satisfactory performance in 2019. Our operating loss margin has been narrowed during the year, mainly due to the significant improvement of the operation efficiency of our cloud business. Beijing Office Software was successfully listed on the SSE STAR Market. Our game revenue improved last year. Although our investments in the cloud services business led to an operating loss in 2019, we recommended a final dividend of HK$0.10 per share with an aim to reciprocate our shareholders' long term support. Subsequent to the relief of the global COVID-19 pandemic and conclusion of the IPO of Kingsoft Cloud, we will further review our dividend policy as and when appropriate.

Going forward, Kingsoft Cloud Group will be committed to strengthening its market position, by leveraging leading technologies and promoting innovation across various industries. We will work with strategic partners to further expand our ecosystem, and to make our cloud computing offerings more accessible globally. Office software and services business will focus on its multi-pronged strategies of "Cloud, Multi-screen, Content and AI" to solve our users' diverse needs and to maintain our competitive advantages. We will continue to provide high quality contents and new games globally. As we continue to seize opportunities arising from enterprises' digital transformation, Kingsoft will maintain its competitive edge in the industry. Looking ahead, we see a clear momentum of growth across all our business segments driven by increasing customer demand. We are confident to meet our performance targets in the coming year and create long-term value for our shareholders.

Jun LEI
Chairman
Hong Kong, 24 March 2020

OPERATIONAL HIGHLIGHTS

	For the three months ended				
	31 December 2019	**30 September 2019**	**30 June 2019**	**31 March 2019**	**31 December 2018**
Online Games					
ADPCU	**611,620**	**571,992**	**680,869**	**570,694**	673,413
APA	**2,532,584**	**2,021,129**	**2,542,271**	**2,369,662**	3,036,203

	In December 2019	**In September 2019**	**In June 2019**	**In March 2019**	**In December 2018**
Office Software*					
MAU (Million)	**411**	**382**	**348**	**328**	310

* Office Software products include WPS Office and Kingsoft Powerword.

For the Year Ended 31 December 2019

The following table sets forth the comparative numbers for the years ended 31 December 2019 and 2018, respectively.

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Revenue		
Online games	**2,748,738**	2,551,715
Cloud services	**3,847,176**	2,217,507
Office software and services and others	**1,622,349**	1,136,965
	8,218,263	5,906,187
Cost of revenue	**(4,741,390)**	(3,169,429)
Gross profit	**3,476,873**	2,736,758
Research and development costs, net	**(2,084,654)**	(1,838,658)
Selling and distribution expenses	**(983,756)**	(727,381)
Administrative expenses	**(529,250)**	(449,498)
Share-based compensation costs	**(244,820)**	(211,936)
Other income	**250,239**	277,891
Other expenses	**(78,122)**	(89,496)
Operating loss	**(193,490)**	(302,320)
Other losses, net	**(1,240,439)**	(145,618)
Finance income	**299,143**	326,156
Finance costs	**(388,426)**	(326,966)
Share of profits and losses of:		
Joint ventures	**14,939**	49,898
Associates	**(412,972)**	373,833
Loss before tax	**(1,921,245)**	(25,017)
Income tax expense	**(161,454)**	(140,225)
Loss for the year	**(2,082,699)**	(165,242)
Attributable to:		
Owners of the parent	**(1,546,385)**	389,214
Non-controlling interests	**(536,314)**	(554,456)
	(2,082,699)	(165,242)
	RMB	**RMB**
Earnings/(loss) per share attributable to ordinary equity holders of the parent		
Basic	**(1.13)**	0.29
Diluted	**(1.15)**	0.27

Revenue

Revenue for the year of 2019 increased 39% year-on-year to RMB8,218.3 million. Revenue from the online games, cloud services and office software and services and others represented 33%, 47% and 20%, respectively, of the Group's total revenue for the year of 2019.

Revenue from the online games business for the year of 2019 increased 8% year-on-year to RMB2,748.7 million. The increase was primarily due to sustained steady performances of flagship titles and revenue contribution from the newly-launched mobile games.

Revenue from the cloud services for the year of 2019 increased 73% year-on-year to RMB3,847.2 million. The increase was mainly driven by: i) increased average revenue per major customer as a result of their increasing demands for cloud services' products and services; and ii) increase in the number of customers due to cloud services business' further penetration in existing verticals and expansion into more verticals.

Revenue from the office software and services and others for the year of 2019 increased 43% year-on-year to RMB1,622.3 million. The year-on-year increase was mainly attributable to strong revenue growth from WPS Office subscription services and licensing, driven by the expansion of user base and paid conversion rate, reflecting our relentless effort on enhancement of technology, distributor management system and brand recognition, as well as the promotion of licensed software in China.

Cost of Revenue and Gross Profit

Cost of revenue for the year of 2019 increased 50% year-on-year to RMB4,741.4 million. The year-on-year increase was primarily due to increased internet data center cost associated with the expansion of cloud services business.

Gross profit for the year of 2019 increased 27% year-on-year to RMB3,476.9 million. The Group's gross profit margin decreased by four percentage points year-on-year to 42%.

R&D Costs, net

R&D costs, net for the year of 2019 increased 13% year-on-year to RMB2,084.7 million. The year-on-year increase was mainly due to increased investments on new products, solutions and features, as well as technology updates.

Selling and Distribution Expenses

Selling and distribution expenses for the year of 2019 increased 35% year-on-year to RMB983.8 million. The year-on-year increase mainly reflected greater spending of office software and services and cloud services businesses in expanding the enterprise and government markets.

Administrative Expenses

Administrative expenses for the year of 2019 increased 18% year-on-year to RMB529.3 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 2019 increased 16% year-on-year to RMB244.8 million.

Operating Profit/(Loss) before Share-based Compensation Costs

Operating profit before share-based compensation costs for the year of 2019 was RMB51.3 million as a result of the combination of above reasons, compared to loss of RMB90.4 million for the last year.

Other Losses, net

Net other losses for 2019 were RMB1,240.4 million, compared to net other losses of RMB145.6 million for the last year. The net other losses of 2019 primarily represented the provisions for impairment on the carrying value of investments in Cheetah Mobile.

Share of Profits and Losses of Associates

Share of losses of associates for 2019 were RMB413.0 million, compared to share of profits of RMB373.8 million for the last year. The losses in 2019 were mainly due to the losses recognized in Cheetah Group in the year.

Income Tax Expense

Income tax expense for the year of 2019 increased 15% year-on-year to RMB161.5 million.

Profit/(Loss) attributable to Owners of the Parent

For the reasons described above, loss attributable to owners of the parent for the year of 2019 was RMB1,546.4 million, compared to profit of RMB389.2 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.

Loss attributable to owners of the parent before share-based compensation costs for the year of 2019 was RMB1,380.7 million, compared to profit of RMB536.8 million for the last year.

The net profit/(loss) margin excluding the effect of share-based compensation costs was (17%) and 9% for the year 2019 and 2018, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of 2019. As at 31 December 2019, the Group had major financial resources in the forms of cash and bank deposits amounting to RMB13,792.1 million, which totally represented 57% of the Group's total assets.

As at 31 December 2019, the Group's gearing ratio, which represents total liabilities divided by total assets, was 36%, as compared to 36% as at 31 December 2018. As at 31 December 2019, the Group had bank loans of RMB174.4 million and US$75.0 million (equivalent to RMB523.2 million).

Foreign Currency Risk Management

As at 31 December 2019, RMB2,204.6 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 was RMB825.0 million and RMB769.5 million for the years ended 31 December 2019 and 31 December 2018, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fixed assets and intangible assets. Cash used for capital expenditures was RMB1,361.8 million and RMB1,406.2 million for the years ended 31 December 2019 and 31 December 2018, 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 and Cheetah Mobile (NYSE: CMCM). Mr. ZOU also serves as a director of Xunlei Limited (NASDAQ: XNET) and a director of 21 Vianet Group, Inc. (NASDAQ: VNET). Mr. ZOU graduated from Nankai University in 1997. Mr. ZOU joined us in 1998 and was responsible for the development of our Kingsoft PowerWord. Mr. ZOU has been responsible for our entertainment software business since 2004 and served as the CEO of Seasun Holdings until January 2018.

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

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

Yuk Keung NG, aged 55, 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 served as the director of Cheetah Mobile (NYSE: CMCM) until 13 March 2018.

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

Non-executive Directors

Jun LEI, aged 50, 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, including Beijing Kingsoft Office Software, Inc. (a company listed on the Sci-Tech Board in November 2019, Stock Code: 688111).

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 has taken the position of chairman and CEO. From April 2005 to August 2016, Mr. LEI was the chairman of YY Inc. (NSDAQ: YY). Mr. LEI also served as the chairman of Cheetah Mobile (NYSE: CMCM) until 13 March 2018.

Mr. LEI graduated from Wuhan University in 1991 with a bachelor's degree in Computer Science. He has been a member of the board of Wuhan University since 2003. He has been serving as vice chairman of All-China Federation of Industry and Commerce, vice chairman of Beijing Federation of Industry and Commerce and vice president of China Association For Quality since 2017. Mr. LEI was elected as one of the top 10 economic personages of China in 2017. Mr. LEI was elected as one of 100 outstanding private entrepreneurs on the 40th anniversary of the China's reform and opening-up in 2018. In 2019, Mr. LEI was honored with title of Excellent Builder For the Socialist Cause with Chinese Characteristics by the United Front Work Department of CPC Central Committee, Ministry of Industry and Information Technology of People's Republic of China, Ministry of Human Resources and Social Security of the People's Republic of China, State Administration for Market Regulation and All-China Federation of Industry and Commerce and was rewarded with Fudan Business Management Outstanding Contribution Award.

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

Pak Kwan KAU, aged 55, 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., an online direct sales company in China, which has been listed on NASDAQ since May 2014. On 31 March 2014, Mr. LAU was appointed as a director of Leju Holdings Limited, an online-to-offline real estate services provider in China, which has been listed on the NYSE since April 2014. On 12 July 2016, Mr. LAU was appointed as a director of Tencent Music Entertainment Group (formerly known as China Music Corporation), an online music entertainment platform in China, which has been listed on NYSE since December 2018. On 29 December 2017, Mr. LAU was appointed as a director of Vipshop Holdings Limited, an online discount retailer company listed on the NYSE. On 4 September 2018, Mr. LAU was appointed as a non-executive director of Meituan Dianping, a China's leading e-commerce platform for services, which has been listed on the Stock Exchange since September 2018.

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 59, 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 65, is an independent non-executive Director of our Company. He is also a member of the Audit Committee and Remuneration Committee of the Company. Mr. TANG holds a master's degree in Business Administration at the California State University, Fullerton and a bachelor's degree in Computer Science and Engineering at the California State University, Long Beach.

Mr. TANG has over 25 years of IT industry experience in the global market and in the China market in the areas of sales, marketing, business development, research and development and manufacturing. Mr. TANG is a well-known business leader in China and has held various positions such as the vice president of the European Union Chamber of Commerce in China, the vice chairman of the China Association of Enterprises with Foreign Investment and the vice president of the Beijing Chamber of International Commerce. Over the years, Mr. TANG has been widely recognized in the industry and was awarded the title of "Best Professional Manager of the Decade ("十年最佳職業經理人")" by China's CEO & CIO magazine. Mr. TANG has been responsible for the management of businesses up to an annual sales turnover of RMB70 billion. Mr. TANG also worked as adviser at UCWeb and Ganji.

Mr. TANG is currently the independent director of YY. He is also the partner and the managing director of Nokia Growth Partner ("**NGP**") which is a venture capital firm and he has been responsible for investment in businesses in China. Since June 2019, Mr. TANG has been serving as one of the independent non-executive directors of Standard Chartered PLC (Stock Code: 2888). 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 45, 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 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.

Yulin WANG, aged 44, is currently the chief executive officer of Kingsoft Cloud. He has been in charge of the overall management of Kingsoft Cloud. Mr. WANG has over 20 years of experience in internet industry. He has been the vice president of A8 Digital Music Holdings Limited (Stock Code: 00800), chief operating officer of CNEC Inc. and the vice executive officer of Phoenix New Media Limited (NYSE: FENG). Mr. WANG joined the Company in 2012, and was the senior vice president of the Company from 2016 to March 2020.

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

Wei LIU, aged 43, is currently a senior vice president of the Company. Mr. LIU joined the Group in 2000 and has been project manager, HR director and the vice president of human resources of Westhouse Holdings Limited. Mr. LIU has started as an assistant president of our Group since April 2012, and has been the vice president of the Group and assistant to the Chairman since 2013. Mr. LIU became senior vice president of the Company and special assistant to the Chairman in 2016.

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

KWOK Wai Wai Kris, aged 39, is currently a senior vice president of our Group and the vice president and the chief executive officer in Seasun Holdings. He joined the JX3 Online ("**JX3**") development team in Seasun Holdings in the year 2004, and currently serves as JX3 producer. Mr. KWOK is familiar with the business and development strategy of Seasun Holdings with rich experience in business operation and management. Mr. KWOK graduated from Saint John University.

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 38, 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 Institute of Chartered Secretaries and Administrators 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.

CORPORATE GOVERNANCE REPORT

OVERVIEW OF CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in Corporate Governance Code and Corporate Governance Report (the "**Code**") contained in Appendix 14 to the 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 15 May 2019 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 December 2019 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 2019:

(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 2019 are set out under the section of Management Discussion and Analysis of this annual report.

DIRECTORS' SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and each of the Directors has confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2019 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 2019.

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 2019, 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 2019, 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 2019, 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 2019, 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 2019 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 2019. The attendance records of each Director at the Board meetings and general meetings during the year of 2019 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.

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 2019:

Audit Committee

Membership and Responsibilities

During the year ended 31 December 2019, 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 2019 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 2019. 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 2019 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 2019:

- 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 one meeting during the year ended 31 December 2019. 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 2019:

- 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 make recommendations regarding any proposed changes; and
- Reviewed and assessed each independent non-executive Director's annual confirmation of independence pursuant to rule 3.13 of the Listing Rules.

Meetings attendance

The Nomination Committee held 1 meeting during the year ended 31 December 2019. 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 2019. 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 2019, the remunerations paid or payable to Ernst & Young regarding the audit and non-audit services (together with the comparative figures for 2018) are set out as follows:

	2019 RMB Million	2018 RMB Million
Audit services	**9.39**	6.70
Non-audit services*	**5.61**	4.14
Total	**15.00**	10.84

* Non-audit services included review services of the Group's interim financial statements, tax 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 2019, 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 2019, the Company's senior management presented its results in Hong Kong, Singapore, Beijing, Shanghai, and various other cities. Through various activities such as analyst briefings, press conferences, conference calls and investor non-deal road shows, our senior management presented and answered the key issues 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 Unit 1309A, 13/F, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, N.T. Hong Kong or at the Company's principal place of business in Beijing at Kingsoft Tower, No. 33 Xiaoying West 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 Unit 1309A, 13/F, Cable TV Tower, No. 9 Hoi Shing Road, Tsuen Wan, N.T. Hong Kong or at the Company's principal place of business in Beijing at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing 100085, the PRC.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year ended 31 December 2019.

On behalf of the Board
Jun LEI
Chairman

Hong Kong, 24 March 2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Report Overview

The report aims to objectively and fairly reflect the environmental, social and governance ("ESG") performance of Kingsoft and its subsidiaries including Beijing Office Software, Seasun Holdings and Kingsoft Cloud (hereinafter referred to as "the Group" or "we") in 2019. The preparation of the *report follows the Environmental, Social and Governance Reporting Guide* set out in Appendix 27 to the Listing Rules. Unless otherwise stated, the report covers the period from 1 January 2019 to 31 December 2019.

ESG Strategy

ESG Strategy

The Group has always been dedicated to becoming a world-class software and Internet enterprise. Leveraging upon profound accumulation of technologies, excellent user experience and cutting-edge innovation, we are able to provide customers with efficient products and services in the era of technology to create value for the society. With the implementation of "mobile Internet transformation" strategy, the Group has completed a comprehensive transformation in terms of overall business and management model, forming a layout with interactive entertainment, office software, cloud computing, with internet security as the pillar. We are also fully committed to internationalisation and artificial intelligence and contribute to the information technology development of all walks of life in China.

We will capture the opportunities of the industrial upgrading, create leading Internet brand, pay more attention to innovation and talents, value the quality and user experience and discharge the environmental and social responsibilities to improve and serve the whole society with technologies.

ESG Governance and Management

The Board is responsible for decision-making and review of ESG strategy and performance, and the relevant functional departments of the Group and each subsidiary are responsible for the implementation of specific ESG work.

Stakeholder Engagement

Taking into account our business model and internal and external communication, the Group has identified important stakeholders that have an interactive impact on its operation. The main stakeholders of the Group, their demands and expectations, and our main communication and response methods are summarized in the table below.

MAIN STAKEHOLDERS	MAIN DEMAND AND EXPECTATION	MAIN COMMUNICATION AND RESPONSE METHODS
Governmental and regulatory authorities	— To comply with laws and regulations — To ensure the safety and reliability of products — To promote the technological progress — To be in the national interests and serve people's livelihood	— Inspection and reception — Annual report — Company's website
Investors	— To maintain good operating results — To achieve compliant operation — To make information disclosure	— Shareholders' general meeting — Company's announcements — Reporting of special projects — Visitor reception
Customers	— To provide high-quality products and services — To guarantee the information security and protect privacy of customers — To satisfy diversified needs of customers	— Daily communication with customers — Survey on customer satisfaction — Handling and feedback of customer complaints
The public	— To provide safe and reliable products — To enhance operational transparency	— Annual report — Company's website
Staff	— To protect the rights and interests of staff — To assure occupational health — To focus on training and development — To improve development channels — To strike a balance between work and life	— Staff meeting — Platform for staff's suggestions

MAIN STAKEHOLDERS	MAIN DEMAND AND EXPECTATION	MAIN COMMUNICATION AND RESPONSE METHODS
Suppliers and partners	— To purchase in an open, fair and impartial manner — To abide by contracts — To achieve mutual benefits and win-win	— Execution of contracts in accordance with laws — Public tendering
Communities	— To participate in the development of communities — To support public welfare undertakings — To protect environment	— Involvement in community activities — Reception of public welfare organisations

Substantive Issue Assessment

We have continuously enhanced the pertinence and responsiveness of the report in accordance with the requirements of the *Environmental, Social and Governance Reporting Guide* issued by the Stock Exchange. We identified the major issues which stakeholders concern about through full communication with them, assessed the materiality of such issues in accordance with the substantive principle and finally determined the extent and boundary of the disclosure of such issues to ensure more accurate and complete disclosure of information related to the operation and management of the Group.

Screening Process of ESG Issues

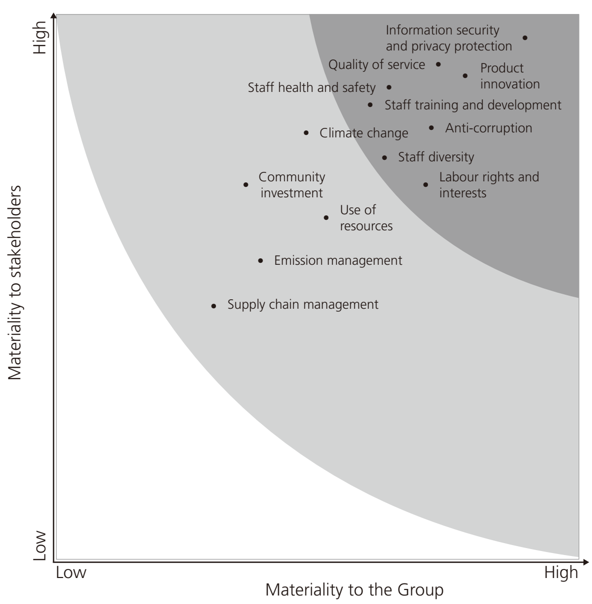
Source of issues

- Analysis of multimedia information
- Benchmarking research of international and domestic peers
- Internationally recognised sustainable development guidelines
- Solicitation of opinions from staff
- Suggestions from the management
- Analysis and suggestions from internal and external experts

Screening criteria

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

Through the identification process, the Group has identified the ESG issues that are most relevant to its sustainable development and assessed the materiality of each issue. The results are as follows:



Materiality Matrix of the Group's ESG issues in 2019

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, the Group integrates energy saving and emission reduction and climate change combating activities into its operation. It established a green office system and made great efforts on energy-saving and emission reduction of the data centre to proactively practise the concept of green development.

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

Green Office

The Group implemented the *Management Rules for the Turning on/off of Lights*, the *Management Rules for the Power on/off of* Computers and other regulations to improve its daily administration of energy-saving and emission reduction. We use all energy-saving lamps in our office area and promote full use of natural light and reduction of the use of lighting appliances. Meanwhile, we put up energy-saving slogan in eye-catching places in the office area and actively advocate energy-saving and environmental protection behaviour. For example, we recommend the staff to make reasonable use of computers, close unnecessary electronic devices or unused power as much as possible during working hours; we also encourage staff to save water and use double-sided printing as far as practicable when printing documents.

At Kingsoft Tower, the Group's office building in Beijing, we have optimised the air-conditioning system and integrated building management system to fully realise energy-saving and automated monitoring. We improve energy efficiency by applying variable frequency technology to air-conditioning system. In autumn and winter, we use natural ventilation to a certain extent to reduce the use of air conditioners, and in summer, we use various methods such as heat recovery and water cooling to reduce energy consumption. The building adopts an intelligent lighting control system, assisted by manual control, to better control the lighting of the office area to achieve energy-saving.

Data Centre Energy-Saving Management

Energy-saving and emission reduction are important factors to consider when we select a site for our data centre. We have adopted various energy-saving solutions to improve energy efficiency for our self-built data centres.

Kingsoft Cloud Yizhuang Data Centre has been operating since November 2019. Under the current IT loading rate of about 30%, the PUE has reached 1.32, which is well above the current industry average and national standards. With an expected further increase in IT loading rate in the future, the PUE will be further reduced.

We have adopted a centrifugal water cooling solution with higher coefficient of performance (COP) in the Kingsoft Cloud Yizhuang Data Centre, which increases the COP from 3.2 to 6.5 compared with the traditional air cooling technology. Meanwhile, we solely use free-cooling plate heat exchangers in winter and hybrid cooling in transition seasons to further reduce energy consumption. We also use high temperature resistant IT equipment that could work in an environment where we reasonably increase the air temperature and reduce the cooling load, therefore to increase the natural cooling rate. In addition, the closed cold aisle can prevent the turbulence of hot and cold air and reduce cooling loss.

We have included a natural fresh air cooling scheme in the design of future new data centres. With a more intelligent control and real-time air quality detection technology, we expect to further reduce cooling load by more than 50%.

Environmental Key Performance Indicators

Below are the Group's environmental key performance indicators in 2019. Unless otherwise specified, the environmental data scope of office buildings cover the main office buildings of the Group, and that of the data centre only covers Kingsoft Cloud Yizhuang Data Centre. This data centre was put into use in November 2019, so its environmental data only covers November to December 2019.

Office buildings

EMISSIONS	
Total direct GHG emissions (Scopes 1 and 2) (tonnes)	9,937.27
Total direct GHG emissions (Scope 1) (tonnes)	546.88
Including: Petrol (tonnes)	58.15
Natural gas (tonnes)	488.73
Total indirect GHG emissions (Scope 2) (tonnes)	9,390.39
Including: Purchased electricity (tonnes)	9,390.39
Total GHG emissions per employee (tonnes per employee)	1.31
Total GHG emissions per floor area (tonnes per square metre)	0.11
Total hazardous waste (tonnes)	0.10
Hazardous waste per employee (tonnes per employee)	0.000017
Total non-hazardous waste (tonnes)	643.04
Non-hazardous waste per employee (tonnes per employee)	0.086

USE OF RESOURCES	
Total energy consumption (MWh)	18,379.76
Direct energy consumption (MWh)	2,559.39
Including: Petrol (MWh)	59.96
Natural gas (MWh)	2,499.44
Indirect energy consumption (MWh)	15,820.36
Including: Purchased electricity (MWh)	15,820.36
Energy consumption per employee (MWh per employee)	2.42
Total energy consumption per floor area (MWh per square meter)	0.21
Total water consumption (tonnes)	138,533.00
Water consumption per floor area (tonnes per square meter)	1.96

Data centre

EMISSIONS	
Total direct GHG emissions (Scopes 1 and 2) (tonnes)	1,622.55
Total direct GHG emissions (Scope 1) (tonnes)	94.92
Including: Diesel (tonnes)	94.92
Total indirect GHG emissions (Scope 2) (tonnes)	1,527.63
Including: Purchased electricity (tonnes)	1,527.63

USE OF RESOURCES	
Total energy consumption (MWh)	2,390.16
Direct energy consumption (MWh)	247.32
Including: diesel (MWh)	247.32
Indirect energy consumption (MWh)	2,142.84
Including: Purchased electricity (MWh)	2,142.84
PUE	1.4
Total water consumption (tonnes)	3,834

Notes:

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

2. Greenhouse gas inventories include carbon dioxide, methane and nitrous oxide. Greenhouse gas emissions are presented based on carbon dioxide equivalent and calculated in accordance with the *2017 China Regional Grid Baseline Emission Factors* published by the Ministry of Ecology and Environment, and the electricity GHG emission coefficient in the 2019 Sustainability Report of CLP Group, and the *2006 IPCC Guidelines for National Greenhouse Gas Inventories* published by the Intergovernmental Panel on Climate Change (IPCC).

3. The hazardous wastes generated in the operation of the Group mainly include waste toner cartridges and waste ink cartridges generated from office printing equipments, waste fluorescent tubes and data centre's waste lead-acid batteries. Waste toner cartridges and waste ink cartridges are recycled by printing suppliers, and waste fluorescent tubes and data centre's waste lead-acid batteries are recycled by qualified recyclers. In 2019, the data centre did not generate waste lead-acid batteries.

4. The non-hazardous wastes generated in the operation of the Group mainly include domestic wastes, which are all handled by property management companies, and its data is not available, therefore estimation of domestic waste is made with reference to "Handbook on Domestic Discharge Coefficients for Towns in the First Nationwide Census on Contaminant Discharge" published by the State Council. The non-hazardous wastes of office building cover main offices located in mainland China. The non-hazardous wastes generated by the data center mainly include waste servers and hard drives. In 2019 there was no waste server nor waste hard drive generated.

5. Water consumed by the Group is from the municipal tap water pipe network and there is no issue in sourcing water that is fit for purpose. The scope of the water consumption covers buildings of Kingsoft Beijing Office and Zhuhai Office, Beijing Office Software Beijing Office, Kingsoft Cloud Beijing Office, and Seasun Holdings Chengdu Office. The water fees of the rest office buildings are included in property management fees, so the water consumption data is not available.

6. Energy consumption is calculated based on 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. The diesel is used for backup generators.

8. PUE (Power usage effectiveness) is the average annual PUE of the data center. PUE is an index to evaluate the efficiency of date center energy use. It is the ratio of all facilities energy over IT equipment energy.

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

Caring for Employees

By adhering to the people-oriented principle, the Group regards the staff as its most valuable assets. Through the establishment of a transparent and fair employment mechanism, the Group is committed to providing diversified and rich training programmes, carrying out beneficial staff activities to achieve common development of the Group and the staff.

Employment

The Group protects the legitimate rights and interests of employees pursuant to 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, and the Law of the People's Republic of China on the Protection of Women's Rights and Interests* and other laws and regulations. Employees of the Group are hired in accordance with the principles of fair competition, merit-based recruitment, and equal opportunities for internal and external personnel. The Group does not differentiate employees or remunerations based on ethnicity, race, age, gender, marital status, and religious beliefs of applicants or employees. The Group signs labour contracts with employees in accordance with the principles of equality, consensus, honesty and trustworthiness. The Group conscientiously implements the *Special Rules on the Labour Protection of Female Employees*, guarantees the rights and benefits of female employees during pregnancy, childbirth and breastfeeding, and prohibits reduction of wages and unreasonable dismissal of female employees based on pregnancy, childbirth and breastfeeding. We fully respect all employees and promote equality of personality, reject any form of abusive discrimination, and firmly prohibit forced, threatening, abusive or exploitative labour practices and employees under the age of 18. As of the end of 2019, the Group had a total of 7,589 employees.

CATEGORY	NUMBER OF EMPLOYEES	PROPORTION
By age		
29 years old and under	3,353	44.18%
30-50 years old	4,193	55.25%
50 years old and above	43	0.57%
By gender		
Male	5,084	66.99%
Female	2,505	33.01%
By geographical region		
China	7,462	98.33%
Asia-Pacific (excluding China)	127	1.67%
By type of employment relations		
Employees	7,137	94.04%
Interns	452	5.96%
By Level		
Senior management	61	0.8%
Middle management	1,670	22.01%
General staff	5,858	77.19%

Working Hours and Holidays

Pursuant to the *Labour Law of the People's Republic of China, and the Labour Contract Law of the People's Republic of China*, we developed an attendance system to manage employees' working hours and provide employees with statutory leaves.

Employee Communication

We provide smooth communication channels for our employees. Employees can submit opinions or suggestions through online and offline suggestion platforms. The feedback is timely organised and transferred to the corresponding department leaders for follow-up.

Health and Safety

Pursuant to the *Work Safety Law of the People's Republic of China, and the Law of the People's Republic of China on Prevention and Control of Occupational Diseases*, we highly value the health and safety of our employees.

We emphasize the importance on fire safety management in the office area, strengthen fire prevention inspections in the office area, educate employees on fire safety, and regularly organise employees to participate in fire emergency drills in the office building.

We provide supplemental medical insurance for our employees, organise all the staff to take annual physical examination every year, and hold health lectures, health Q & A and other activities from time to time.

Meanwhile, we pay close attention to the mental health of our employees. Beijing Office Software has launched the Employee Assistance Programme (EAP) to relieve staff's emotions by ways of one-to-one and face-to-face consultancy, psychology hotline, etc.

After the outbreak of novel coronavirus pneumonia, the Group actively responded to national directive calls to extend the vacation, real time kept track of the health status of employees, shared epidemic prevention knowledge, and arranged all employees to work remotely from home. We provided protective equipment such as masks, disinfection supplies and thermometers to ensure employees' healthy and safety after employees resumed work.

Development and Training

The Group has provided staff with reasonable remuneration packages, established a clear promotion system and promotion channels, and encouraged management talents, technology talents and skilled talents to develop their abilities through multiple channels.

The Group and its subsidiaries have set up diversified training programmes, provided the staff at different positions and levels with comprehensive or professional training courses and helped them to achieve self-development. Meanwhile, the Group has formulated the *Management Measures of Kingsoft on External Trainings* to encourage staff to improve their own working abilities through external training sources.

At the Group level, we have a number of training programmes, such as the pilot plan and the management trainee programme, to provide employees with diverse training content. The Group has started to launch the "King Plan" for management trainees since 2017, with an aim to nurture future comprehensive management talents, offer the professional knowledge trainings in products, operation and marketing, and provide assistance in the construction of competencies such as the leadership capacity cultivation. It usually takes two years for three subsidiaries to jointly nurture these management trainees who have to complete the required courses before their successful graduation. In 2019, the "King Plan" of the Group completed a total of 25 books-reading, 14 face-to-face courses, 4 online courses, 12 externally introduced training courses and 8 self-developed courses with a participation rate of 100% and a rotation satisfaction rate of up to 93%.

Relying on the training resources of the Group, Kingsoft Cloud has formed a training and learning system with four modules, namely "Leadership Training", "On-the-job Training", "Open Courses Sharing", "Induction Training", and offered a total of 97 sessions of training courses in 57 terms in 2019. More than 5,500 attendees participated in training.

Training Module	Program
Leadership Training	Provide frontline, middle-level and senior management with targeted management knowledge and management skill practice courses.
On-the-Job Training	Open several position-related knowledge and skills training courses specific to different aspects of marketing, technologies and professional functions.
Open Courses Sharing	Form "Cloud Jianghu" series brand courses, and organise external and internal experts to share four types of contents • "Cloud Technology": Technological exchange and sharing courses • "Cloud Product": Business and product analysis courses • "Cloud Talent": Occupational skill training courses • "Cloud Life": Life Topics of Staff Care
Induction Training	Provide targeted program and learning mechanism to different types of employees, and help new employees understand the company's development history, product portfolio, information security requirements, etc. • For new employees from social recruitment: "Cloud Starting Training Camp" • For employees of newly graduates from universities: "Lingyun Plan" • For sales staff and solution staff: marketing staff on-job learning package • For group management trainee: visiting and job rotation

Beijing Office Software has established a pyramid-type training system for the staff at different levels and conducted comprehensive training programs from the CEO office training, the pilot plan for key officers and the extensive exploration plan for middle-level managers to the training for frontline managers. In 2019, Beijing Office Software organised more than 300 trainings of various kinds, covering all staff.

Training Module	Program
CEO office training	To help the CEO office broaden vision and seek direction through enterprise interview and Qinghai Lake cycling outward development activities.
Extensive exploration plan for middle-level managers	To enhance the competency of middle management through trainings on coaching leadership, financial management, communication management, operation simulation etc.
On-the-job training	To improve employees' soft and technical skills through general soft skills training and various technology sharing.
Orientation training	To help new employees understand the Group, perceive culture, and integrate into the team through trainings dedicated for new joiners from social recruitment and campus recruitment.

With the help of the Group's training resources, Seasun Holdings has established a training system consisting of four modules: "senior management", "middle management competency", "staff professional skills and professional ability" and "new employee professionalism", so as to build a management team with strategic vision and strong business ability to function as the core to improve the comprehensive professional quality of all staff. In 2019, Seasun Holdings carried out various training activities covering senior management, middle management and employees from different departments to improve the comprehensive ability of the team.

Training Module	Training Content
Senior management training	Strategy seminars, quarterly meetings, exchange visits
Middle management capabilities	Management capabilities, inter-department collaboration, and enterprise operation simulation with sand table
Professional skills and vocational training of employees	Communication and writing, goals and execution, expertise
Professional training for new employees	New employee professionalism, enterprise culture, time management, etc.

Employ Benefits and Activities

We uphold the corporate culture and concept of building Kingsoft as home, thinking what employees think and doing what employees need. The Group has formulated the *Rules on Employee Benefits*, providing employees with various benefits, such as festival subsidiaries, wedding subsidiaries and meal fee allowances. Meanwhile, the Group has also opened "Kingsoft Dining Hall", serving local cuisines to meet dietary habits of employees from different regions. The Group encourages staff to achieve a reasonable balance between work and life, and organises various employee activities to enhance employees' sense of identity and belonging.

Physical Activities

The Group established the basketball association, the football association, the badminton association, the Yoga association and other clubs, periodically conducts club activities, and provides venues such as fitness rooms and dancing rooms, so as to encourage staff to conduct sporting exercises outside work.

In 2019, through “Travel with Kingsoft Spirit” series activities, the Group organised employees to participate in mountaineering, hiking, orienteering and other activities to convey the Kingsoft spirit. Subsidiaries of the Group also organised employees to participate in various ball games and outing events.

“Travel with Kingsoft Spirit”
series activities · Beijing · Canyon crossing

Kingsoft Cloud “Cloud Community”
outing in spring

Entertainment

We actively carry out all kinds of recreational activities to enrich staff’s spare time. In 2019, Beijing Office Software launched a TalKing Show keynote speech with rich and colourful theme and invited staff to share their ideas. Kingsoft Cloud held a programmer dubbing contest, inviting dubbing teachers to guide them to enrich staff’s spare time. Seasun Holdings initiated the “Family Day” to hold various parent-child activities, and launched the Han Chinese Costume Day of Seasun Holdings to brighten the working atmosphere and promote Chinese traditional culture.

TalKing Show of Beijing Office Software

The 6th Family Day of Seasun Holdings

Han Chinese Costume Day of Seasun Holdings

Responsible Operation

With its own profound technical strengths, advanced service model and heartfelt behaviour pattern, the Group has won recognition from a wide range of customers in the fields of office software, Internet security and digital entertainment.

In 2019, Kingsoft Cloud was awarded many honours such as "Promoter of Cloud Computing", "Asia Pacific Award for Excellence in E-Sports", "AI Innovation Practice Award", and "CDN Leadership Award Top 10 Outstanding Enterprises" of the 2019 Asia Pacific Content Distribution Conference.

Information Security and Privacy Protection

Strictly adhering to laws and regulations 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 attaches great importance to information security and privacy protection. All subsidiaries of the Group have privacy policies in place, which are disclosed and accessible to our users on the website. In addition, we have a professional information security team responsible for product information security and also quality control staff for frequent inspection and random sampling of products to further protect customer privacy. In the *Code of Conduct for Kingsoft's Employees*, we clearly require staff to protect information security of the Group and customers privacy. We also provide training courses for staff on information security and privacy protection.

Kingsoft Cloud

Taking the protection of users' data security as our own responsibility, Kingsoft Cloud actively promotes data security and privacy protection in accordance with the requirements of domestic laws and regulations and the requirements of *the General Data Protection Regulations* (GDPR). At present, Kingsoft Cloud has established a complete information security protection system, covering system process, personnel management, technical means and other links to provide a full range of data and asset security.

Kingsoft Cloud has issued *the White Paper on Kingsoft Cloud Security* and the *Privacy Protection Statement* on the website to clarify to our Cloud tenants the way Kingsoft Cloud collects, uses and stores personal information and the rights of users while providing cloud-related services.

Kingsoft Cloud has formulated relevant information security policies such as the *Kingsoft Cloud Security Requirements,* the *Data Security Classification and Management Specification, Staff Information Security Handbook* and *Personal Information Security Incident Management Regulations* to ensure security of data disclosure, data flow and data use.

Kingsoft Cloud has set up a security committee and a full-time information security team, and established a unified reporting mechanism for security risks and issues. At the same time, Kingsoft Cloud has developed security risk assessment procedures, conducted security assessment and penetration testing on the business system to ensure the security of the system. We have also built security monitoring and abnormality analysis mechanism of information system, public opinion monitoring and threat intelligence mechanism to collect security risks of information system in a reasonable, compliant and effective manner, and take corresponding countermeasures. Kingsoft Cloud also regularly organises information security awareness training and information security incident emergency drills to enhance staff's information security awareness and data protection skills through training, promotion, guidance, reward and means.

At the same time, Kingsoft Cloud has been taking a variety of reasonable and effective technical measures in an effort to protect users' information, preventing unauthorised access, use or modification of their information, data damage or loss. Kingsoft Cloud uses encryption technology to ensure the security of users' information, applies a trusted protection mechanism to prevent their information from malicious attacks, and deploys an access control mechanism so that only authorised personnel can access their information. When users store data on Kingsoft Cloud products, Kingsoft Cloud segregates data from each other and on a customers basis. Without legal authorisation, no other customers can access to the protected data, Kingsoft Cloud also has no rights in accessing to view users' data.

Evaluation of Classified Network Security. According to the protection standard of classified network security and relevant regulations, the Service Platform System of Kingsoft Cloud completed the registration and assessment on Classified Protection at Level 3 on 1 July 2015. Beijing E-government Cloud (Kingsoft Cloud) System completed the registration and assessment on Classified Protection at Level 3 on 16 March 2016. The Financial Cloud Platform of Kingsoft Cloud completed the registration and assessment on Classified Protection at Level 4 on 1 September 2019.

ISO Audit Certification. Kingsoft Cloud protects data throughout the whole lifecycle. In 2019, we adopted ISO 27018 Code of Practice for Protecting Personal Data, to protect personal data stored in the Cloud. In addition, Kingsoft Cloud has been certified to ISO 22301 Business Continuity Management, for business continuity management activities related to cloud computing and cloud services. We have also been certified with ISO 27001 Information Security Management, for information security management activities related to cloud computing and cloud services.

Cloud Security Certification. Kingsoft Cloud obtained C-STAR cloud security certification in 2016 and became the first batch of cloud manufacturers in the world to obtain CSA STAR Tech cloud computing product security technology capability certificate (enhanced level) in 2017. We are also the only cloud manufacturer in the industry that has obtained both IaaS and PaaS certifications. At the same time, several businesses of Kingsoft Cloud have obtained the certificate of Trusted Cloud Services (TRUCS). In June 2019, Kingsoft Cloud passed the compliance assessment conducted by atsec China in respect of the Payment Card Industry Data Security Standard. The Public Cloud of Kingsoft Cloud was certified with ITSS and received the Level 1 Cloud Computing Service Capability Certificate on 6 January 2020.

Network Security Review. In April 2019, the E-government Cloud Platform of Kingsoft Cloud passed the network security review conducted by the Office of the Central Cyberspace Affairs Commission with the enhanced level of security capability. The review was a third-party security evaluation conducted by the Office of the Central Cyberspace Affairs Commission in accordance with the national standard of *Security Capability Requirements of Cloud Computing Services*. It means that the E-government Cloud Platform of Kingsoft Cloud has been recognised by the national network security management administration in terms of security and controllability.

Beijing Office Software

Beijing Office Software has formulated a series of policies to ensure information security, such as the *General Outline of Information Security Management*, the *Measures for the Administration of Information Classification*, the *Network Security Management Policy*, the *System Security Management Policy*, and the *Emergency Plan Management Policy*.

According to the protection standard of classified network security and relevant regulations, the WPS Cloud Document, WPS Account System, the PC version of word search system of Kingsoft iCIBA and the APP system of word search application system of Kingsoft iCIBA have completed the registration and assessment on Classified Protection at Level 3 of the Information Security of the Ministry of Public Security.

In 2019, Beijing Office Software has set up the Security Committee, Chief Security Officer and Security Management Office. Under the coordination of the Security Management Office, the Department of Product Security, the Department of Network Security, the Department of Information Security and the Security Support Team are responsible for security matters at all levels.

In 2019, Beijing Office Software won the "Active Contribution to Social Welfare Award" at 2019 Netizen Network Security Satisfaction Survey Activity by the Chinese Information Network Security Associations Alliance, and "2019 Outstanding Contribution Award" for managing vulnerabilities by China National Vulnerability Database (CNVD).

Seasun Holdings

For information related to users' privacy, such as name, mobile phone number, email address, ID card information, Seasun Holdings encrypts those information and stores them in a secured database. The company practices strict approval processes where operators are not accessible to necessary personal information of users without authorisation.

For users, Seasun Holdings has a high-risk account protection mechanism for users' account, which requires users to set account password protection locks to ensure the security of users' account property and personal information.

Protection of Intellectual Property Rights

Adhering to the innovation-driven development strategy, the Group is committed to providing customers with advanced technology and quality products through scientific and technological innovation and product optimisation and upgrade. The Group strictly abides by 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*. We formulated the *Incentive Policy of Kingsoft for Technology Innovation, Promotion and Introduction and Patent Application* to encourage invention and creation, improve the technological transformation rate, improve the motivation of the staff for technological innovation and patent application, promote the application of new technologies across different departments and technological exchange to create an atmosphere of mutual progress.

As at 31 December 2019, the number of patents obtained by the Group reached more than 420. During the reporting period, the Group obtained a total of more than 60 patents.

Bettering Customer Service

The Group always adheres to the customer-oriented service concept and is committed to providing the society and our customers with high quality products and services with good reputation. We strictly abide by laws and regulations such as the *Law of the People's Republic of China on the Protection of Consumer Rights and Interests*, constantly improve product quality control, the capacity of handling customer complaints, customer satisfaction survey to protect their legitimate rights and interests.

We are committed to identifying root causes in addressing risks of customers' complaints, and exercises an overall control over the product quality through our professional quality monitoring and control team by way of daily service guidance and periodic inspection. Meanwhile, sticking to the concept of focusing on and befriending with customers, we proactively and efficiently respond to complaints and requests from customers. All subsidiaries have set up and improved the corresponding compliant management mechanisms in light of their own business features. For instance, Kingsoft Cloud has formulated the *Measures on Level to Level Management of Customers' Complaints of Kingsoft Cloud*, Beijing Office Software has implemented the *Management System for Complaints from Users of Kingsoft Software*, and Seasun Holdings has developed the *Management Policy for Services of the Customer Service Centre*, so as to improve the service process, protect the interests and rights of customers and improve the customer service quality.

All subsidiaries have set up a professional team to respond to and deal with customers' complaints. The customer service staffs sort and record information of customers' complaints by natures and types. The dedicated staffs further investigate and review the complaints to handle or provide responses to customers with satisfactory solutions. All processes in customer complains handled are filed, recorded and tracked in detail with analysis outcome and acceptance by customers. The Group regularly collects the number of complaints and the types of problems for summary and analysis.

During the reporting period, all subsidiaries have achieved good performance in terms of customer services with the customer satisfaction rate over 96%.

Advertising Management

The Group has formulated the *Measures for the Approval and Administration of Public Promotion*, which defines the approval process of publicising promotional manuscripts to ensure the authenticity, accuracy, verifiability and non-misleading nature of manuscripts provided for the outside world. And by doing this, we also ensure that these materials or advertisements provided for the public comply with the requirements of the *Advertising Law of the People's Republic of China* and the laws and regulations of relevant countries and regions.

Game Anti-addiction Management

Online games are the most important business of Seasun Holdings. In accordance 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* and the *Notice on Regulating the Operations of Online Games and Strengthening Interim and Ex Post Regulation*, we actively implement various measures to ensure compliance operation. We have obtained the relevant qualification certificates for operating online games, such as *Value-Added Telecommunications Business Permit*, the *Online Publishing Service License* and the *Permit for Network Cultural Business Operations*.

In order to protect the physical and mental health of online game users and teenagers, we implement the real-name system and anti-addiction management system of online games in line with regulatory requirements in China, and strengthen the promotion for healthy games and anti-addictive information through various channels. In 2019, the General Administration of Press and Publication issued the *Notice of Preventing Minors from Indulging in Online Games*. Strict requirements have been put forward in the aspects of the real-name registration system for online game user accounts, controlling the period and duration of minors playing online games, and standardizing the provision of paid services to them. Seasun Holdings strictly abides by the national regulations, adopts real name registration system, and limits the daily login time and the amount of in-game recharge of minor users. For PC game business, Seasun Holdings implements more stringent anti-addiction requirements, specifying minors under 18 are not allowed to access the game.

Optimising Supply Chain Management

While fulfilling our social responsibilities, the Group actively strengthens the management for suppliers, supports and encourages suppliers to take the initiative to assume social responsibilities. In accordance with 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 formulates and implements the *Specification on Supply Chain Purchasing Management* and strictly controls the procurement risk and the quality of suppliers.

In the review process of engaging suppliers, the Group critically evaluates their performance in environmental protection, social responsibility and work safety. We also require suppliers to provide enterprise qualification documents such as quality system verification, business license, production license, product certificate, testing report, give priority to suppliers with environmental protection qualification certification, and refuse to cooperate with suppliers with bad records. In the process of cooperation, the Group helps suppliers improve the quality of products and services through timely communication and regular exchange of information with them, provides relevant training for suppliers if necessary to create value and achieve mutual benefits. In addition, with reference to the assessment system, the Group evaluates the suppliers in terms of product quality, after-sales service, and response time, with quarterly scoring mechanism and eliminates unsatisfaction rated suppliers on a regular basis.

During the reporting period, the Group had a total of 1,283 suppliers.

Anti-corruption

The Group is committed to building a fair and transparent working environment. In accordance with the anti-corruption, bribery and other requirements of laws and regulations such as the *Anti-Unfair Competition Law of the People's Republic of China*, we have formulated the policies and relevant management 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 specify the requirements for the code of conduct of staff and firmly prevent corruptions in any form.

In procurement, the Group includes the integrity management into the scope of inspection of suppliers and requires suppliers to execute the integrity terms in the contracts, including the establishment of a sound integrity system, a whistle blowing hotline, and serious investigation and punishment of violations of laws and disciplines.

Meanwhile, the Group has provided multiple channels for whistle blowing, and encouraged entities or individuals to report any behaviours violating the rules and regulations of the Group to our internal audit department. Whistle-blowers may report any illegal behaviours by email, the reporting system, telephone, face to face, etc. The *Regulations of Kingsoft on the Management of Whistle Blowing and Complaints* has provisions on protection of whistle-blowers.

Community Investment

Whilst the Group continuous to develop, we do not forget to give back to the society actively. Over the years, the Group has continued to invest in poverty alleviation, disaster relief, education, environmental protection and other fields. In 2019, the Group donated RMB 970,000 in total to Zhuhai Poverty Alleviation Foundation, Zhuhai Red Cross Society, China University of Petroleum Foundation, Xinjiang Production and Construction Corps Pishan Farm Middle School, and Ningguo City Charity Association. We also encourage staff to participate in community public welfare activities, such as the annual "Public Welfare Month" held by Beijing Office Software. During the "Public Welfare Month" in 2019, 276 staff participated in all kinds of public welfare activities.

Public Welfare Assistance

The Group cooperates with the community we operate in to fulfil social responsibility, actively helping the community to meet its needs.

In 2019, in response to the call from the Qinghe Sub-district in Beijing, the community we operate in, the Group participated in the designated poverty alleviation work, and encouraged staff to participate in the blood donation activity organised by the Sub-district. Beijing Office Software organised staff to donate clothes for poor school students and families in Qinghai Province, raising a total of 946 pieces of clothing.

Kingsoft Cloud concerns about the vulnerable groups of the disabled. Since 2016, Kingsoft Cloud has cooperated with the Lizhi Rehabilitation School of Fengtai, Beijing to organise staff to participate in rainbow "painting" activities. In 2019, Kingsoft Cloud organised staff to accompany mentally handicapped young people to hike and play games, calling on the society to pay attention to the disabled group.

Environmental Protection

In the face of increasingly serious environmental issues, the Group is deeply aware of our responsibility in environmental protection and actively carries out various environmental protection activities.

In 2019, Kingsoft held public welfare activities for environmental protection, organising staff to hiking in natural area and protect nature. Beijing Office Software organised staff in Zhuhai and their families to participate in community-organised activities to clean up marine garbage, with a total of 85 kilograms of marine garbage being cleaned up.

Environmental Protection Activity

Cleaning up Marine Garbage

In the face of the increasingly serious situation of marine pollution, Seasun Holdings introduces games relating to marine protection information. In 2019, Seasun Holdings set up a series of tasks such as "Attachment to White Dolphin" in *JX Online 3*, allowing users to participate in marine public welfare activities while doing tasks in the game, such as picking up marine garbage and protecting marine life. A total of 339,000 players actively participated in this public welfare activity in the game. On the World Water Day on 22 March 2019, Seasun Holdings, through *JX Online 3*, joining hands with Better Blue, a professional marine environmental protection public welfare organisation, Rendu Ocean and the Chinese White Dolphin National Nature Reserve Administration in Guangdong Pearl River Estuary, launched the public welfare campaign of "Blue Ocean Guardian", and at the same time lit up three environmental protection sites in Zhuhai and Shanghai to publicise the knowledge of marine protection to the public.

Combating the Coronavirus

After the outbreak of the coronavirus, the Group responded actively and contributed to the battle against the epidemic. The Group donated more than RMB 2 million to those front lines fighting the epidemic in Wuhan, and immediately purchased and donated medical supplies to Wuhan City, Dawu Charitable Foundation of Xiaogan City and Ezhou Central People's Hospital.

Kingsoft Cloud quickly launched an Emergency Supplies Management System after the outbreak. This system is a set of cloud system independently developed by the

Government and Enterprise Technology Product Centre of Kingsoft Cloud in response to COVID-19, targeting government departments at all levels or emergency headquarters of relevant units. It provides a series of information aggregating functions such as storage, demand and distribution, message reminders of emergency supplies, to successfully resolve different practical problems in accurately compiling aggregated demand for emergency materials for prompt decision making and allocation approvals.

At the same time, in order to help medium-sized, small and micro enterprises overcome supplies operational difficulties, Kingsoft Cloud provides free "Recovery Emergency Package of Cloud Resource Worth RMB 10 Million", including 10,000-core cloud host computing power, a variety of high-performance cloud databases, high-quality network performance and massive cloud storage services. Kingsoft Cloud leverages its advantages to help more enterprises resume operations online, improve efficiency, and achieve healthy development. In order to ensure efficient telecommuting of medium-sized, small and micro enterprises, Beijing Office Software offered free upgrade of collaborative version of WPS+ cloud office for enterprises to help more enterprises smoothly cruise through this difficult period.

The Board of the Company submits its report together with the audited financial statements of the Group for the year ended 31 December 2019.

Principal Business

The Group is principally involved in the following principal activities:

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

Results and Appropriations

The results of the Group for the year ended 31 December 2019 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 2019 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 2019 is set out in this annual report.

The Directors recommend the payment of a final dividend of HK$0.10 per ordinary share (2018: nil) totalling approximately HK$136.6 million (2018: nil), which excluded the dividend related to the shares held under the Share Award Scheme, based on issued shares capital as at 31 December 2019 to shareholders whose names appear on the register of members of the Company on Monday, 8 June 2020. Such proposed dividends will be subject to approval of the shareholders at the forthcoming annual general meeting ("AGM") to be held on Wednesday, 27 May 2020. Such proposed dividends will be payable on Friday, 3 July 2020. This recommendation has been incorporated in note 13 to the financial statements.

For the year ended 31 December 2019, 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, 22 May 2020 to Wednesday, 27 May 2020, and Thursday, 4 June 2020 to Monday, 8 June 2020, 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, 21 May 2020 and Wednesday, 3 June 2020, respectively.

Reserves

For the year ended 31 December 2019, the loss attributable to owners of the parent company amounted to RMB1,546.4 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 2019, the Company had distributable reserves amounting to RMB3,637.3 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 2019 are set out in the consolidated statement of changes in equity of this annual report, and in note 49 to the financial statements, respectively.

Donations

During the year, the Group made charitable and other donations totalling RMB1.0 million (2018: RMB0.4 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 2019, the Group employed approximately 7,137 full-time employees (2018: 6,185) inclusive of all its staff in Mainland China and overseas offices, most of whom are based at the Company's offices in Beijing and Zhuhai.

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities 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 2019 and 2018 were approximately RMB2,720.5 million and RMB2,183.7 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 2019 are set out in note 1 to the financial statements.

Material Investments and Acquisitions

Details of the material investments and acquisitions incurred during 2019 are set out in note 20, 21, 22 and 23 to the financial statement.

Spin-off and Separate Listing of Beijing Office Software

Discloseable transaction in relation to deemed disposal of interest in Beijing Office Software

On 18 November 2019, the Company announced that the proposed spin-off and separate listing of Beijing Office Software, a non-wholly owned subsidiary of the Company, on the SSE STAR Market has been completed and the listing of ordinary shares of Beijing Office Software commenced. Beijing Office Software issued a total of 101,000,000 shares and the equity interest of the Company in Beijing Office Software decreased from approximately 67.50% to 52.71% upon completion of the spin-off and separate listing of Beijing Office Software. Therefore, it constituted a deemed disposal of the Company under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio in respect of the spin-off and separate listing of Beijing Office Software is more than 5% but less than 25%, the spin-off and separate listing of Beijing Office Software constituted a discloseable transaction of the Company and is subject to the announcement and reporting requirements, but exempt from shareholders' approval under Chapter 14 of the Listing Rules. For more details, please refer to announcements of the Company dated 23 April 2019, 29 April 2019, 30 May 2019, 24 October 2019, 5 November 2019 and 18 November 2019, and note 38 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 42 to the financial statements, there was no specific plan for material investments and acquisitions of material capital assets as at 31 December 2019.

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 2015, 2016, 2017, 2018 and 2019, is set out as below. The summary does not form part of the audited financial statements.

	YEAR ENDED 31 DECEMBER				RMB'000
	2015	**2016**	**2017**	**2018**	**2019**
Profit/(loss) for the year	341,704	(292,275)	3,296,629	(165,242)	**(2,082,699)**

	AS AT 31 DECEMBER				
	2015	**2016**	**2017**	**2018**	**2019**
Total assets	15,484,877	17,578,952	17,762,390	20,049,812	**24,401,623**
Total liabilities	5,573,522	7,577,228	5,209,419	7,128,213	**8,792,242**

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 2019.

Bank Borrowings

Particulars of bank loans as at 31 December 2019 are set out in note 31 to the financial statements.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2019 are set out in note 15 to the financial statements. No assets of the Group are charged during the year ended 31 December 2019.

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 2019.

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 2019 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.

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

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

Details of the movements in share options of the Group for the year ended 31 December 2019 are set out in note 37 to the financial statements.

Summary of the Share Option Schemes

	Detail	2011 Share Option Scheme	Kingsoft Cloud 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 the Kingsoft Cloud Group and/or to enable the Kingsoft Cloud Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Kingsoft Cloud Group and any invested entity.	To provide incentives or rewards to participants thereunder for their contribution to Westhouse Group and/or to enable the Westhouse Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Westhouse Group and any invested entity.
2	Qualified participants	Any 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.	Any employee(s) (whether full time or part time employee(s)) of Kingsoft Cloud, its subsidiaries or any invested entities.	Employee(s) (whether full time or part time employee(s)) of Seasun Holdings, its subsidiaries or any invested entities.
3	Maximum number of shares	The maximum number of 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 maximum number of options available for exercise is 209,750,000 of which 123,250,000 options were granted prior to 20 May, 2015 and 86,500,000 options may be granted after 20 May 2015.	The total number of shares which may be issued upon exercise of all options to be granted shall not in aggregate exceed 40,000,000 ordinary shares of Seasun Holdings unless otherwise approved by the shareholders of the Company and Seasun Holdings in general meeting.
4	Maximum entitlement of each participant	The maximum number of shares issuable under share options to each eligible participant in the 2011 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.	Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders of the Company and Kingsoft Cloud in general meetings. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) (where the shares are listed on the Stock Exchange,) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders of the Company and Kingsoft Cloud.	The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total number of shares in issue, unless separately approved by the shareholders of the Company and Seasun Holdings in general meeting with such participant and his associates abstaining from voting. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) (where the shares are listed on the Stock Exchange,) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the shareholders of the Company and Seasun Holdings.
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 Kingsoft Cloud may in its absolute discretion determine and notify to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme.	Such period as the board of Seasun Holdings may in its absolute discretion determine and notify to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme.
6	Acceptance of offer	The offer of 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.	As the board of Kingsoft Cloud may determine.	An offer of grant of an option may be accepted by a participant within a period of 28 days from the offer date provided that no offer shall be open for acceptance after the expiry of the scheme or after the scheme has been terminated.

	Detail	2011 Share Option Scheme	Kingsoft Cloud Share Option Scheme	Seasun Holdings Share Option Scheme
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 Kingsoft Cloud but in any case the subscription price of options granted after Kingsoft Cloud or the Company has resolved to seek a separate initial public offering and up to date of Kingsoft Cloud's initial public offering must not be lower than the new issue price (if any) in the Kingsoft Cloud's initial public offering. In particular, any options granted during the period commencing six months before the lodgment of Form A1 (or its equivalent) up to the date of Kingsoft Cloud's initial public offering are subject to this requirement. The subscription price of options granted during such period shall be subject to adjustment to a price not lower than the new issue price in Kingsoft Cloud's initial public offering.	The subscription price shall be such price as determined by the board of Seasun Holdings but in any case the subscription price of options granted after Seasun Holdings or the Company has resolved to seek a separate initial public offering and up to date of Seasun Holdings' initial public offering must not be lower than the new issue price (if any) in the Seasun Holdings' initial public offering. In particular, any options granted during the period commencing six months before the lodgment of Form A1 (or its equivalent) up to the date of Seasun Holdings' initial public offering are subject to this requirement. The subscription price of options granted during such period shall be subject to adjustment to a price not lower than the new issue price in Seasun Holdings' initial public offering.
8	Remaining life of the Scheme	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.

2011 Share Option Scheme

The following share options were outstanding under the 2011 Share Option Scheme as of 31 December 2019:

	NUMBER OF SHARE OPTIONS						
NAME OR CATEGORY OF PARTICIPANT	**AT 1 JAN 2019**	**GRANTED DURING THE PERIOD**	**EXERCISED DURING THE PERIOD**	**CANCELLED DURING THE PERIOD**	**AT 31 DEC 2019**	**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.

Kingsoft Cloud Share Award Scheme

On 22 February 2013, the directors of Kingsoft Cloud approved and adopted the Kingsoft Cloud Share Award Scheme, for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Cloud Group are entitled to participate. Unless early terminated by the directors of Kingsoft Cloud, the Kingsoft Cloud Share Award Scheme shall be valid and effective for a term of ten years commencing on 22 February 2013. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 9 January 2015 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 50,000,000 shares, as at the date of such grant. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 3 March 2016 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 68,364,500 shares, as at the date of such grant. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 8 June 2016 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 69,925,476 shares, as at the date of such grant. The Kingsoft Cloud Share Award Scheme was amended by the board and shareholders of Kingsoft Cloud on 6 November 2019 to refresh the limit of the scheme. Pursuant to the amended Kingsoft Cloud Share Award Scheme, the directors of Kingsoft Cloud will not grant any award of shares which would result in the total number of awarded shares granted under the Kingsoft Cloud Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 215,376,304 shares, as at the date of such grant.

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

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. Jun LEI, Mr. Pak Kwan KAU and Ms. Wenjie WU will retire at the forthcoming AGM of the Company and, being eligible, will offer themselves for re-election.

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

Directors' and Senior Management's Biographies

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 12 to 15 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 2019.

Directors' and Chief Executive's Interests in Securities

As at 31 December 2019, 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	142,710,003	10.40	Long position
	Total	352,826,251 (Note 2)	25.70 (Note 4)	Long position
Pak Kwan KAU	Interest of controlled corporation	108,028,566 (Note 3)	7.87	Long position
Tao ZOU	Beneficial owner	7,409,307	0.54	Long position
Yuk Keung NG	Beneficial owner	2,775,000	0.20	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 2019, which was 1,372,728,717.

2. Among these 352,826,251 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) 142,710,003 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.

4. Any discrepancies in the table between total and sum of amounts listed therein are due to rounding.

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 2019, 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	17,660,294	4.06	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 48.43% ownership interest and 26.41% voting power of Cheetah Mobile as at 31 December 2019, which is listed on the NYSE.

2. % of the total number of issued shares in class was calculated on basis of the issued Class A Cheetah Shares as at 31 December 2019, which was 435,084,177.

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

Save as disclosed above, none of the Directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2019.

Substantial Shareholders

As at 31 December 2019, as far as the Directors are aware of, the following, other than the Directors and chief executive of the Company, had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued capital of the Company:

Interest in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares interested	% of 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	108,028,566	7.87	Long position
Tencent Holdings Limited (Note 4)	Interest of controlled corporation	106,784,515	7.78	Long position
Citigroup Inc.	Interest of controlled corporation	37,479,043	2.73	Long position
	Approved lending agent	43,741,248	3.19	Long position
	Interest of controlled corporation	36,762,332	2.68	Short position
	Approved lending agent	43,741,248	3.19	Lending pool
UBS Group AG	Interest of controlled corporation	51,363,339	3.74	Long position
	Person having a security interest in shares	20,128,284	1.47	Long position
	Interest of controlled corporation	15,715,779	1.14	Short 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 2019, 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 Division 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of the Shares carrying the right to vote in all circumstances at general meetings of the Company.

Public Float

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

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

For the year ended 31 December 2019, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

Conversion of Convertible Bonds and Adjustment to the Conversion Price

The Company completed the issue of the 2014 Convertible Bonds in the principal amount of HK$2,327,000,000 on 11 April 2014. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each 2014 Convertible Bonds at its principal amount together with accrued and unpaid interest thereon on 11 April 2019. The proceeds from the subscription of the 2014 Convertible Bonds, after deduction of commissions and other related expenses, were approximately HK$2,277 million. Assuming full conversion of the 2014 Convertible Bonds at the initial conversion price of HK$43.89 per share and no further issue of shares, the 2014 Convertible Bonds will be convertible into approximately 53,018,910 shares of the Company. The net price for each conversion share is approximately HK$42.95, and the initial conversion price was HK$43.89, which represented a premium of approximately 40.00% over the closing price of HK$31.35 per share as quoted on the Stock Exchange on 3 April 2014, being the last trading day prior to the announcement of the issue of the 2014 Convertible Bonds. The 2014 Convertible Bonds were offered and sold to no less than six independent places (who were independent individual, corporate and/ or institutional investors). The 2014 Convertible Bonds have been listed on the Singapore Exchange Securities Trading Limited since 14 April 2014. The interest is 1.25% per annum of the principal amount of the 2014 Convertible Bonds, payable semi-annually in arrear in equal instalments of HK$6,250 per calculation amount (i.e. interest in respect of any 2014 Convertible Bond shall be calculated per HK$1,000,000 in principal amount of the 2014 Convertible Bonds) on 11 April and 11 October in each year, subject to adjustment for non-business days. The Company intended to use the net proceeds from the subscription primarily for general corporate purposes, for strategic investments and acquisitions, if appropriate, and to supplement working capital. On 11 April 2017, being the put option date of the 2014 Convertible Bonds, the Company redeemed an aggregate principal amount of HK$2,281,000,000 at the principal amount of the 2014 Convertible Bonds together with interest accrued to that date at the option of certain bondholders. As at 31 December 2018, the outstanding 2014 Convertible Bonds at an aggregate principal amount of HK$46,000,000 are convertible into 1,078,040 shares upon full conversion. As at 11 April 2019, all outstanding 2014 Convertible Bonds at an aggregate principal amount of HK$46,000,000 were fully redeemed at their principal amount and accrued interests on the maturity date and no 2014 Convertible Bonds remained outstanding. Accordingly, the 2014 Convertible Bonds were delisted from the Singapore Exchange Securities Trading Limited with effect from 11 April 2019. The net proceeds raised from the issue of 2014 Convertible Bonds have been used up as of 31 December 2015. For details, please refer to the 2015 annual report of the Company. References are made to the announcements of the Company dated 4 April 2014 and 11 April 2014 for principal terms of the 2014 Convertible Bonds and the announcements of the Company dated 9 April 2019 and 11 April 2019 for redemption on maturity of the 2014 Convertible Bonds.

Details of dilutive effect on the basic earnings per share as at 31 December 2019 are set out in note 14 to the financial statements.

Issue of Convertible Preferred Shares by Subsidiaries of the Company

Share Purchase Agreements

On 2 December 2019, Kingsoft Cloud Group entered into the share purchase agreement (the "**Share Purchase Agreement I**") with Autogold Limited and Mr. Yulin WANG and China Internet Investment Fund (中國互聯網投資基金(有限合夥)) (the "**CIIF Investor**"), pursuant to which, among others, Kingsoft Cloud as the issuer agreed to issue 55,089,998 series D+ preferred convertible shares with par value of US$0.001 per share (the "**Series D+ Preferred Shares**") and CIIF Investor as the subscriber agreed to subscribe for 55,089,998 Series D+ Preferred Shares for a consideration of US$50 million (equivalent to approximately HK$391.385 million).

On 16 December 2019, Kingsoft Cloud Group entered into the share purchase agreement (the "**Share Purchase Agreement II**") with Autogold Limited and Mr. Yulin WANG and Design Time Limited (the "**CCBI Investor**"), pursuant to which, among others, Kingsoft Cloud as the issuer agreed to issue 22,035,999 Series D+ Preferred Shares and CCBI Investor as the subscriber agreed to subscribe for 22,035,999 Series D+ Preferred Shares for a consideration of US$20 million (equivalent to approximately HK$155.942 million). The proposed issue and subscription are subject to completion of the transaction contemplated under the Share Purchase Agreement I.

Pursuant to the Listing Rules, the transactions contemplated under the Share Purchase Agreement I and the Share Purchase Agreement II are exempted from the reporting, announcement and shareholders' approval requirements.

On the assumption that (i) all preferred shares of Kingsoft Cloud are fully converted into the ordinary shares of Kingsoft Cloud based on the conversion ratio of 1:1; and (ii) all shares under the share option scheme and all shares already reserved for issuance under the ESOP are issued, upon completion of the Share Purchase Agreement I and the Share Purchase Agreement II, Kingsoft Cloud will be owned as to approximately 1.8727% and 0.7491% by CIIF Investor and CCBI Investor respectively, and the shareholding of the Company in Kingsoft Cloud will decrease from 49.1251% to 47.8371%. Kingsoft Cloud will remain as the subsidiary of the Company.

Restated Shareholders Agreement

Pursuant to the restated shareholders agreement (the "**Restated Shareholders Agreement**") entered into by all the then shareholders of Kingsoft Cloud, the holders of Series D+ Preferred Shares have the right to request Kingsoft Cloud to purchase the Series D+ Preferred Shares held by them in the event that (i) series D qualified public offering has yet to complete within a certain period of time; (ii) any of the holders of series B preferred shares of Kingsoft Cloud has requested Kingsoft Cloud to purchase the series B preferred shares held by it pursuant to the Restated Shareholders Agreement; (iii) any of the holders of series C preferred shares of Kingsoft Cloud has requested Kingsoft Cloud to purchase the series C preferred shares held by it pursuant to the Restated Shareholders Agreement; or (iv) any of the holders of series D preferred shares of Kingsoft Cloud has requested Kingsoft Cloud to purchase the series D preferred shares held by it pursuant to the Restated Shareholders Agreement. Pursuant to the Restated Shareholders Agreement, each of CIIF Investor and CCBI Investor is entitled to an exit right in certain circumstances. As each of the highest applicable percentage ratios in respect of the grant of the exit right to CIIF Investor and CCBI Investor is less than 5%, such transactions are exempted from the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

For details of the above issue, please refer to the announcements of the Company dated 2 December 2019 and 16 December 2019.

Major Customers and Suppliers

For the year ended 31 December 2019, the 5 largest customers of the Group accounted for 37% of the total revenue, while the largest customer accounted for 15% of the total revenue. For the year ended 31 December 2019, the 5 largest suppliers of the Group accounted for less than 30% of the total purchases.

The major customers of the Group are mainly distributors and operators of internet services. The Group paid attention to strengthening and sustaining the relationship with its major customers as they are important to the business of the Group. However, the Group does not materially rely on such major customers to generate revenue. The Group's 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 of the Group mainly provide package materials for the Group's applications software products and bandwidth services to the Group. The Group has established long-term relationships with the major suppliers of the Group to ensure the stable and sustainable supplies for the businesses of the Group.

None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers and suppliers.

Environmental Policies and Performance

As a group providing internet services, the day-to-day business of the Group generally does not involve many environment issues. However, the Group acknowledges the great importance of environment protection. To minimise the impact on the environment and natural resources generated from the operation of the Group, the Group has broadly implemented resource-recycling and energy-saving practices in its offices and branch premises, including its offices and premises in Zhuhai, Beijing, Chengdu and etc. Specifically, the Group (i) encouraged double-sided printing and multi-pages-per-sheet printing for office documents; (ii) encouraged its employees to collect waste paper and used batteries for recycling purpose; and (iii) 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 2019, 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 2019, 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 Lease Agreement Between the Company and Beijing Duokan

On 31 December 2019, the Company on behalf of i) the legal entities from time to time directly or indirectly controlled by the Company or under common control with the Company and other parties or significantly influenced by the Company as listed in the Lease Agreement and subject to any future supplements and ii) the companies designated by the Company as listed in the Lease Agreement (the "**Lessees**"), entered into a lease agreement (the "**Lease Agreement**") with Beijing Duokan Technology Co., Ltd.* ("**Beijing Duokan**"), a subsidiary of Xiaomi, pursuant to which, Beijing Duokan agreed to lease the property situated at Buildings D and E, Xiaomi Science and Technology Park, No. 33, West Erqi Central Road, Haidian District, Beijing, with a total area of approximately 54,625.53 sq.m. and 350 parking lots (the "**Properties**") to the Lessees, for a term of six years commencing from 1 January 2020 to 31 December 2025.

The Group has delivered a steady growth in its business and number of employees these years. To better satisfy the working requirement of the Group and its employees, the Board decides to lease the Properties from Beijing Duokan. The annual rent (including value-added tax) for the ground floor area for the three years from 1 January 2020 to 31 December 2022 is RMB88.85 million, while the annual rent (including value-added tax) for the underground floor area for the three years from 1 January 2020 to 31 December 2022 is RMB2.90 million. For every 3 years since 1 January 2020, the rental rate of these two areas will increase by approximately 5%. The monthly rent for parking lots is RMB400 per parking lot. The total rent payable during the term under the Lease Agreement is approximately RMB574.48 million.

Pursuant to IFRS 16 issued by the International Accounting Standards Board from time to time, the Properties leased under the Lease Agreement will be recognised as right-of-use assets with the aggregate consideration of approximately RMB462.15 million, and the transaction contemplated under the Lease Agreement will be recognised as the acquisition of right-of use assets which will constitute a one-off connected transaction of the Company under Chapter 14A of the Listing Rules.

Beijing Duokan is a subsidiary of Xiaomi. 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, Beijing Duokan is a connected person of the Company.

As the highest percentage ratio (as defined in the Listing Rules) in respect of the value of the right-of-use asset to be recognised by the Company in connection with the Lease Agreement exceeds 0.1% but is less than 5%, the transaction contemplated under the Lease Agreement is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

For details of the Lease Agreement between the Company and Beijing Duokan, please refer to the announcement of the Company dated 31 December 2019.

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 2019 financial year

To streamline the corporate structure of the Group, the Group has commenced an internal reorganization exercise. In 2010, the Group has (i) entered into structure contracts relating to Zhuhai Qiwen; and (ii) entered into structure contracts relating to Conew Technology. In 2011, the Group has (i) entered into structure contracts relating to Beijing Cheetah; (ii) entered into structure contracts relating to the Zhuhai Online Game; and (iii) as part of the

Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Qiwen. In 2012, the Group has (i) entered into structure contracts relating to Beijing Network Technology; (ii) entered into structure contracts relating to Zhuhai Cloud Technology; (iii) entered into structure contracts relating to Chengdu Seasun Shiyou and Zhuhai Seasun Shiyou; (iv) as part of the Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Online Game and Beijing Cheetah. In 2013, the Group (i) entered into structure contracts relating to Antutu Technology; (ii) entered into structure contracts relating to Guangzhou Network; (iii) entered into structure contracts relating to Zhuhai Seasun Shiyou and Guangzhou Seasun Shiyou; (iv) as part of the Group's internal restructuring, also recloned the structure contracts in relation to Zhuhai Qiwen and Zhuhai Cloud Technology; (v) as part of the Group's internal restructuring, the structure contracts in relation to Zhuhai Online Game has cancelled in 2013. In 2014, as part of the Group's internal restructuring, the Group recloned the structure contracts in relation to Zhuhai Qiwen and Zhuhai Cloud Technology. In 2015, as part of the Group's internal restructuring, the Group terminated the structure contracts and un-winded the contractual arrangement relating to Zhuhai Qiwen, Guangzhou Network and Antutu Technology. Since 1 October 2017, Cheetah Mobile ceased to be a subsidiary of the Company and its operating results are no longer consolidated in the consolidated financial statements of the Group. Therefore, at the end of the 2017 financial year, the structure contracts relating to Conew Technology, Beijing Cheetah and Beijing Network Technology no longer consisted of the business operations of the Group, and the transactions contemplated thereunder were no longer connected transactions of the Company under the Listing Rules. In 2018, the Group entered into structure contracts relating to Kingsoft Cloud Information Technology.

The risks for operating business with contractual arrangements exist in the following aspects: (i) the PRC government may determine that the agreements which established the structure for operating the Group's business in the PRC do not comply with PRC government restrictions on foreign investment; (ii) the Group's structure contracts with relevant contractually-controlled entities and their shareholders may be less effective in providing operational control as compared 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 2019 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 2019; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

Original Structure Contracts I Relating to Zhuhai Cloud Technology

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

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

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

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

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

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

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

(viii) Weiqin Qiu, Jin Wang, Beijing Digital Entertainment and Beijing Cloud Technology entered into a debt assignment agreement on 9 November 2012, pursuant to which Beijing Digital Entertainment assigned the debts with an aggregate amount of RMB100,000 borne by Weiqin Qiu and Jin Wang to Beijing Cloud Technology, therefore, Beijing Cloud Technology owned the debts of an aggregate amount of RMB100,000 borne by Weiqin Qiu and Jin Wang.

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

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

(xi) All Shareholders of Zhuhai Cloud Technology, Zhuhai Cloud Technology and Beijing Cloud Technology entered into an exclusive option agreement on 9

November 2012, pursuant to which Beijing Cloud Technology was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by All Shareholders of Zhuhai Cloud Technology in Zhuhai Cloud Technology at any time. The exercise price in respect of the equity interests of Weiqin Qiu and Jin Wang shall equal to the corresponding portion of liability of Beijing Digital Entertainment borne by Weiqin Qiu and Jin Wang respectively under the above loan agreement. However, if the lowest conversion price permitted by the PRC Laws is higher than the amounts of those liabilities, the conversion price shall be the lowest price permitted by the PRC Laws. Despite the above, Weiqin Qiu and Jin Wang shall jointly waive the obligations of Beijing Digital Entertainment for paying the shortfall in the case that the lowest conversion price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC. The exercise price in respect of equity interests of shareholders other than Weiqin Qiu and Jin Wang shall be RMB1(one). However, if there are any mandatory requirements imposed by the PRC Laws in respect of the conversion price, the conversion price shall be the lowest price permitted by the PRC Laws. Despite the above, the existing shareholders shall jointly waive the obligations of Beijing Cloud Technology for paying the shortfall in the case that the lowest conversion price permitted by the PRC Laws is higher than RMB1(one), subject to the laws and regulations of the PRC.

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

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

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

The said structure contracts in relation to Zhuhai Cloud Technology were recloned in 2013, the details of which are disclosed herein below.

Original Structure Contracts II Relating to Zhuhai Cloud Technology

(i) 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.

Original Structure Contracts III in relation to Zhuhai Cloud Technology

(i) Gang Yang and Jin Wang entered into equity transfer agreement with Weiqin Qiu on 13 June 2014 respectively, pursuant to which Gang Yang transferred 19.4946% shares in Zhuhai Cloud Technology to Weiqin Qiu at a consideration of RMB179,180; and Jin Wang transferred 0.009% shares in Zhuhai Cloud 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 2019; 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 2019; 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 2019; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

3. Continuing Transactions and Continuing Connected Transactions

Continuing Connected Transactions with Xiaomi Group

On 1 December 2014, the Company and Xiaomi entered into a framework agreement. Pursuant to the framework agreement, (i) the Group will provide various services to Xiaomi Group, mainly including the cloud services and promotion services; (ii) Xiaomi Group will provide various services to the Group, mainly including the promotion services; (iii) the Group will jointly operate games with Xiaomi Group; and (iv) the Group will purchase Xiaomi Group's products, for a term of two years from 1 January 2015 to 31 December 2016.

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

On 4 April 2019, Kingsoft Cloud entered into a framework agreement with Xiaomi, pursuant to which, the Group will provide hardware products to Xiaomi Group from 4 April 2019 to 31 December 2019. For the year ended 31 December 2019, the annual cap for the fees payable by Xiaomi Group to the Group under the framework agreement is RMB90 million.

In order to renew the transactions under the above framework agreements for the next three years ending 31 December 2022, 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.

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 will become continuing connected transactions of the Company under the Listing Rules.

For details of the continuing connected transactions, please refer to the announcements of the Company dated 1 December 2014, 6 December 2016, 4 April 2019 and 2 December 2019.

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 2019 are set out as follows:

	Annual Cap for 2019 RMB million	**Actual Amount for 2019 RMB million**
fees payable by Xiaomi Group		
Provision of various services, mainly including cloud and promotion services by the Group	1,025.60	611.47
Joint operation of games provided by Group	500.10	13.99
Provision of hardware products by the Group (Note 1)	90.00	22.99
fees payable by the Group		
Provision of promotion services by Xiaomi Group (Note 1)	165.00	28.19
Provision of products by Xiaomi Group	20.00	6.36

Note 1: Provision of hardware products by the Group amounting to RMB22.99 million and provision of promotion services by Xiaomi Group amounting to RMB9.04 million as included in above aggregate transaction amount are on gross basis, while amounts included in the audited consolidated financial statement of the Group amounting to RMB0.12 million and nil are on net basis.

Continuing Connected Transactions involving Kingsoft Cloud Group

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. As such, Xiaomi is a connected person of the Company. Xiaomi held over 10% equity interest in Kingsoft Cloud. Therefore, Kingsoft Cloud Group became connected subsidiaries of the Company by virtue of Rule 14A.16 of the Listing Rules.

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

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

For details of the continuing connected transactions, please refer to the announcements of the Company dated 30 December 2014 and 1 December 2017.

The annual caps for the continuing connected transactions under above framework agreement as compared with the actual transactions amounts incurred or received by the Group for the year ended 31 December 2019 are set out as follows:

	Annual Cap for 2019 RMB million	Actual Amount for 2019 RMB million
fees payable by Kingsoft Cloud Group		
provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group):	50.00	24.52
fees payable by the Group (excluding Kingsoft Cloud Group)		
provision of cloud services by Kingsoft Cloud Group	150.00	108.40

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 ending 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. 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.

For details of the continuing connected transactions, please refer to the announcements of the Company dated 27 November 2018 and 27 December 2019.

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 2019 are set out as follows:

	Annual Cap for 2019 RMB	**Actual Amount for 2019 RMB**
fees payable by the Group		
Annual rent (including value-added tax)	9,345,239.54	9,345,239.54

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 43 to the financial statements. Certain related party transactions disclosed in note 43 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 2019, 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 2019 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 46 to the financial statements of this report. For details of the foreign currency risk, please refer to the Management Discussion and Analysis in this report. Save as disclosed above, a number of other factors, including downturn of the global or PRC economy, overall competitive environment and international policies may affect the result and business of the Group.

Significant Subsequent Events

The Company is considering a possible spin-off and separate listing of Kingsoft Cloud on a recognized stock exchange (the "**Proposed Spin-off**"). The Company has submitted a proposal in relation to the Proposed Spin-off to the Stock Exchange pursuant to Practice Note 15 of the Listing Rules and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off. On 20 December 2019 (New York time), Kingsoft Cloud submitted on a confidential basis to the SEC a draft registration statement for the IPO.

The Proposed Spin-off and the IPO are subject to, among other things, the obtaining of approvals from the relevant authorities in respect of the listing of, and permission to deal in, securities of Kingsoft Cloud, and the final decisions of the Company and Kingsoft Cloud. The Proposed Spin-off, if materialized, will constitute a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. Based on the proposed size of the IPO, it is expected that the highest applicable percentage ratio in respect of the Proposed Spin-off may exceed 25% but will be less than 75%. Therefore, the Proposed Spin-off, if proceeded with, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules. On 20 March 2020, the Shareholders have approved the Proposed Spin-off and the IPO at the extraordinary general meeting of the Company. The Company will comply with further applicable requirements of the Listing Rules as and when appropriate.

For more details, please refer to the announcements of the Company dated 14 November 2019, 22 December 2019 and 20 March 2020, and the circular of the Company dated 26 February 2020.

By order of the Board
Jun LEI
Chairman
Hong Kong, 24 March 2020

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Kingsoft Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 74 to 205, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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
Share-based payment	
The Group operates several share option schemes and share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The share-based compensation costs were measured with reference to the fair values of the share options and awarded shares at the grant date. The fair values were determined by the management with the assistance of external valuer engaged by the Group, and the costs were recognised in share-based compensation costs in profit or loss, together with a corresponding increase in equity, over the period in which the performance and/or service conditions were fulfilled. The share-based compensation costs recognised during the year ended 31 December 2019 was RMB244,820,000. The determination of fair values and the forfeiture rate of share options and awarded shares required significant management judgements and estimates and was based on assumptions. Disclosures about accounting policies, significant accounting judgements and estimates and share-based payment are included in Note 2.4 "Summary of Significant Accounting Policies", Note 3 "Significant Accounting Judgements and Estimates" and Note 37 "Share-based Compensation Costs" to the consolidated financial statements.	Our audit procedures included evaluating the competence, capabilities, objectivity and independence of external valuer and assessing the methodologies, assumptions and parameters adopted, such as the expected volatility, forfeiture rate and dividend yield, in the valuation of the share options and awarded shares with the assistance of our internal valuation specialists. We evaluated the reasonableness of share-based compensation costs recorded during the year. We also assessed the Group's disclosures about the details of those share option schemes and share award schemes and the relevant assumptions.
Impairment of trade receivables	
As at 31 December 2019, the Group held significant amounts of trade receivables amounting to RMB2,059,031,000, constituted a significant portion of total assets as at 31 December 2019 and the Group was exposed to credit risks thereof. The Group recognised an impairment loss amounting to RMB63,361,000 for the year ended 31 December 2019 based on the expected credit loss ("ECL") approach under IFRS 9 *Financial Instruments*. The measurement of ECL 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. 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 26 "Trade Receivables" to the consolidated financial statements.	Our audit procedures included assessment of the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimation of expected credit losses. We evaluated the reasonableness of the ECL determined by management by examining the information used to form such judgement and estimates, including the historical default information, and the historical loss rates as adjusted for current economic conditions and forward-looking information. We evaluated the reasonableness of the provision for impairment of trade receivables by reference to the Group's subsequent collection. We also assessed the disclosure in relation to the provision for impairment of trade receivable made by the Group.

KEY AUDIT MATTERS (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
Impairment of investment in associate, Cheetah Mobile Inc. ("Cheetah Mobile")	
As at 31 December 2019, the Group held an investment in associate, Cheetah Mobile, amounting to RMB2,261,913,000. The Group recognised impairment loss amounting to RMB1,300,000,000 for the year ended 31 December 2019. Investment in an associated company is subject to impairment assessments when there is an indication of impairment. The recoverable amount of the investment in an associated company was determined by the management with the assistance of 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. 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 21 "Investments in Associates" to the consolidated financial statements.	Our audit procedures included: We evaluated the assessments made by management on the existence of impairment indication on the investment in Cheetah Mobile. With the assistance of our internal valuation specialists, we assessed the valuation methodology, key assumptions and parameters, such as growth rate and discount rate, used by the management in determining the recoverable amount. We evaluated the expected cash flow projection prepared by management by reference to the historical data, budget, available market information, etc. We also evaluated the competence, capabilities, objectivity and independence of external valuer engaged by the Group to appraise the recoverable amount of the investment in Cheetah Mobile. We also assessed the adequacy of the disclosure made about the impairment of investment in associate.

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 CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

17 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
REVENUE	5	**8,218,263**	5,906,187
Cost of revenue		**(4,741,390)**	(3,169,429)
Gross profit		**3,476,873**	2,736,758
Research and development costs, net		**(2,084,654)**	(1,838,658)
Selling and distribution expenses		**(983,756)**	(727,381)
Administrative expenses		**(529,250)**	(449,498)
Share-based compensation costs	37	**(244,820)**	(211,936)
Other income	5	**250,239**	277,891
Other expenses		**(78,122)**	(89,496)
Other losses, net	6	**(1,240,439)**	(145,618)
Finance income	8	**299,143**	326,156
Finance costs	9	**(388,426)**	(326,966)
Share of profits and losses of:			
Joint ventures	20	**14,939**	49,898
Associates	21	**(412,972)**	373,833
LOSS BEFORE TAX	7	**(1,921,245)**	(25,017)
Income tax expense	12	**(161,454)**	(140,225)
LOSS FOR THE YEAR		**(2,082,699)**	(165,242)
Attributable to:			
Owners of the parent		**(1,546,385)**	389,214
Non-controlling interests		**(536,314)**	(554,456)
		(2,082,699)	(165,242)

		RMB	RMB
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		**(1.13)**	0.29
Diluted		**(1.15)**	0.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
LOSS FOR THE YEAR	**(2,082,699)**	(165,242)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**32,139**	264,068
Share of other comprehensive income of associates	**34,555**	37,670
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**66,694**	301,738
Other comprehensive 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	**(14,026)**	(551,033)
Share of other comprehensive loss of associates	**(14,211)**	(9,785)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(28,237)**	(560,818)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**38,457**	(259,080)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(2,044,242)**	(424,322)
Attributable to:		
Owners of the parent	**(1,493,652)**	107,569
Non-controlling interests	**(550,590)**	(531,891)
	(2,044,242)	(424,322)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**2,913,460**	2,036,424
Investment properties	16	**62,504**	63,943
Right-of-use assets	17(b)	**403,737**	—
Prepaid land lease payments	17(a)	**—**	288,401
Goodwill	18	**—**	9,559
Other intangible assets	19	**30,938**	56,382
Investments in joint ventures	20	**270,303**	155,574
Investments in associates	21	**2,437,522**	4,349,397
Equity investments designated at fair value through other comprehensive income	22	**746,992**	746,718
Financial assets at fair value through profit or loss	23	**49,314**	84,044
Deferred tax assets	35	**107,038**	96,527
Other non-current assets	24	**47,276**	83,220
Total non-current assets		**7,069,084**	7,970,189
CURRENT ASSETS			
Inventories	25	**16,378**	11,679
Trade receivables	26	**2,059,031**	1,184,650
Prepayments, other receivables and other assets	27	**1,365,093**	906,383
Equity investments designated at fair value through other comprehensive income	22	**10,000**	10,000
Financial assets at fair value through profit or loss	23	**89,920**	—
Restricted cash	28	**—**	98,102
Cash and bank deposits	28	**13,792,117**	9,868,809
Total current assets		**17,332,539**	12,079,623
CURRENT LIABILITIES			
Trade payables	29	**1,501,604**	947,702
Other payables and accruals	30	**1,690,263**	1,100,560
Interest-bearing bank loans	31	**623,215**	1,053,393
Lease liabilities	17(c)	**18,260**	—
Deferred revenue	32	**879,440**	722,781
Income tax payable		**93,430**	86,601
Liability component of convertible bonds	33	**—**	40,171
Derivative financial instruments	34	**128,236**	154,765
Total current liabilities		**4,934,448**	4,105,973
NET CURRENT ASSETS		**12,398,091**	7,973,650
TOTAL ASSETS LESS CURRENT LIABILITIES		**19,467,175**	15,943,839

	NOTES	2019 RMB'000	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**19,467,175**	15,943,839
NON-CURRENT LIABILITIES			
Deferred revenue	32	**51,944**	29,661
Deferred tax liabilities	35	**50,691**	19,584
Interest-bearing bank loans	31	**74,351**	231,224
Lease liabilities	17(c)	**97,789**	—
Liability component of redeemable convertible preferred shares	34	**3,583,019**	2,741,771
Total non-current liabilities		**3,857,794**	3,022,240
Net assets		**15,609,381**	12,921,599
EQUITY			
Equity attributable to owners of the parent			
Issued capital	36	**5,316**	5,316
Share premium account	36	**2,995,605**	2,972,969
Treasury shares	36	**(14,631)**	(18,089)
Equity component of convertible bonds	33	**—**	1,274
Other reserves	38	**10,810,858**	10,076,369
		13,797,148	13,037,839
Non-controlling interests		**1,812,233**	(116,240)
Total equity		**15,609,381**	12,921,599

Tao ZOU
Director

Yuk Keung NG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	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 33) RMB'000	STATUTORY RESERVES (NOTE 38) RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	OTHER CAPITAL RESERVE (NOTE 38) RMB'000	FAIR VALUE RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED PROFITS RMB'000	TOTAL RMB'000	NON-CONTROLLING INTERESTS RMB'000	TOTAL EQUITY RMB'000
At 1 January 2018	5,127	2,287,958	(22,517)	7,564	228,087	329,588	1,846,459	(455,372)	31,921	7,835,497	12,094,312	464,381	12,558,693
Profit/(loss) for the year	–	–	–	–	–	–	–	–	–	389,214	389,214	(554,456)	(165,242)
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	241,503	–	241,503	22,565	264,068
Changes in fair value of equity investments designed at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	–	(551,033)	–	–	(551,033)	–	(551,033)
Share of other comprehensive income/(loss) of associates	–	–	–	–	–	–	–	(9,785)	37,670	–	27,885	–	27,885
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	–	(560,818)	279,173	389,214	107,569	(531,891)	(424,322)
Approved and paid final dividend in respect of the previous year	–	(126,608)	–	–	–	–	–	–	–	–	(126,608)	–	(126,608)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(183,527)	(183,527)
Share-based compensation costs	–	–	–	–	–	147,649	–	–	–	–	147,649	64,392	212,041
Vesting of awarded shares	–	–	4,428	–	–	(5,911)	1,483	–	–	–	–	–	–
Share of reserves of associates	–	–	–	–	–	–	(12,954)	–	–	–	(12,954)	–	(12,954)
Conversion of convertible bonds (note 33)	192	823,525	–	(6,290)	–	–	–	–	–	–	817,427	–	817,427
Shares repurchased	(3)	(11,906)	–	–	–	–	–	–	–	–	(11,909)	–	(11,909)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	–	–	–	–	–	–	(28,500)	–	28,500	–	–	–
Profit appropriation	–	–	–	–	47,899	–	–	–	–	(47,899)	–	–	–
Changes in the ownership interests in subsidiaries	–	–	–	–	–	–	22,353	–	–	–	22,353	70,405	92,758
At 31 December 2018	5,316	2,972,969	(18,089)	1,274	275,986#	471,326#	1,857,341#	(1,044,690)#	311,094#	8,205,312#	13,037,839	(116,240)	12,921,599

	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 33) RMB'000	STATUTORY RESERVES (NOTE 38) RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	OTHER CAPITAL RESERVE (NOTE 38) RMB'000	FAIR VALUE RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED PROFITS RMB'000	TOTAL RMB'000	NON-CONTROLLING INTERESTS RMB'000	TOTAL EQUITY RMB'000
At 31 December 2018	5,316	2,972,969	(18,089)	1,274	275,986#	471,326#	1,857,341#	(1,044,690)#	311,094#	8,205,312#	13,037,839	(116,240)	12,921,599
Effect of adoption of IFRS 16	–	–	–	–	–	–	–	–	–	(8,431)	(8,431)	–	(8,431)
At 1 January 2019 (restated)	**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 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 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	–	–	–	–	–	–	**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**

These reserve accounts comprise the consolidated other reserves of RMB10,810,858,000 (2018: RMB10,076,369,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(1,921,245)**	(25,017)
Adjustments for:			
Gain on disposal of items of property, plant and equipment	7	**(270)**	(292)
Depreciation of property, plant and equipment and investment properties	15,16	**684,109**	480,407
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	17	**23,366**	5,052
Amortisation of other intangible assets	19	**30,451**	28,634
Finance costs	9	**388,426**	326,966
Finance income	8	**(299,143)**	(326,156)
Fair value gains on financial instruments at fair value through profit or loss, net	6	**(63,462)**	(15,433)
Loss on disposal of an associate		**134**	—
Gain on deemed disposal of a subsidiary	6,40	**(61,706)**	—
Gain on deemed disposal of a joint venture	6	**(1,161)**	—
Loss on deemed disposal of an associate	6	**14,850**	12,092
Gain on partial disposal of an associate	6	**(2,018)**	—
Share-based compensation costs	37	**244,820**	211,936
Impairment of property, plant and equipment	7	**2,432**	—
Impairment of trade and other receivables	7	**69,037**	56,843
Impairment losses of right-of-use assets	7	**3,054**	—
Share of profits of joint ventures		**(14,939)**	(49,898)
Share of losses/(profits) of associates		**412,972**	(373,833)
Listing expense from initial public offering of a subsidiary		**15,403**	—
Foreign exchange differences, net	6	**38,764**	136,996
Impairment losses of investments in associates	6	**1,300,000**	5,530
Impairment losses of investments in joint ventures	6	**—**	6,433
Impairment losses of goodwill	6	**9,559**	—
Compensation to a shareholder of a joint venture		**5,479**	—
		878,912	480,260
Increase in trade receivables		**(936,921)**	(71,517)
(Increase)/decrease in prepayments, other receivables and other assets		**(61,829)**	2,017
Increase in inventories		**(4,699)**	(1,351)
Decrease/(increase) in other non-current assets		**35,907**	(559)
Increase in trade payables		**550,536**	48,898
Increase in deferred revenue		**191,792**	108,646
Increase in other payables and accruals		**189,162**	339,987
Cash generated from operations		**842,860**	906,381
Interest received		**116,138**	76,059
Income tax paid		**(134,030)**	(212,931)
Net cash flows from operating activities		**824,968**	769,509

	NOTES	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**180,192**	215,148
Purchases of items of property, plant and equipment		**(1,372,486)**	(1,391,516)
Purchases of other intangible assets		**(4,310)**	(28,354)
Purchases of land use right		**—**	(812)
Decrease/(increase) in deposits with original maturity of over three months when acquired, net		**(1,125,267)**	435,619
Purchase of financial assets at fair value through profit or loss		**(30,073)**	(17,889)
Receipt of government grants for property, plant and equipment		**15,000**	14,450
Disposal of property, plant and equipment		**576**	609
Dividends received from a joint venture and an associate		**257,047**	82,002
Investments in joint ventures		**(62,500)**	(24,000)
Investments in associates		**(42,876)**	(78,199)
Loans to senior executives		**(23,379)**	—
Increase in other loans		**(16,558)**	(2,207)
Deemed disposal of a subsidiary	40	**(134)**	—
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		**—**	10,000
Proceeds from disposal or partial disposal of associates		**5,002**	—
Proceeds from disposal of financial assets at fair value through profit or loss		**—**	5,626
Net cash flows used in investing activities		**(2,219,766)**	(779,523)

	NOTES	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Changes in the ownership of interest in subsidiaries		**42,042**	—
Proceeds from issuance of redeemable convertible preferred shares		**349,395**	1,323,442
Cash settlement of share options issued by a subsidiary		**(2,945)**	(2,979)
Payment of lease liability/finance lease		**(23,525)**	(6,870)
Redemption of convertible bonds		**(40,386)**	—
Proceeds from exercise of share options		**20,899**	—
Proceeds from issue of shares of a subsidiary, net of cost		**4,449,055**	—
Repurchase of shares		**—**	(11,909)
Proceeds from issuance of restricted shares of subsidiaries		**—**	240
Dividends paid to owners of the parent	13	**—**	(126,608)
Dividends paid to non-controlling interests		**(14,561)**	(186,946)
(Repayment)/drawdown of a bank loan		**(583,474)**	547,777
Interest paid		**(36,785)**	(26,240)
Government grant		**9,907**	—
Net cash flows from financing activities		**4,169,622**	1,509,907
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,774,824**	1,499,893
Cash and cash equivalents at beginning of year		**4,544,784**	3,036,488
Effect of foreign exchange rate changes, net		**10,237**	8,403
CASH AND CASH EQUIVALENTS AT END OF YEAR		**7,329,845**	4,544,784
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**3,248,496**	1,524,403
Deposits with original maturity of less than three months when acquired	28	**4,081,349**	3,020,381
Cash and cash equivalents as stated in the statement of cash flows	28	**7,329,845**	4,544,784

1. CORPORATE AND GROUP INFORMATION

Kingsoft Corporation Limited (the "Company") was incorporated under the Companies Act of the British Virgin Islands on 20 March 1998. On 15 November 2005, the Company was redomiciled to the Cayman Islands under the Company Law (2004 revision) of the Cayman Islands. The registered office of the Company is located at Clifton House, 75 Fort Street, George Town, Grand Cayman, Cayman Islands. The Company's shares have been listed on the Stock Exchange of Hong Kong Limited since 9 October 2007.

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

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

- research and development of games, and provision of online games, mobile games and casual game services;
- provision of cloud services including cloud computing, storage and delivery, and comprehensive cloud-based solutions; and
- design, research and development and sales and marketing of office software products and services of WPS Office.

Information about subsidiaries and structured entities

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

NAME	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY		PRINCIPAL ACTIVITIES
			DIRECT	INDIRECT	
Kingsoft Entertainment Software Holdings Limited ("KES Holdings") (iv)	Cayman Islands	US$1	100	—	Investment holding
Kingsoft Cloud Holdings Limited ("Kingsoft Cloud")	Cayman Islands	US$1,077,086	58	—	Investment holding
Seasun Holdings Limited ("Seasun Holdings") (iv)	Cayman Islands	HK$27,060,297	—	72	Investment holding
King Venture Holdings Limited (iv)	Cayman Islands	US$10,000	100	—	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

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries and structured entities (continued)

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

NAME	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY DIRECT	INDIRECT	PRINCIPAL ACTIVITIES
Kingsoft Cloud Corporation Limited	Hong Kong	HK$2,000,000	—	58	Provision of cloud services
Beijing Kingsoft Cloud Technology Co., Ltd. (i)(ii)(iv)	Mainland China	RMB307,000,000	—	58	Research and development of cloud products
Beijing Yunxiang Zhisheng Technology Co., Ltd. (i)(ii)(iv)	Mainland China	RMB490,000,000	—	58	Research and development of cloud products
Kingsoft Cloud (Beijing) Information Technology Co., Ltd. (i)(iv)(v)	Mainland China	RMB10,000,000	—	58	Investment holding
Zhuhai Kingsoft Cloud Technology Co., Ltd. (i)(iv)(v)	Mainland China	RMB11,080,000	—	58	Investment holding
Beijing Kingsoft Cloud Network Technology Co., Ltd.(i)(iv)(v)	Mainland China	RMB200,000,000	—	58	Provision of cloud services
Beijing Jinxun Ruibo Network Technology Co., Ltd.(i)(iv)(v)	Mainland China	RMB10,000,000	—	58	Provision of cloud services
Chengdu Kingsoft Interactive Entertainment Co., Ltd. (i)(ii)(iv)	Mainland China	RMB100,000,000	—	100	Research and development of games
Beijing Kingsoft Qijian Digital Technology Co., Ltd. (i)(iv)(v)	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)(v)	Mainland China	RMB110,000,000	—	100	Marketing and operation of entertainment software products
Chengdu Westhouse Interactive Entertainment Co., Ltd. (i)(ii)(iv)	Mainland China	RMB15,000,000	—	72	Research and development of games
Zhuhai Seasun Shiyou Technology Co., Ltd. (i)(iv)(v)	Mainland China	RMB10,000,000	—	72	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 are as follows: (continued)

NAME	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY DIRECT	INDIRECT	PRINCIPAL ACTIVITIES
Chengdu Seasun Shiyou Technology Co., Ltd. (i)(iv)(v)	Mainland China	RMB10,000,000	—	72	Marketing and operation of entertainment software products
Zhuhai Kingsoft Online Game Technology Co., Ltd.(i)(iii)(iv)	Mainland China	RMB10,000,000	—	72	Research and development of online games
Zhuhai Kingsoft Software Co., Ltd. (i)(iii)(iv)	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)(iv)	Mainland China	RMB461,000,000	—	54	Sale and operation of office application software
Zhuhai Kingsoft Office Software Co., Ltd. (i)(iii)(iv)	Mainland China	RMB73,260,000	—	54	Sale and operation of office application software
Wuhan Kingsoft Office Software Co., Ltd. (i)(iii)(iv)	Mainland China	RMB50,000,000	—	54	Sale and operation of office application software

(i) The English names of these companies represent the best efforts by management of the Company in directly translating the Chinese names of these companies, as no English names have been registered.

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

(v) The Company does not have legal ownership in the equity of these entities. However, under certain contractual agreements (including power of attorney agreement, loan agreement, equity option agreement, equity interest pledge agreement and exclusive technical consulting and 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 contingent consideration, derivative financial instruments, equity investments and 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 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

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

Certain comparative amounts in preceding year's consolidated financial statement have also been reclassified to conform with current year's presentation.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015–2017 Cycle	*Amendments to* IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements,the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of buildings and machinery. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities. The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

For the other leases of certain associate of the Group, the right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, except for the incremental borrowing rate where the Group applied the incremental borrowing rate at 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at cost less accumulated depreciation and any impairment losses, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at cost less accumulated depreciation and any impairment losses applying IAS 40.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 are as follows:

	INCREASE/ (DECREASE) RMB'000
Assets	
Increase in right-of-use assets	329,270
Decrease in investments in associates	(8,431)
Decrease in prepaid land lease payments	(288,401)
Decrease in prepayments, other receivables, and other assets	(4,950)
Increase in total assets	27,488
Liabilities	
Increase in lease liabilities	35,919
Increase in total liabilities	35,919
Decrease in retained profits	(8,431)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	221,454
Less: Operating lease commitments regarding a lease commenced in 2019	(158,040)
Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(25,292)
Commitments relating to leases of low-value assets	(202)
	37,920
Weighted average incremental borrowing rate as at 1 January 2019	4.79%
Discounted operating lease commitments as at 1 January 2019	35,919
Lease liabilities as at 1 January 2019	35,919

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The amendments did not have any impact on the financial position or performance of the Group as the Group does not have long-term interests in associates and joint ventures.

(c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any impact on the financial position or 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	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020

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

3 No mandatory effective date yet determined but available for adoption

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

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

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 expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. 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 are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. 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 January 2016 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 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. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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 contingent consideration, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) 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:

Buildings	Over the lease term
Leasehold land	Over the lease term

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value 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 and licence rights for games

Purchased software and licence rights for games are stated at cost less any impairment losses and are amortised on the straight-line basis over the shorter of the estimated economic lives and the licence period. The estimation useful lives are as follows:

Purchased software	1–10 years
Licence rights for games	1–5 years

Research and development costs

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

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

Website and internally used software development costs

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

Leases (applicable from 1 January 2019)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(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 15 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 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 statement of financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(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 machinery and 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.

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. At the commencement date,the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs),and presented as a receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases (applicable before 1 January 2019)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable before 1 January 2019) (continued)

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Debt investments at fair value through other comprehensive income and 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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 financial liabilities at fair value through profit or loss, loans and borrowings,or 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, derivative financial instruments, interest-bearing bank loans, the liability component of convertible bonds and the liability components of redeemable convertible preferred shares.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Convertible bonds

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

Derecognition of financial liabilities

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and bank deposits comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash which are not restricted as to use.

Provisions

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

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

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

Income tax

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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, the carryforward of unused tax credits and unused tax losses can be utilised, except:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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

Revenue recognition

Revenue 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 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.

(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.

Sale of application software

Revenue from the sale 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 sale 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Office software and services (continued)

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 when impression is displayed, clicks are generated or underlying sales are completed.

(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.

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.

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)

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 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 information 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*

The Group 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model for share options and based on the market value for awarded shares. Further details of the fair values of share options and awarded shares are given in note 37 to the financial statements.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

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

Defined contribution plan for PRC employees

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 13 to the financial statements.

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB. The functional currency of the Company is HK$. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

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 judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

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

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

The Group's revenue generated from the entities which are controlled by the Group through the contractual agreements described above amounted to approximately RMB6,155,393,000 for the year ended 31 December 2019. At 31 December 2019, the Group's net assets held by these entities amounted to approximately RMB3,274,719,000.

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.

(a) Fair value of financial assets at fair value through profit or loss, equity investments designated at fair value through other comprehensive income and derivative financial instruments

The Group held financial assets at fair value through profit or loss, equity investments designated at fair value through other comprehensive income and derivative financial instruments amounting to RMB139,234,000, RMB756,992,000 and RMB128,236,000, respectively, as at 31 December 2019. Fair value of certain of these financial instruments are determined using valuation model with the assistance of the external valuer engaged by the Group. Management make 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 45 to the financial statements.

(b) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2019 was nil (2018: nil). The amount of unrecognised tax losses at 31 December 2019 was RMB4,983,004,000 (2018: RMB3,972,435,000). Further details are included in note 35 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(c) 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 amounts, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(d) 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 geography, product type and customer type).

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 26 to the financial statements.

(e) 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(f) 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 2019 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 2019 was approximately RMB452,774,000. The share-based compensation costs recognised during the year ended 31 December 2019 was RMB244,820,000 (2018: RMB211,936,000).

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

(g) 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 three reportable operating segments as follows:

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

(b) provision of cloud services including cloud computing, storage and delivery, and comprehensive cloud-based solutions; and

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

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

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2019	ENTERTAINMENT SOFTWARE RMB'000	CLOUD SERVICES RMB'000	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000	TOTAL RMB'000
SEGMENT REVENUE (NOTE 5):				
Sales	**2,748,738**	**3,847,176**	**1,622,349**	**8,218,263**
SEGMENT RESULTS	**873,180**	**(905,438)**	**439,322**	**407,064**
Reconciliation:				
Administrative expenses				**(529,250)**
Share-based compensation costs				**(244,820)**
Other income				**250,239**
Other expenses				**(78,122)**
Other losses, net				**(1,240,439)**
Finance income				**299,143**
Finance costs (other than interest on lease liabilities)				**(387,027)**
Share of profits and losses of:				
Joint ventures				**14,939**
Associates				**(412,972)**
Loss before tax				**(1,921,245)**
OTHER SEGMENT INFORMATION:				
Impairment loss, net	**164**	**(66,170)**	**(18,076)**	**(84,082)**
Depreciation and amortisation	**(63,402)**	**(596,330)**	**(78,194)**	**(737,926)**
Capital expenditure*	**(11,816)**	**(1,280,615)**	**(275,576)**	**(1,568,007)**

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2018	ENTERTAINMENT SOFTWARE RMB'000	CLOUD SERVICES RMB'000	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000	TOTAL RMB'000
SEGMENT REVENUE (NOTE 5):				
Sales	2,551,715	2,217,507	1,136,965	5,906,187
SEGMENT RESULTS	683,762	(847,008)	333,965	170,719
Reconciliation:				
Administrative expenses				(449,498)
Share-based compensation costs				(211,936)
Other income				277,891
Other expenses				(89,496)
Other losses, net				(145,618)
Finance income				326,156
Finance costs				(326,966)
Share of profits and losses of:				
Joint ventures				49,898
Associates				373,833
Loss before tax				(25,017)
OTHER SEGMENT INFORMATION:				
Impairment loss	(24,265)	(36,368)	(8,173)	(68,806)
Depreciation and amortisation	(60,008)	(404,968)	(49,117)	(514,093)
Capital expenditure*	(78,163)	(988,059)	(206,209)	(1,272,431)

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers:

	2019 RMB'000	2018 RMB'000
Mainland China	**7,951,432**	5,670,334
Hong Kong	**228,260**	210,867
Other countries and regions	**38,571**	24,986
Total	**8,218,263**	5,906,187

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

(b) Non-current assets:

	2019 RMB'000	2018 RMB'000
China	**3,450,842**	2,531,524
Other countries and regions	**2,785**	3,079
Total	**3,453,627**	2,534,603

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

Information about major customers

For the year ended 31 December 2019, revenue amounting to RMB1,222,723,000 was derived from provision of cloud services 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 transaction with a single customer which amounted to 10% or more of the Group's revenue during the year ended 31 December 2018.

5. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**8,191,742**	5,877,124
Revenue from other sources		
Gross rental income from investment property operating leases:		
Lease payments, including fixed payments	**26,521**	29,063
	8,218,263	5,906,187

Revenue from contracts with customers

(a) *Disaggregated revenue information*

For the year ended 31 December 2019

SEGMENTS	ENTERTAINMENT SOFTWARE RMB'000	CLOUD SERVICES RMB'000	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000	TOTAL RMB'000
TYPE OF GOODS OR SERVICES				
Cloud services	—	3,847,176	—	3,847,176
Game services	2,062,581	—	—	2,062,581
Sales and subscription of software and related services	—	—	1,173,600	1,173,600
Royalties	642,747	—	—	642,747
Online marketing services	—	—	401,177	401,177
Others	43,410	—	21,051	64,461
Total revenue from contracts with customers	2,748,738	3,847,176	1,595,828	8,191,742
GEOGRAPHICAL MARKETS				
Mainland China	2,602,366	3,778,469	1,544,076	7,924,911
Hong Kong	127,834	49,351	51,075	228,260
Other countries	18,538	19,356	677	38,571
Total revenue from contracts with customers	2,748,738	3,847,176	1,595,828	8,191,742

5. REVENUE AND OTHER INCOME (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

SEGMENTS	ENTERTAINMENT SOFTWARE RMB'000	CLOUD SERVICES RMB'000	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000	TOTAL RMB'000
TIMING OF REVENUE RECOGNITION				
Goods or services transferred at a point in time	**43,410**	**497,193**	**964,198**	**1,504,801**
Services transferred over time	**2,705,328**	**3,349,983**	**631,630**	**6,686,941**
Total revenue from contracts with customers	**2,748,738**	**3,847,176**	**1,595,828**	**8,191,742**

For the year ended 31 December 2018

SEGMENTS	ENTERTAINMENT SOFTWARE RMB'000	CLOUD SERVICES RMB'000	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000	TOTAL RMB'000
TYPE OF GOODS OR SERVICES				
Cloud services	—	2,217,507	—	2,217,507
Game services	1,956,479	—	—	1,956,479
Sales and subscription of software and related services	—	—	734,022	734,022
Royalties	586,940	—	—	586,940
Online marketing services	—	—	367,032	367,032
Others	8,296	—	6,848	15,144
Total revenue from contracts with customers	2,551,715	2,217,507	1,107,902	5,877,124
GEOGRAPHICAL MARKETS				
Mainland China	2,378,229	2,217,287	1,045,755	5,641,271
Hong Kong	150,056	—	60,811	210,867
Other countries	23,430	220	1,336	24,986
Total revenue from contracts with customers	2,551,715	2,217,507	1,107,902	5,877,124
TIMING OF REVENUE RECOGNITION				
Goods or services transferred at a point in time	8,296	184,726	738,363	931,385
Services transferred over time	2,543,419	2,032,781	369,539	4,945,739
Total revenue from contracts with customers	2,551,715	2,217,507	1,107,902	5,877,124

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 to customers with the amounts disclosed in the segment information:

For the year ended 31 December 2019

SEGMENTS	ENTERTAINMENT SOFTWARE RMB'000	CLOUD SERVICES RMB'000	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000	TOTAL RMB'000
REVENUE FROM CONTRACTS WITH CUSTOMERS	2,748,738	3,847,176	1,595,828	8,191,742

For the year ended 31 December 2018

SEGMENTS	ENTERTAINMENT SOFTWARE RMB'000	CLOUD SERVICES RMB'000	OFFICE SOFTWARE AND SERVICES AND OTHERS RMB'000	TOTAL RMB'000
REVENUE FROM CONTRACTS WITH CUSTOMERS	2,551,715	2,217,507	1,107,902	5,877,124

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:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Cloud services	**22,782**	31,785
Game services	**500,256**	489,552
Software related services	**166,409**	73,871
Royalties	**30,641**	19,741
Others	**4,960**	5,401
	725,048	620,350

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:

Cloud services

The performance obligation of the Group's integrated cloud-based services 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 certain new customers, where payment in advance may be required.

The performance obligation of the Group's cloud-based solutions and upgrade services is satisfied at a point in time upon the completion of the services and acceptance from the customer. The performance obligation of maintenance is satisfied over time. These services are billed periodically based on the predetermined schedule and payment is generally due within 30 to 90 days.

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.

Sale of application software

The performance obligation of sales of application software is satisfied upon delivery of the application software and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance may be required. The performance obligation associated with the sale of application software is satisfied at a point in as products delivered and payment is generally in advance.

WPS Office Subscription service

The performance obligations for membership service are satisfied over time as services are rendered. The performance obligations of virtual products/services sales are satisfied at a point in time as the products are available-for-use or service are rendered. The payments are generally in advance.

Online marketing service

The performance obligations for online marketing service is satisfied at a point in time as impression displayed, clicks generated or underlying sales completed. The payments are generally in 30 to 60 days.

5. REVENUE AND OTHER INCOME (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations (continued)

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

	2019 RMB'000	2018 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**973,200**	748,532
After one year	**52,702**	29,661
	1,025,902	778,193

Other income

	2019 RMB'000	2018 RMB'000
Government grants*	**241,006**	273,641
Others	**9,233**	4,250
	250,239	277,891

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

6. OTHER LOSSES, NET

	NOTES	2019 RMB'000	2018 RMB'000
Loss on deemed disposal of an associate		**(14,850)**	(12,092)
Gain on deemed disposal of a joint venture		**1,161**	—
Gain on partial disposal of an associate	43(a)	**2,018**	—
Gain on deemed disposal of a subsidiary	40	**61,706**	—
Impairment loss of goodwill	18	**(9,559)**	—
Impairment loss of investments in joint ventures	20	**—**	(6,433)
Impairment loss of investments in associates	21	**(1,300,000)**	(5,530)
Foreign exchange differences, net		**(38,764)**	(136,996)
Fair value gains on financial instruments at fair value through profit or loss, net		**63,462**	15,433
Others		**(5,613)**	—
		(1,240,439)	(145,618)

7. LOSS BEFORE TAX

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

	NOTES	2019 RMB'000	2018 RMB'000
Employee benefit expenses (including directors' remuneration (note 10)):			
Wages and salaries		**1,957,374**	1,537,702
Social insurance costs and staff welfare		**330,233**	273,816
Share-based compensation costs		**244,820**	211,936
Pension plan contributions*		**188,106**	160,269
		2,720,533	2,183,723
Gain on disposal of items of property, plant and equipment		**(270)**	(292)
Minimum lease payments under operating leases		**—**	71,287
Lease payments not included in the measurement of lease liabilities		**32,058**	—
Cost of inventories sold		**6,961**	7,205
Cost of services provided		**4,023,269**	2,636,707
Depreciation of property, plant and equipment	(a),15	**682,670**	479,328
Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments)	(a),17	**23,366**	5,052
Depreciation of investment properties	(a),16	**1,439**	1,079
Amortisation of other intangible assets	(a),19	**30,451**	28,634
Impairment of trade and other receivables**		**69,037**	56,843
Impairment of property, plant and equipment**	15	**2,432**	—
Impairment losses of right-of-use assets**	17	**3,054**	—
Donations**		**970**	426
Auditor's remuneration		**9,385**	6,700

* At 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2018: 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 (2018: prepaid land lease payments), and other intangible assets:

	2019 RMB'000	2018 RMB'000
Included in:		
Cost of revenue	**604,694**	418,640
Research and development costs	**94,063**	65,889
Selling and distribution expenses	**5,890**	4,983
Administrative expenses	**33,279**	24,581
	737,926	514,093

8. FINANCE INCOME

An analysis of finance income is as follows:

	NOTE	2019 RMB'000	2018 RMB'000
Bank interest income		**297,844**	324,848
Interest income from loans to related parties	43(a)	**1,299**	1,308
		299,143	326,156

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on convertible bonds	**273**	1,033
Interest on redeemable convertible preferred shares	**368,272**	286,093
Interest on bank loans	**18,482**	39,521
Interest on lease liabilities	**5,655**	—
Interest on finance leases	**—**	319
Total interest expense on financial liabilities not at fair value through profit or loss	**392,682**	326,966
Less: interest capitalised (note 17)	**(4,256)**	—
	388,426	326,966

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:

	2019 RMB'000	2018 RMB'000
Fees	**1,138**	1,002
Other emoluments:		
Salaries, allowances and benefits in kind	**4,112**	4,183
Discretionary bonuses	**140**	140
Pension scheme contributions	**80**	85
Share-based compensation	**57,901**	71,722
	63,371	77,132

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:

	2019 RMB'000	2018 RMB'000
Shun Tak Wong	**379**	325
David Yuen Kwan Tang	**379**	325
Wenjie Wu	**380**	352
	1,138	1,002

There were no other emoluments payable to the independent non-executive directors during the year (2018: nil).

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

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**

2018	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	—	1,906	—	—
Tao Zou	—	1,625	140	55
Non-executive directors:				
Pak Kwan Kau	—	325	—	—
Jun Lei	—	327	—	30
Chi Ping Lau[1]	—	—	—	—
	—	4,183	140	85

1 Mr. Chi Ping Lau agreed to waive his remuneration for the years ended 31 December 2019 and 2018.

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

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

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 2019, share-based compensation costs of RMB53,461,000 and RMB4,440,000 were recognised in the financial statements for Mr. Tao Zou and Mr. Yuk Keung Ng, respectively (2018: RMB63,355,000 and RMB8,367,000, respectively). Further details of the share options and share awards granted to Mr. Tao Zou and Mr. Yuk Keung Ng are set out in note 37 to the financial statements.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director and the chief executive (2018: two directors 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 four (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**4,994**	3,520
Discretionary bonuses	**564**	144
Pension scheme contributions	**180**	140
Share-based compensation	**58,127**	51,586
	63,865	55,390

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	
	2019	2018
HK$5,000,001 to HK$5,500,000	**—**	1
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**	1
HK$48,000,001 to HK$48,500,000	**1**	—
HK$52,000,001 to HK$52,500,000	**—**	1
	4	3

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 the Mainland China during the year. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to tax holidays and preferential tax rates.

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 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 effective from the year of assessment 2018/2019. The first HK$2,000,000 of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

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

	NOTE	2019 RMB'000	2018 RMB'000
Current — Mainland China		**110,515**	111,316
Current — Hong Kong		**25,710**	52,066
Current — Elsewhere		**4,633**	1,216
Deferred	35	**20,596**	(24,373)
Total tax charge for the year		**161,454**	140,225

12. INCOME TAX (continued)

A reconciliation of the tax expense applicable to 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, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2019 RMB'000	%	2018 RMB'000	%
Loss before tax	**(1,921,245)**		(25,017)	
Tax at the statutory tax rate of Mainland China	**(479,730)**	**25.0**	(6,254)	25.0
Lower tax rates for specific provinces or enacted by local authority	**(74,149)**	**3.9**	(8,657)	34.6
Effect of different tax rates in different jurisdictions	**529,594**	**(27.6)**	(34,772)	139.0
Effect on opening deferred tax of change in rates	**(12,948)**	**0.7**	(388)	1.6
Income not subject to tax	**(19,946)**	**1**	(5,255)	21.0
Expenses not deductible for tax	**58,875**	**(3.1)**	62,408	(249.5)
Research and development super deduction	**(150,593)**	**7.8**	(133,716)	534.5
Profits and losses attributable to joint ventures and associates	**(15,302)**	**0.8**	(9,451)	37.8
Tax losses and temporary differences not recognised	**346,846**	**(18.1)**	308,200	(1,232.0)
Tax losses and other deductible temporary differences utilised from previous periods	**(59,909)**	**3.1**	(52,486)	209.8
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**31,063**	**(1.6)**	1,453	(5.8)
Effect of withholding tax on income arising from Mainland China	**9,179**	**(0.5)**	12,040	(48.1)
Effect of withholding tax on the revenue arising from overseas	**5,257**	**(0.3)**	8,226	(32.9)
Adjustments in respect of current tax of previous periods	**(6,783)**	**0.4**	(1,123)	4.5
Tax charge at the Group's effective rate	**161,454**	**(8.4)**	140,225	(560.5)

The share of tax credit attributable to associates of RMB12,065,000 (2018: tax expense of RMB26,684,000) and the tax expense attributable to joint ventures of RMB3,691,000 (2018: RMB9,205,000) were included in "share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

13. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Proposed final dividend (note (a)):		
HK$ 0.10 (2018: HK$ nil) per share based on issued share capital as at year end	**122,966**	—
Less: Dividend for shares held for share award scheme as at year end	**(553)**	—
	122,413	—

(a) The proposed final dividend for the year is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

14. 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 1,365,661,224 (2018: 1,362,648,887) in issue during the year.

The calculation of diluted earnings/(loss) per share amount 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.

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

	2019 RMB'000	2018 RMB'000
EARNINGS/(LOSS)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	**(1,546,385)**	389,214
Increase in earnings adjusted for the convertible bonds of the Company	**—**	78
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	**(18,759)**	(13,121)
	(1,565,144)	376,171

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

	NUMBER OF SHARES	
	2019	**2018**
SHARES		
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the year used in the basic earnings per share calculation	**1,365,661,224**	1,362,648,887
Effect of dilution — weighted average number of ordinary shares:		
Awarded shares	**—**	2,932,857
Convertible bonds	**—**	2,496,713
	1,365,661,224	1,368,078,457

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 earnings per share for the years ended 31 December 2019.

The convertible bonds issued by the Company in 2014 and certain financial instruments of the Group's non-wholly owned subsidiaries were anti-dilutive and ignored in the calculation of diluted earnings per share for the years ended 31 December 2018.

15. PROPERTY, PLANT AND EQUIPMENT

	BUILDINGS RMB'000	ELECTRONIC EQUIPMENT RMB'000	OFFICE EQUIPMENT AND FIXTURES RMB'000	MOTOR VEHICLES RMB'000	LEASEHOLD IMPROVEMENTS RMB'000	CONSTRUCTION IN PROGRESS RMB'000	DATA CENTER MACHINERY AND EQUIPMENT RMB'000	TOTAL RMB'000
31 DECEMBER 2019								
At 31 December 2018 and 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 40)	—	(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

15. 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	TOTAL RMB'000
31 DECEMBER 2018							
At 31 December 2017 and 1 January 2018:							
Cost	334,916	1,354,679	132,299	5,890	14,565	490,958	2,333,307
Accumulated depreciation and impairment	(38,591)	(828,100)	(124,387)	(2,998)	(10,028)	—	(1,004,104)
Net carrying amount	296,325	526,579	7,912	2,892	4,537	490,958	1,329,203
At 1 January 2018, net of accumulated depreciation and impairment	296,325	526,579	7,912	2,892	4,537	490,958	1,329,203
Additions	2,613	1,060,927	78,492	1,215	399	100,432	1,244,078
Transfer to investment properties (note 16)	(59,419)	—	—	—	—	—	(59,419)
Disposals	—	(218)	(94)	—	—	—	(312)
Depreciation provided during the year	(11,650)	(440,196)	(23,542)	(963)	(2,977)	—	(479,328)
Transfers	391,136	—	101,314	—	—	(492,450)	—
Exchange realignment	—	2,172	12	18	—	—	2,202
At 31 December 2018, net of accumulated depreciation and impairment	619,005	1,149,264	164,094	3,162	1,959	98,940	2,036,424
At 31 December 2018:							
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

16. INVESTMENT PROPERTIES

	BUILDINGS RMB'000	LAND USE RIGHT RMB'000	TOTAL RMB'000
31 DECEMBER 2019			
At 31 December 2018 and 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**

	BUILDINGS RMB'000	LAND USE RIGHT RMB'000	TOTAL RMB'000
31 DECEMBER 2018			
At 31 December 2017 and 1 January 2018:			
Cost	—	—	—
Accumulated depreciation	—	—	—
Net carrying amount	—	—	—
At 1 January 2018, net of accumulated depreciation	—	—	—
Transfer from owner-occupied property (notes 15 and 17)	59,419	5,603	65,022
Depreciation	(954)	(125)	(1,079)
At 31 December 2018, net of accumulated depreciation	58,465	5,478	63,943
At 31 December 2018:			
Cost	70,463	7,304	77,767
Accumulated depreciation	(11,998)	(1,826)	(13,824)
Net carrying amount	58,465	5,478	63,943

The Group's investment properties consist of land use right and buildings in Zhuhai, Guangdong.

As at 31 December 2019, the fair value of the buildings and the land use right was approximately RMB225 million (2018: RMB199 million) which was estimated based on the income approach model.

17. LEASES

The Group as a lessee

The Group has lease contracts for various items of building and machinery 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 building generally have lease terms between several months and 15 years, while machinery generally has lease terms of 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Prepaid land lease payments (before 1 January 2019)*

	2018 **RMB'000**
Carrying amount at 1 January 2018	294,548
Addition	9,359
Amortisation in profit or loss during the year	(5,052)
Transfer to investment properties (note 16)	(5,603)
Carrying amount at 31 December 2018	293,252
Current portion included in prepayments, other receivables and other assets	(4,851)
Non-current portion	288,401

(b) *Right-of-use assets*

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

	PREPAID LAND LEASE PAYMENTS **RMB'000**	**BUILDINGS** **RMB'000**	**MACHINERY** **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	**288,272**	**115,436**	**29**	**403,737**

17. LEASES (continued)

The Group as a lessee (continued)

(c) Lease liabilities

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

	LEASE LIABILITIES RMB'000
Carrying amount at 1 January 2019	(35,919)
New leases	(112,304)
Accretion of interest recognised during the year:	
Interest recognised in profit or loss	(1,399)
Capitalised interest	(4,256)
Payments	23,525
Reduction*	14,325
Exchange realignment	(21)
Carrying amount at 31 December 2019	(116,049)
Analysed into:	
Current portion	(18,260)
Non-current portion	(97,789)

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

The maturity analysis of lease liabilities is disclosed in note 46 to the financial statements.

The Group leased certain of its electronic equipment for its cloud business under finance lease arrangements. These leases were classified as finance leases prior to IFRS 16 becoming effective on 1 January 2019, which were fully repaid as at 31 December 2018.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	1,399
Depreciation charge in profit or loss of right-of-use assets	23,366
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)	32,058
Total amount recognised in profit or loss	56,823

17. LEASES (continued)

The Group as a lessee (continued)

(e) *The total cash outflow for leases and future cash outflows relating to leases that have not commences are disclosed in note 42(c) to the financial statements.*

The Group as a lessor

The Group leases its investment properties (note 16) 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 RMB26,521,000 (2018: RMB29,063,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**16,833**	14,351
After one year but within two years	**17,674**	16,833
After two years but within three years	**18,558**	17,674
After three years but within four years	**19,486**	18,558
After four years but within five years	**20,460**	19,486
After five years	**75,749**	96,209
	168,760	183,111

18. GOODWILL

	NOTE	RMB'000
At 1 January 2018 and 31 December 2018:		
Cost		9,559
Accumulated impairment		—
Net carrying amount		9,559
Cost at 1 January 2019, net of accumulated impairment		**9,559**
Impairment during the year	6	**(9,559)**
Cost and net carrying amount at 31 December 2019		**—**
At 31 December 2019:		
Cost		**9,559**
Accumulated impairment		**(9,559)**
Net carrying amount		**—**

Impairment testing of goodwill

The goodwill was acquired through two business combinations taken place in prior year in cloud services segment.

The recoverable amount of the business has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a three-year period approved by senior management.

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, by reference to the average rate for similar industry and the business risk of the relevant businesses. The values assigned to the key assumptions are consistent with external information sources.

Based on the results of the impairment testing of goodwill, RMB9,559,000 impairment loss was provided by the Group as at 31 December 2019.

19. OTHER INTANGIBLE ASSETS

	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 and impairment	**(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 and impairment	**56,382**	**—**	**—**	**—**	**56,382**
Addition	**6,924**	**—**	**—**	**—**	**6,924**
Amortisation provided during the year	**(30,451)**	**—**	**—**	**—**	**(30,451)**
Deemed disposal of a subsidiary (note 40)	**(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**
31 DECEMBER 2018					
At 1 January 2018:					
Cost	138,321	1,973	27,229	5,300	172,823
Accumulated amortisation and impairment	(82,306)	(1,613)	(27,229)	(5,300)	(116,448)
Net carrying amount	56,015	360	—	—	56,375
Cost at 1 January 2018, net of accumulated amortisation and impairment	56,015	360	—	—	56,375
Addition	28,353	—	—	—	28,353
Amortisation provided during the year	(28,274)	(360)	—	—	(28,634)
Exchange realignment	288	—	—	—	288
At 31 December 2018, net of accumulated amortisation and impairment	56,382	—	—	—	56,382
At 31 December 2018:					
Cost	167,400	360	27,229	5,300	200,289
Accumulated amortisation and impairment	(111,018)	(360)	(27,229)	(5,300)	(143,907)
Net carrying amount	56,382	—	—	—	56,382

20. INVESTMENTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Share of net assets	**184,396**	138,501
Goodwill on acquisition	**121,664**	52,830
	306,060	191,331
Provision for impairment	**(35,757)**	(35,757)
	270,303	155,574

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

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

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

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

20. INVESTMENTS IN JOINT VENTURES (continued)

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

	2019 RMB'000	2018 RMB'000
Cash and bank balance	**203,740**	196,413
Other current assets	**95,865**	84,801
Current assets	**299,605**	281,214
Non-current assets	**3,848**	5,620
Current liabilities	**39,407**	46,213
Net assets	**264,046**	240,621
Carrying amount of the investment	**111,613**	102,245
Revenue	**177,493**	207,459
Interest income	**6,395**	5,332
Depreciation and amortisation	**(2,542)**	(2,085)
Profit and total comprehensive income for the year	**90,544**	151,247
Dividend received	**26,850**	82,002

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

	2019 RMB'000	2018 RMB'000
Share of the joint ventures' loss for the year	**(21,279)**	(10,601)
Share of the joint ventures' total comprehensive loss	**(21,279)**	(10,601)
Aggregate carrying amount of the Group's investments in the joint ventures	**158,690**	53,329

(i) The Group has discontinued the recognition of its share of losses of a joint venture because the share of losses of this joint venture exceeded the Group's interests in the joint venture and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this joint venture for the current year and cumulatively were RMB798,000 (2018: RMB1,997,000) and RMB11,552,000 (2018: RMB10,754,000), respectively.

(ii) During the year ended 31 December 2019, the Group recognised no impairment loss (2018: RMB6,433,000) for investments in joint ventures.

(iii) The Group's trade payables, other receivables and loan balance with the joint ventures are disclosed in notes 29 and 43(b) to the financial statements.

21. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	**2,189,527**	2,818,283
Goodwill on acquisition	**1,553,719**	1,536,838
	3,743,246	4,355,121
Provision for impairment	**(1,305,724)**	(5,724)
	2,437,522	4,349,397

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

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
Cheetah Mobile	Ordinary shares	Cayman Islands	49%	26%	49%	Investment holding

Impairment of investment in Cheetah Mobile

As at 31 December 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 certain period of time, the Group performed an impairment assessment.

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 21%, which was determined with reference to the average rate for companies in relevant industry with similar business risk, and the cash flows projection beyond the five-year period were extrapolated using a growth rate of 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.

Based on the results 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, being the difference of carrying amount of RMB3,561,913,000 over the recoverable amount of RMB2,261,913,000 as at 31 December 2019 (2018: nil).

21. INVESTMENTS IN ASSOCIATES (continued)

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

	2019 RMB'000	2018 RMB'000
Current assets	**3,981,668**	5,635,045
Non-current assets, excluding goodwill	**2,619,807**	2,732,666
Goodwill on acquisition of the associate	**1,393,851**	1,445,461
Current liabilities	**1,641,189**	2,121,108
Non-current liabilities	**263,756**	599,927
Non-controlling interests	**62,269**	(74,653)
Net assets	**6,028,112**	7,166,790
Net assets, excluding goodwill	**4,634,261**	5,721,329
Proportion of the Group's ownership	**49%**	49%
Group's share of net assets of the associate, excluding goodwill	**2,168,062**	2,767,346
Goodwill on acquisition	**1,393,851**	1,445,461
Less: impairment (note 6)	**(1,300,000)**	—
Carrying amount of the investment	**2,261,913**	4,212,807
Revenue	**3,587,695**	4,981,705
Profit/(loss) for the year	**(693,410)**	1,048,581
Other comprehensive income	**38,443**	76,013
Total comprehensive income/(loss) for the year	**(654,967)**	1,124,594
Dividend declared and distributed	**(498,635)**	—

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

	2019 RMB'000	2018 RMB'000
Share of the associates' losses for the year	**(19,737)**	(18,232)
Share of the associates' other comprehensive income	**1,171**	3,666
Share of the associates' total comprehensive loss	**(18,566)**	(14,566)
Aggregate carrying amount of the Group's investments in the associates	**175,609**	136,590

21. INVESTMENTS IN ASSOCIATES (continued)

(i) The Group has discontinued the recognition of its share of losses of associates because the share of losses of these associates exceeded the Group's interests in the associates and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of these associates for the current year and cumulatively were RMB122,000 (2018: RMB28,000) and RMB150,000 (2018: RMB28,000), respectively.

(ii) The Group's trade receivables, trade payables and loan balances with the associates are disclosed in notes 26, 29 and 43(b) to the financial statements.

22. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value	**739,705**	741,678
Unlisted equity investments, at fair value	**17,287**	15,040
	756,992	756,718
Current portion	**(10,000)**	(10,000)
Non-current portion	**746,992**	746,718

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 2018, the Group sold certain equity investments that no longer coincided with the Group's investment strategy. The fair value on the date of sale was RMB88,000,000 and the accumulated gain net of tax recognised in other comprehensive income of RMB28,500,000 was transferred to retained profits.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	NOTES	2019 RMB'000	2018 RMB'000
Ordinary share subscription option	(i)	**79,920**	60,029
Convertible bonds issued by an associate	(ii)	**21,628**	—
Others		**37,686**	24,015
		139,234	84,044
Current portion		**89,920**	—
Non-current portion		**49,314**	84,044
		139,234	84,044

(i) The ordinary share subscription option represents rights to subscribe for an aggregate of 1,032,917 ordinary shares of an independent third party game company in Vietnam, which can be exercised from time to time at the Group's full discretion on or before 31 December 2020.

(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. The outstanding principal amount of this note shall be due on 4 March 2020, which may be extended by the Group to 4 March 2021.

24. OTHER NON-CURRENT ASSETS

	2019 RMB'000	2018 RMB'000
Prepayment for purchase of equipment	**36,306**	63,680
Others	**10,970**	19,540
	47,276	83,220

25. INVENTORIES

	2019 RMB'000	2018 RMB'000
Packaging materials	**94**	71
Trading stocks	**16,284**	11,608
	16,378	11,679

26. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**2,115,009**	1,246,183
Impairment	**(55,978)**	(61,533)
	2,059,031	1,184,650

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 of RMB6,417,000 (2018: RMB11,016,000), RMB172,319,000 (2018: RMB162,152,000) and RMB84,170,000 (2018: RMB131,933,000), due from an associate, a company whose parent has a significant influence on the Company and certain companies controlled by a director of the Company, respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

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:

	2019 RMB'000	2018 RMB'000
0 to 30 days	**817,869**	562,380
31 to 60 days	**377,336**	240,592
61 to 90 days	**154,914**	67,551
91 to 365 days	**631,294**	239,901
1 to 2 years	**47,683**	69,616
Over 2 years	**29,935**	4,610
	2,059,031	1,184,650

26. TRADE RECEIVABLES (continued)

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

	2019 RMB'000	2018 RMB'000
At beginning of year	**61,533**	7,107
Impairment losses recognised	**63,361**	54,889
Amounts written-off as uncollectable	**(68,997)**	(596)
Exchange realignment	**81**	133
At end of year	**55,978**	61,533

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.

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

		PAST DUE				
AS AT 31 DECEMBER 2019	**CURRENT**	**LESS THAN 1 YEAR**	**1 TO 2 YEARS**	**2 TO 3 YEARS**	**OVER 3 YEARS**	**TOTAL**
Impairment of 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 of 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**

26. TRADE RECEIVABLES (continued)

AS AT 31 DECEMBER 2018	CURRENT	PAST DUE LESS THAN 1 YEAR	PAST DUE 1 TO 2 YEARS	PAST DUE 2 TO 3 YEARS	PAST DUE OVER 3 YEARS	TOTAL
Impairment of credit losses assessed by credit risk portfolio						
Expected credit loss rate	0%	1%	10%	45%	100%	1%
Gross carrying amount (RMB'000)	943,786	206,715	35,098	7,745	6,572	1,199,916
Expected credit losses (RMB'000)	403	1,388	3,447	3,456	6,572	15,266
Impairment of credit losses assessed individually*						
Expected credit loss rate	100%	100%	100%	100%	100%	100%
Gross carrying amount (RMB'000)	1,586	23,277	13,079	2,334	5,991	46,267
Expected credit losses (RMB'000)	1,586	23,277	13,079	2,334	5,991	46,267

* The individually impaired trade receivables as at 31 December 2019 and 2018 related to customers that were credit-impaired or in default payments and no receivables is expected to be recovered. The full allowance of credit losses RMB40,572,000 (2018: RMB46,267,000) was provided for such individual trade receivables as at 31 December 2019.

27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	NOTE	2019 RMB'000	2018 RMB'000
Prepayments		**122,831**	87,964
Deposits		**17,039**	12,171
Due from related parties	43(b)	**54,699**	35,828
Loans receivable		**56,390**	33,994
Other receivables		**1,121,592**	738,380
		1,372,551	908,337
Impairment allowance		**(7,458)**	(1,954)
		1,365,093	906,383

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

	2019 RMB'000	2018 RMB'000
At beginning of year	**1,954**	171
Impairment losses recognised	**5,676**	1,954
Amounts written-off as uncollectable	**(172)**	(171)
	7,458	1,954

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 2019, the loss allowance of prepayments, other receivables and other assets was recognised by the Group mainly for its loans receivable.

28. CASH AND BANK DEPOSITS AND RESTRICTED CASH

	NOTE	2019 RMB'000	2018 RMB'000
Cash and bank balances		**3,248,496**	1,524,403
Non-pledged time deposits with original maturity of three months or less when acquired		**955,889**	1,854,211
Principal protected structure deposits with original maturity of three months or less when acquired		**3,125,460**	1,166,170
		7,329,845	4,544,784
Non-pledged time deposits with original maturity of over three months when acquired		**264,788**	2,811,271
Principal protected structure deposits with original maturity of over three months when acquired		**6,197,484**	2,512,754
		6,462,272	5,324,025
Cash and bank deposits		**13,792,117**	9,868,809
Restricted cash	(iii)	**—**	98,102
		13,792,117	9,966,911

(i) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of one day to 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.

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

(iii) As at 31 December 2018, restricted cash of RMB98,102,000 was not a part of cash and cash equivalents, which was not available for the Group's use. The restricted cash as at 31 December 2018 represents the escrow amount and its related interest income held by a subsidiary of the Company, which shall be joint-controlled by the subsidiary of the Company and a company whose parent has a significant influence on the Company in accordance with the terms of the share purchase agreement in connection with the disposal of shares of Seasun Holdings. For details of the transaction, please refer to announcement of the Company dated 21 April 2017.

29. 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:

	2019 RMB'000	2018 RMB'000
0 to 30 days	**829,998**	393,603
31 to 60 days	**295,064**	136,676
61 to 90 days	**106,092**	136,828
91 to 365 days	**167,157**	226,978
Over 1 year	**103,293**	53,617
	1,501,604	947,702

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

Included in the Group's trade payables are amounts of RMB28,151,000 (2018: RMB52,577,000), RMB10,000 (2018: RMB515,000), RMB89,376,000 (2018: RMB78,503,000), and RMB139,000 (2018: RMB421,000), due to a company controlled by a director of the Company, a company whose parent has a significant influence on the Company, a joint venture of the Group and an associate of the group, respectively, which are repayable on credit terms similar to those offered by the counterparty.

30. OTHER PAYABLES AND ACCRUALS

	NOTES	2019 RMB'000	2018 RMB'000
Deposits received from customers		**18,974**	1,695
Advances received from customers	32	**144,023**	66,073
Other payables		**1,209,324**	645,626
Accruals		**207,206**	224,276
Other taxes payable		**110,265**	99,190
Due to related parties	43(b)	**471**	63,700
		1,690,263	1,100,560

Other payables are non-interest-bearing.

31. INTEREST-BEARING BANK LOANS

	EFFECTIVE INTEREST RATE	MATURITY	PRINCIPAL AMOUNT RMB'000
At 31 December 2019			
Current			
Bank loans — 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
At 31 December 2018			
Current			
Bank loan — unsecured	3.30%–3.40% per annum	2019	1,029,480
Current portion of long term bank loans — unsecured	4.28% per annum	2019	23,913
			1,053,393
Non-current			
Bank loans — unsecured	4.28% per annum	2020–2021	231,224
			1,284,617

31. INTEREST-BEARING BANK LOANS (continued)

	2019 RMB'000	2018 RMB'000
Analysed into:		
Within one year or on demand	**623,215**	1,053,393
In the second year	**74,351**	138,623
In the third to fifth years, inclusive	**—**	92,601
	697,566	1,284,617

Notes:

(i) The Group has overdraft facilities amounting to US$75,000,000 and RMB400,000,000 (2018: US$175,000,000 and RMB400,000,000, respectively), of which US$75,000,000 and RMB335,137,000, respectively (2018: US$150,000,000 and RMB335,137,000, respectively) had been utilised as at the end of the reporting period.

(ii) As at 31 December 2019, interest-bearing bank loans of the Group amounting to RMB523,215,000 and RMB174,351,000 were denominated in US$ and RMB, respectively (2018: RMB1,029,480,000 and RMB255,137,000, respectively).

32. DEFERRED REVENUE

	2019 RMB'000	2018 RMB'000
Contract liabilities	**881,879**	712,120
Government grants	**49,505**	40,322
	931,384	752,442
Less: Current portion	**(879,440)**	(722,781)
Non-current portion	**51,944**	29,661

The Group's contract liabilities are included in deferred revenue and other payables and accruals, details of contract liabilities as at 31 December 2019 and 31 December 2018 are as follows:

	31 DECEMBER 2019 RMB'000	31 DECEMBER 2018 RMB'000	1 JANUARY 2018 RMB'000
Advances received from customers			
Entertainment software	**515,145**	548,223	531,083
Office software	**434,336**	194,083	83,354
Cloud service	**76,421**	35,887	50,212
Others	**—**	—	4,902
Total contract liabilities	**1,025,902**	778,193	669,551
Portion included in deferred revenue	**(881,879)**	(712,120)	(591,798)
Portion included in other payables and accruals	**144,023**	66,073	77,753

Contract liabilities include advances received from customers for delivery of software products and rendering of services. The increase in contract liabilities in 2019 was mainly due to the increase in deferred revenue and advance received from customers in relation to the provision of office software.

33. CONVERTIBLE BONDS

	NOTES	2018 RMB'000
Liability component		
2013 Convertible bonds	(a)	—
2014 Convertible bonds	(b)	40,171
		40,171
Less: Current portion		(40,171)
Non-current portion		—
Equity component		
2013 Convertible bonds	(a)	—
2014 Convertible bonds	(b)	1,274
		1,274

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

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

In accordance with the respective terms and conditions of the 2013 Convertible Bonds, the conversion price of the 2013 Convertible Bonds was adjusted to HK$16.46 per share effective on 2 June 2016.

33. CONVERTIBLE BONDS (continued)

(a) (continued)

On 15 January 2018, all outstanding 2013 Convertible Bonds were fully converted into the Company's ordinary shares. As a result of the conversion, 60,753,330 ordinary shares were issued in accordance with the terms and conditions of the 2013 Convertible Bonds.

The movements of the liability component and the equity component of the 2013 Convertible Bonds for the years ended 31 December 2018 are set out below:

	LIABILITY COMPONENT RMB'000	EQUITY COMPONENT RMB'000
At 1 January 2018	832,876	6,290
Conversion	(807,012)	(6,290)
Exchange realignment	(25,876)	—
Interest expenses	12	—
At 31 December 2018	—	—

(b) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HK$2,327,000,000 which bear interest at a rate of 1.25% per annum payable semi-annually (the "2014 Convertible Bonds"). The 2014 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 22 May 2014 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK$43.89 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2014 Convertible Bonds at the principal amount together with the interest accrued by giving the bondholders not less than 30 nor more than 60 days' prior notice. On the maturity date, any 2014 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

33. CONVERTIBLE BONDS (continued)

(b) (continued)

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

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

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

On 11 April 2019, all outstanding 2014 Convertible Bonds were fully redeemed.

The movements of the liability component and the equity component of the 2014 Convertible Bonds for the years ended 31 December 2019 and 2018 are set out below:

	LIABILITY COMPONENT RMB'000	**EQUITY COMPONENT RMB'000**
At 1 January 2018	37,864	1,274
Exchange realignment	1,839	—
Interest expenses	468	—
At 31 December 2018	40,171	1,274
Redemption of the convertible bonds	**(40,386)**	**(1,274)**
Exchange realignment	**78**	**—**
Interest expenses	**137**	**—**
At 31 December 2019	**—**	**—**

34. REDEEMABLE CONVERTIBLE PREFERRED SHARES ISSUED BY A SUBSIDIARY

	NOTES	2019 RMB'000	2018 RMB'000
Liability components			
Series C redeemable convertible preferred shares	(a)	**471,513**	427,271
Series D redeemable convertible preferred shares	(b)	**2,799,118**	2,469,265
Series D+ redeemable convertible preferred shares	(c)	**440,624**	—
		3,711,255	2,896,536
Less: Current portion		**(128,236)**	(154,765)
Non-current portion		**3,583,019**	2,741,771
Equity components			
Series C redeemable convertible preferred shares	(a)	**5,438**	5,438
Series D redeemable convertible preferred shares	(b)	**247,040**	247,040
Series D+ redeemable convertible preferred shares	(c)	**34,325**	—
		286,803	252,478

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

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

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

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

(a) (continued)

Based on the terms of the amended and restated memorandum of association of Kingsoft Cloud, the series C redeemable convertible preferred shares are split and accounted for as follows: (i) financial liability stated at amortised cost for the host financial liability; (ii) derivative financial liability measured at fair value with changes in fair value through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity. During the year ended 31 December 2019, a gain of RMB6,736,000 (2018: a loss of RMB5,653,000) resulting from the changes in fair value of conversion rights was recognised through profit or loss. The movements of the series C redeemable convertible preferred shares for the years ended 31 December 2019 and 2018 are set out below:

	LIABILITY COMPONENTS		EQUITY COMPONENT
	THE HOST FINANCIAL LIABILITY RMB'000	THE CONVERSION RIGHTS RMB'000	RMB'000
At 1 January 2018	332,195	31,591	5,438
Fair value changes	—	5,653	—
Exchange realignment	17,993	1,961	—
Interest expenses	37,878	—	—
At 31 December 2018	388,066	39,205	5,438
Fair value changes	**—**	**(6,736)**	**—**
Exchange realignment	**6,584**	**602**	**—**
Interest expenses	**43,792**	**—**	**—**
At 31 December 2019	**438,442**	**33,071**	**5,438**

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

On 6 December 2017, Kingsoft Cloud issued 81,313,365 and 117,845,456 series D redeemable convertible preferred shares with a par value of US$0.001 to another investor and the Company, at a price of US$0.84857 per share for aggregate consideration of US$169,000,000 (equivalent to RMB1,118,155,000). On 6 December 2017, Kingsoft Cloud issued a warrant (the "Warrant") to this investor to subscribe for up to 36,532,091 series D redeemable convertible preferred shares at RMB5.609 per share for an aggregate consideration of RMB204,895,000.

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

(b) (continued)

On 28 February 2018, Kingsoft Cloud issued 129,630,002 and 129,630,002 series D redeemable convertible preferred shares with a par value of US$0.001 each to certain investors and the Company, respectively, at a price of US$0.84857 per share for an aggregate consideration of US$220,000,000 (equivalent to RMB1,392,468,000).

On 29 March 2018, Kingsoft Cloud issued 114,971,205 and 114,971,205 series D redeemable convertible preferred shares with a par value of US$0.001 each to certain investors and the Company, respectively, at a price of US$0.86978 per share for an aggregate consideration of US$200,000,000 (equivalent to RMB1,260,920,000).

On 22 May 2018, the aforementioned investor exercised the Warrant and 36,532,091 series D redeemable convertible preferred shares were issued by Kingsoft Cloud for an aggregate consideration of RMB204,895,000, a fair value gain from the warrant of RMB12,704,000 was recognised through profit or loss in 2018.

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

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

Based on the terms of the amended and restated memorandum of association of Kingsoft Cloud, the series D redeemable convertible preferred shares are split and accounted for as follows: (i) financial liability stated at amortised cost for the host financial liability; (ii) derivative financial liability measured at fair value with changes in fair value through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity. During the year ended 31 December 2019, a gain of RMB37,632,000 (2018: a gain of RMB4,643,000) resulting from the changes in fair value of conversion rights was recognised through profit or loss.

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

(b) (continued)

The movements of the series D redeemable convertible preferred shares for the years ended 31 December 2019 and 2018 are set out below:

	LIABILITY COMPONENTS		EQUITY COMPONENT
	THE HOST FINANCIAL LIABILITY RMB'000	THE CONVERSION RIGHTS RMB'000	RMB'000
At 1 January 2018	618,076	39,928	141,347
Upon issuance	1,344,988	72,001	105,693
Fair value changes	—	(4,643)	—
Exchange realignment	142,426	8,274	—
Interest expenses	248,215	—	—
At 31 December 2018	2,353,705	115,560	247,040
Fair value changes	**—**	**(37,632)**	**—**
Exchange realignment	**42,309**	**1,617**	**—**
Interest expenses	**323,559**	**—**	**—**
At 31 December 2019	**2,719,573**	**79,545**	**247,040**

(c) On 27 December 2019, Kingsoft Cloud issued 77,125,997 series D+ redeemable convertible preferred shares with a par value of US$0.001 each to certain investors, at a price of US$0.9076 per share for an aggregate consideration of US$70,000,000 (equivalent to RMB489,153,000).

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

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

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

(c) (continued)

Based on the terms of the amended and restated memorandum of association of Kingsoft Cloud, the series D+ redeemable convertible preferred shares are split and accounted for as follows: (i) financial liability stated at amortised cost for the host financial liability; (ii) derivative financial liability measured at fair value with changes in fair value through profit or loss for the conversion rights; and (iii) the residual amount recorded in equity. The movements of the series D+ redeemable convertible preferred shares for the year ended 31 December 2019 are set out below:

	LIABILITY COMPONENTS		EQUITY COMPONENT
	THE HOST FINANCIAL LIABILITY RMB'000	THE CONVERSION RIGHTS RMB'000	RMB'000
Upon issuance	424,795	15,645	34,325
Exchange realignment	(712)	(25)	—
Interest expenses	921	—	—
At 31 December 2019	425,004	15,620	34,325

35. DEFERRED TAX

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

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 charged/(credited) 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)

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

Deferred tax liabilities

	2018						
	DEFERRED COST RMB'000	FAIR VALUE ADJUSTMENT ARISING FROM ACQUISITION OF SUBSIDIARIES RMB'000	WITHHOLDING TAXES ON THE DISTRIBUTABLE PROFITS OF THE GROUP'S PRC SUBSIDIARIES RMB'000	FAIR VALUE CHANGE RESERVES RMB'000	INTEREST RECEIVABLES RMB'000	OTHERS RMB'000	TOTAL RMB'000
At 1 January 2018	289	571	37,100	9,500	2,513	8,734	58,707
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12)	68	—	(32,100)	—	1,949	430	(29,653)
Disposal of an equity investment	—	—	—	(9,500)	—	—	(9,500)
Exchange realignment	—	30	—	—	—	—	30
Gross deferred tax liabilities at 31 December 2018	357	601	5,000	—	4,462	9,164	19,584

35. DEFERRED TAX (continued)

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

Deferred tax assets

	2018					
	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 2018	63,463	24,314	137	7,331	6,562	101,807
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 12)	3,134	(10,521)	863	2,991	(1,747)	(5,280)
Gross deferred tax assets at 31 December 2018	66,597	13,793	1,000	10,322	4,815	96,527

The Group has tax losses arising in Mainland China of RMB4,807,224,000 as at 31 December 2019 (2018: RMB3,864,883,000) that will expire in one to five years for offsetting against future taxable profits.

The amounts and expiration dates of the tax losses carried forward at 31 December 2019 and 2018 are listed below:

	2019 RMB'000	2018 RMB'000
Expiration date		
31 December 2019	—	151,278
31 December 2020	**215,095**	403,250
31 December 2021	**502,716**	509,942
31 December 2022	**714,069**	773,675
31 December 2023	**1,944,066**	2,026,738
31 December 2024	**1,431,278**	—

The Group also has tax losses arising in Hong Kong of RMB161,691,000 (2018: RMB101,510,000) 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 item:

	2019 RMB'000	2018 RMB'000
Tax losses	**4,983,004**	3,972,435

35. DEFERRED TAX (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

A deferred tax liability is recognised for the estimated withholding taxes to the extent that it is probable that those subsidiaries will distribute earnings in the foreseeable future. This requires an estimation of the likely timing and level of dividends to be distributed, and a judgement as to whether the dividends are associated to earnings generated from 1 January 2008 or not. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China, for which deferred tax liabilities have not been recognised for withholding taxes that would be payable on the unremitted earnings of these subsidiaries, totalled approximately RMB8,596 million at 31 December 2019 (2018: RMB7,371 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

	2019 RMB'000	2018 RMB'000
Authorised: 2,400,000,000 (2018: 2,400,000,000) ordinary shares of US$0.0005 each	**9,260**	9,260
Issued and fully paid: 1,372,728,717 (2018: 1,372,728,717) ordinary shares of US$0.0005 each	**5,316**	5,316

36. SHARE CAPITAL (continued)

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

	NOTES	NUMBER OF SHARES IN ISSUE	ISSUED SHARE CAPITAL RMB'000	SHARE PREMIUM ACCOUNT RMB'000	TREASURY SHARES RMB'000	TOTAL RMB'000
At 1 January 2018		1,303,415,650	5,127	2,287,958	(22,517)	2,270,568
Approved and paid final dividend in respect of the previous year	13	—	—	(126,608)	—	(126,608)
Vesting of awarded shares	37	1,895,800	—	—	4,428	4,428
Shares repurchased		(1,000,000)	(3)	(11,906)	—	(11,909)
Conversion of convertible bonds	33	60,753,330	192	823,525	—	823,717
At 31 December 2018 and 1 January 2019		**1,365,064,780***	**5,316**	**2,972,969**	**(18,089)**	**2,960,196**
Vesting of awarded shares (note i)	37	**1,487,800**	**—**	**22,636**	**3,458**	**26,094**
At 31 December 2019		**1,366,552,580***	**5,316**	**2,995,605**	**(14,631)**	**2,986,290**

* Excluding 6,176,137 (2018: 7,663,937) shares held by the Share Award Scheme Trust as at 31 December 2019.

(i) No share options were exercised during the years ended 31 December 2019 and 2018.

During the year ended 31 December 2019, 1,487,800 awarded shares (2018: 1,895,800) 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.

The following share options were outstanding under the 2011 Share Option Scheme during the years ended 31 December 2019 and 2018, and their weighted average exercise prices ("WAEP"):

	2019 NUMBER OF SHARE OPTIONS	2019 WAEP HK$ PER SHARE	2018 NUMBER OF SHARE OPTIONS	2018 WAEP HK$ PER SHARE
Outstanding at 1 January and 31 December	**4,600,000**	**20.58**	4,600,000	20.58
Exercisable at 31 December	**2,640,000**	**20.48**	1,720,000	20.42

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

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

There was no exercise of the options under 2011 Share Option Scheme during the year ended 31 December 2019 and 2018.

The date of grant and exercise price of the share options under the 2011 Share Option Scheme outstanding as at 31 December 2019 and 2018 are as follows:

	AT 1 JANUARY 2018 AND 31 DECEMBER 2018 AND 2019	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS 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 weighted average remaining contractual life for the Company's share options outstanding under the 2011 Share Option Scheme as at 31 December 2019 was 7.38 years (2018: 8.38 years).

The total expense in respect of the 2011 Share Option Scheme for the year ended 31 December 2019 was RMB8,318,000 (2018: RMB13,821,000).

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 RMB16,000 and share premium of RMB84,770,000 (before issue expenses).

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) *Kingsoft Cloud Share Option Scheme*

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

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(b) Kingsoft Cloud Share Option Scheme (continued)

The following share options were outstanding under the Kingsoft Cloud Share Option Scheme during the years ended 31 December 2019 and 2018:

	2019 NUMBER OF SHARE OPTIONS	2019 WAEP US$ PER SHARE	2018 NUMBER OF SHARE OPTIONS	2018 WAEP US$ PER SHARE
Outstanding at 1 January	**172,654,000**	**0.07**	187,090,000	0.07
Granted during the year	**33,350,000**	**0.07**	20,040,000	0.07
Forfeited during the year	**(13,560,000)**	**0.07**	(34,476,000)	0.07
Expired during the year	**(312,000)**	**0.07**	—	—
Exercised during the year	**(62,280,000)**	**0.05**	—	—
Outstanding at 31 December	**129,852,000**	**0.07**	172,654,000	0.07
Exercisable at 31 December	**57,570,000**	**0.07**	95,294,000	0.06

The exercise prices of the share options outstanding as at the end of the reporting period are from US$0.02 per share to US$0.07 per share.

The fair value of the share options of Kingsoft Cloud granted during the year ended 31 December 2019 was estimated by an external valuer on the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2019	2018
Dividend yield (%)	**—**	—
Expected volatility (%)	**37.4%–37.9%**	42.4%–43.7%
Risk-free interest rate (%)	**1.58%–1.67%**	2.0%–2.1%
Expected forfeiture rate (%)	**5%**	5%
Weighted average share price (US$ per share)	**0.72–0.76**	0.63–0.68

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.

129,852,000 share options of Kingsoft Cloud were outstanding as at 31 December 2019 with the weighted average remaining contractual life of 7.32 years (2018: 7.08), among which, 57,570,000 were exercisable.

The weighted average fair value of the share options granted under the Kingsoft Cloud Share Option Scheme during the year ended 31 December 2019 was US$0.65 per share (2018: US$0.58 per share).

The total expense in respect of the share options granted under the Kingsoft Cloud Share Option Scheme for the year ended 31 December 2019 was RMB66,346,000 (2018: RMB47,014,000).

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Option Schemes (continued)

(c) Seasun Holdings Share Option Scheme

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

The following share options were outstanding under the Seasun Holdings Share Option Scheme during the years ended 31 December 2019 and 2018:

	2019 NUMBER OF SHARE OPTIONS	2019 WAEP RMB PER SHARE	2018 NUMBER OF SHARE OPTIONS	2018 WAEP RMB PER SHARE
Outstanding at 1 January	**21,709,111**	**4.24**	24,956,711	2.43
Granted during the year	**2,160,000**	**8.68**	3,685,000	7.97
Forfeited during the year	**(727,611)**	**4.88**	(2,115,200)	4.06
Cancelled during the year	**(600,000)**	**1.82**	(4,817,400)	1.58
Outstanding at 31 December	**22,541,500**	**4.77**	21,709,111	4.24
Exercisable at 31 December	**7,210,400**	**1.65**	5,671,400	1.37

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)

(c) Seasun Holdings Share Option Scheme (continued)

The fair value of the share options of Seasun Holdings granted during the year ended 31 December 2019 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	2018
Dividend yield (%)	**9%**	6%–10%
Expected volatility (%)	**44%–55%**	52%–54%
Risk-free interest rate (%)	**1.46%–1.56%**	1.78%–2.03%
Expected forfeiture rate (%)	**6%**	0%–6%
Weighted average share price (RMB per share)	**7.74**	9.81–10.57

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.

22,541,500 share options of Seasun Holdings were outstanding as at 31 December 2019 with the weighted average remaining contractual life of 6.47 years (2018: 7.23 years), among which, 7,210,400 were exercisable.

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 (2018: RMB3.91 per share).

The total expense in respect of the share options granted under the Seasun Holdings Share Option Scheme for the year ended 31 December 2019 was RMB15,928,000 (2018: RMB13,951,000).

Share Award Schemes

(a) Share Award Scheme adopted by the Company

On 31 March 2008, the directors of the Company approved and adopted the Share Award Scheme in which selected employees of the Group are entitled to participate. Unless early terminated by the directors of the Company, the Share Award Scheme is valid and effective for a term of five years commencing from 31 March 2008. On 25 November 2010, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2013 to 30 March 2017. On 19 November 2016, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2017 to 30 March 2022. The directors will not grant any awarded shares which would result in the total number of shares (but not counting those which have lapsed or have been forfeited), in aggregate, over 10% of the issued capital of the Company as at the date of such grant.

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

The following awarded shares were outstanding under the Share Award Scheme during the years ended 31 December 2019 and 2018:

	2019 NUMBER OF AWARDED SHARES	2018 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**4,372,900**	5,830,300
Granted during the year	**600,000**	455,000
Forfeited during the year	**(22,900)**	(16,600)
Vested during the year	**(1,487,800)**	(1,895,800)
Outstanding as at 31 December	**3,462,200**	4,372,900

The awarded shares under the Share Award Scheme outstanding as at 31 December 2019 are as follows:

	AT 1 JANUARY 2019	VESTED DURING THE YEAR	AT 31 DECEMBER 2019	GRANT DATE
Name or category of participant				
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**	

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 2019	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	VESTED DURING THE YEAR	AT 31 DECEMBER 2019	GRANT DATE
Name or category of participant						
OTHER EMPLOYEES						
In aggregate						
	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 awarded shares under the Share Award Scheme outstanding as at 31 December 2018 are as follows:

	AT 1 JANUARY 2018	VESTED DURING THE YEAR	AT 31 DECEMBER 2018	GRANT DATE
Name or category of participant				
EXECUTIVE DIRECTORS				
Yuk Keung Ng	40,000	(40,000)	—	29 November 2013
	600,000	(120,000)	480,000	23 November 2017
Tao Zou	3,000,000	(1,200,000)	1,800,000	21 April 2017
	3,640,000	(1,360,000)	2,280,000	

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 2018	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	VESTED DURING THE YEAR	AT 31 DECEMBER 2018	GRANT DATE
Name or category of participant						
OTHER EMPLOYEES						
In aggregate						
	7,000	—	(7,000)	—	—	26 June 2008
	38,000	—	(2,000)	(36,000)	—	20 March 2013
	10,000	—	—	(10,000)	—	1 June 2013
	10,000	—	—	(10,000)	—	26 August 2013
	10,000	—	—	(10,000)	—	9 September 2013
	26,000	—	—	(26,000)	—	13 November 2013
	32,500	—	(4,000)	(16,000)	12,500	19 March 2014
	12,000	—	—	(6,000)	6,000	29 May 2014
	45,000	—	—	(15,000)	30,000	8 January 2015
	43,200	—	(3,600)	(14,400)	25,200	31 March 2015
	21,600	—	—	(5,400)	16,200	19 February 2016
	1,350,000	—	—	(270,000)	1,080,000	1 January 2017
	35,000	—	—	(7,000)	28,000	22 April 2017
	400,000	—	—	(80,000)	320,000	25 May 2017
	100,000	—	—	(20,000)	80,000	24 July 2017
	50,000	—	—	(10,000)	40,000	1 August 2017
	—	455,000	—	—	455,000	16 April 2018
	2,190,300	455,000	(16,600)	(535,800)	2,092,900	
	5,830,300	455,000	(16,600)	(1,895,800)	4,372,900	

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 2019 was RMB16.63 per share (2018: RMB19.95 per share).

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

The total expense recognised in respect of the Awarded Shares for the year ended 31 December 2019 was RMB29,008,000 (2018: RMB28,267,000).

During the year ended 31 December 2019, the Share Award Scheme Trust did not acquire shares (2018: nil) of the Company through purchases from the open market.

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

As at 31 December 2019, 2,713,937 (2018: 3,291,037) 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 3,084,800 awarded shares outstanding under the Share Award Scheme, which represented approximately 0.22% of the Company's shares in issue as at that date.

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

On 22 February 2013, the directors of the Company and Kingsoft Cloud approved and adopted the Kingsoft Cloud Share Award Scheme, in which selected employees of Kingsoft Cloud and its subsidiaries are entitled to participate. Unless early terminated by the directors of Kingsoft Cloud, the Kingsoft Cloud Share Award Scheme is valid and effective for a term of ten years commencing from 22 February 2013. The directors of Kingsoft Cloud will not grant those awarded shares which would result in the total number of shares (but not counting any shares which have lapsed or have been forfeited) being greater than 48,000,000 shares, as at the date of such grant. According to the resolutions of the broad and shareholders of Kingsoft Cloud, the limit of the total number of shares under the Kingsoft Cloud Share Award Scheme increased to 215,376,304.

The following awarded shares and restricted shares with option feature were outstanding under the Kingsoft Cloud Share Award Scheme during the years ended 31 December 2019 and 2018:

	2019 NUMBER OF AWARDED SHARES	2018 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**47,976,256**	53,992,576
Granted during the year	**46,335,200**	—
Vested during the year	**(39,001,200)**	—
Forfeited during the year	**(2,014,080)**	(6,016,320)
Outstanding as at 31 December	**53,296,176**	47,976,256

	2019 NUMBER OF RESTRICTED SHARES	2019 WAEP US$ PER SHARE
Outstanding at 1 January	**—**	**—**
Granted during the year	**19,556,800**	**0.87**
Outstanding at 31 December	**19,556,800**	**0.87**

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

The fair value of awarded shares and restricted shares with option feature, respectively, were determined with reference to the fair values of Kingsoft Cloud's ordinary shares using a discounted cash flow method and binomial model, respectively, at their respective grant dates, which was valued with the assistance of an independent third-party valuer. The following table lists the inputs to the model used for restricted shares with option feature:

	2019
Dividend yield (%)	**—**
Expected volatility (%)	**37.4%**
Risk-free interest rate (%)	**1.80%**
Expected forfeiture rate (%)	**5%**
Weighted average share price (US$ per share)	**0.76**

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 restricted shares with option feature granted was incorporated into the measurement of fair value.

53,296,176 awarded shares of Kingsoft Cloud were outstanding as at 31 December 2019 with the weighted average remaining contractual life of 9.41 years (2018: 6.47 years).

19,556,800 restricted shares with option feature of Kingsoft Cloud were outstanding as at 31 December 2019 with the weighted average remaining contractual life of 9.93 years.

At 31 December 2019, 99,922,128 (2018: 84,229,220) forfeited or unawarded shares were held by the Kingsoft Cloud Share Award Scheme Trust, which represented approximately 3.58% of Kingsoft Cloud's shares in issue as at that date.

The weighted average fair value of the awarded shares granted under the Kingsoft Cloud Share Award Scheme during the year ended 31 December 2019 was US$0.74 per share (2018: no awarded shares were granted).

The weighted average fair value of the restricted shares with option feature granted under the Kingsoft Cloud Share Award Scheme during the year ended 31 December 2019 was US$0.30 per share (2018: no restricted shares with option feature were granted).

The total expense in respect of the awarded shares and restricted shares with option feature granted under the Kingsoft Cloud Share Award Scheme for the year ended 31 December 2019 was RMB24,437,000 (2018: RMB19,955,000).

37. SHARE-BASED COMPENSATION COSTS (continued)

Share Award Schemes (continued)

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

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

The following table illustrates the number of and movements in the Seasun Holdings Awarded Shares during the years ended 31 December 2019 and 2018.

	2019 NUMBER OF AWARDED SHARES	**2018 NUMBER OF AWARDED SHARES**
Outstanding at 1 January	**43,044,438**	39,785,102
Granted during the year	**1,200,000**	4,754,836
Forfeited during the year	**(1,082,389)**	(1,495,500)
Outstanding at 31 December	**43,162,049**	43,044,438

At 31 December 2019, 7,670,162 forfeited or unawarded shares were held by the Seasun Holdings Share Award Scheme Trust, which represented approximately 0.84% of Seasun Holdings' shares in issue as at that date.

The weighted average remaining contractual life for the awarded shares outstanding under the Seasun Holdings Share Award Scheme as at 31 December 2019 was 7.36 years (2018: 8.35 years).

The average fair value of the awarded shares granted under the Seasun Holdings Share Award Scheme during the year ended 31 December 2019 was RMB7.72 per share (2018: RMB9.81 per share).

The total expense in respect of the Seasun Holdings Share Award for the year ended 31 December 2019 was RMB82,401,000 (2018: RMB79,248,000).

37. SHARE-BASED COMPENSATION COSTS (continued)

Other Restricted Share Schemes

During the years ended 31 December 2019 and 2018, in addition to the awarded shares granted under the above share award schemes, the restricted shares of the below subsidiaries were granted to eligible persons or their controlled companies for their employment or consultant service to the Group.

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

On 3 December 2012, the directors of the Company and Kingsoft Office Software Holdings Limited ("KOS Holdings") approved and adopted the share award scheme 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 restricted shares granted by Beijing Kingsoft Office were outstanding during the years ended 31 December 2019 and 2018:

	2019 NUMBER OF AWARDED SHARES	2018 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	**24,176,822**	24,176,822
Granted during the year	**—**	420,647
Vested during the year	**(15,734,990)**	—
Forfeited during the year	**—**	(420,647)
Outstanding as at 31 December	**8,441,832**	24,176,822

The total expense recognised in the statement of profit or loss in respect of these restricted shares granted by Beijing Kingsoft Office for the year ended 31 December 2019 was RMB17,851,000 (2018: RMB9,170,000).

37. SHARE-BASED COMPENSATION COSTS (continued)

Other Restricted Share Schemes (continued)

(b) Restricted shares granted by Kingsoft Cloud

The following restricted shares granted by Kingsoft Cloud were outstanding during the years ended 31 December 2019 and 2018:

	2019 NUMBER OF AWARDED SHARES	2018 NUMBER OF AWARDED SHARES
Outstanding as at 1 January and 31 December	**6,000,000**	6,000,000

The total expense recognised in the statement of profit or loss in respect of these restricted shares granted by Kingsoft Cloud for the year ended 31 December 2019 was RMB531,000 (2018: RMB510,000).

38. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements on page 78.

In accordance with the regulations in the PRC and the respective articles of association, the PRC subsidiaries of the Group are required to make an appropriation of retained profits equal to at least 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations. Such appropriations are classified in the consolidated statement of financial position as statutory reserves and start from the first period in which after-tax profits exceed all prior year accumulated losses. Appropriations to these reserves are not required after these reserves have reached 50% of the registered capital of the respective companies. In addition, the PRC subsidiaries may, subject to a shareholders' resolution, draw a discretionary reserve from their after-tax profits. The reserves shall be used to offset accumulated losses, or to increase registered capital of the companies. Where the statutory reserves are converted into capital, the remaining statutory reserve balance shall be no less than 25% of the registered capital prior to the conversion.

Changes in the Company's ownership interest in 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 the "other capital reserve" in the consolidated statement of changes in equity of the financial statements on page 78.

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 off 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:

Beijing Kingsoft Office

As at 31 December 2019, the percentage of equity interests held by non-controlling interests of Beijing Kingsoft Office was approximately 46% (2018: 28%), and the accumulated balance of non-controlling interest of Beijing Kingsoft Office was RMB2,824,257,000 (2018: RMB340,107,000). During the year ended 31 December 2019, the profit attributable to and dividends paid to the non-controlling interest of Beijing Kingsoft Office were RMB123,700,000 (2018: RMB85,463,000) and nil (2018: RMB46,508,000), respectively.

On 18 November 2019, Beijing Kingsoft Office completed the IPO on the SSE STAR Market.

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

	2019 RMB'000	2018 RMB'000
Revenue	**1,578,242**	1,101,139
Total expenses	**(1,189,196)**	(792,426)
Profit for the year	**389,046**	308,713
Total comprehensive income for the year	**391,525**	315,327
Current assets	**6,694,568**	1,519,227
Non-current assets	**183,967**	148,180
Current liabilities	**(742,219)**	(425,767)
Non-current liabilities	**(42,808)**	(27,670)
Net cash flows from operating activities	**610,904**	449,428
Net cash flows from/(used in) investing activities	**(2,710,499)**	172,136
Net cash flows from/(used in) financing activities	**4,444,831**	(170,833)
Net increase in cash and cash equivalents	**2,345,236**	450,731

Seasun Holdings

As at 31 December 2019, the percentage of equity interests held by non-controlling interests of Seasun Holdings was approximately 28% (2018: 28%), and the accumulated balance of non-controlling interest of Seasun Holdings was RMB310,287,000 (2018: RMB219,997,000). During the year ended 31 December 2019, the profit attributable to and dividends paid to non-controlling interest of Seasun Holdings were RMB69,729,000 (2018: RMB12,200,000) and RMB13,996,000 (2018: RMB137,019,000), respectively.

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

Seasun Holdings (continued)

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

	2019 RMB'000	2018 RMB'000
Revenue	**2,749,955**	2,552,284
Total expenses	**(2,504,259)**	(2,509,297)
Profit for the year	**245,696**	42,987
Total comprehensive income for the year	**248,649**	47,736
Current assets	**2,964,271**	2,772,899
Non-current assets	**480,102**	456,201
Current liabilities	**(2,276,554)**	(2,417,911)
Non-current liabilities	**(41,948)**	(8,705)
Net cash flows from/(used in) operating activities	**305,957**	(293,091)
Net cash flows from investing activities	**70,019**	538,069
Net cash flows used in financing activities	**(22,832)**	(141,716)
Net increase in cash and cash equivalents	**353,144**	103,262

Kingsoft Cloud

As at 31 December 2019, the percentage of equity interests held by non-controlling interests of Kingsoft Cloud was approximately 42% (2018: 42%). During the year ended 31 December 2019, no dividends were paid to non-controlling interest of Kingsoft Cloud (2018: nil).

The following table illustrated the summarised financial informaion of Kingsoft Cloud and the amounts disclosed are before any inter-company eliminations:

	2019 RMB'000	2018 RMB'000
Revenue	**3,956,353**	2,295,058
Total expenses	**(5,726,311)**	(3,892,191)
Loss for the year	**(1,769,958)**	(1,597,133)
Total comprehensive loss for the year	**(1,807,634)**	(1,551,556)
Current assets	**4,274,104**	4,765,531
Non-current assets	**2,007,360**	1,149,458
Current liabilities	**(2,677,872)**	(1,768,470)
Non-current liabilities	**(6,997,376)**	(5,871,209)
Net cash flows used in operating activities	**(511,883)**	(201,917)
Net cash flows from/(used in) investing activities	**974,020**	(1,105,855)
Net cash flows from financing activities	**46,485**	2,186,935
Net increase in cash and cash equivalents	**508,622**	879,163

40. DEEMED DISPOSAL OF A SUBSIDIARY

On 28 October 2019, the Group, Wuhan Xiteng Technology Co., Ltd ("Xiteng"), a subsidiary of the Group, and a company whose parent has a significant influence on the Company ("Investor"), entered into a capital injection agreement. Pursuant to the agreement, the Investor will make a capital injection of RMB70 million to obtain 50% equity interests in Xiteng. Xiteng is primarily engaged in the research and development of games. Upon the completion of this transaction on 5 November 2019, the Group lost control of Xiteng and accounted for the remaining portion of equity interests as a joint venture.

	NOTES	2019 RMB'000
Net assets disposed of:		
Property, plant and equipment	15	**436**
Other intangible assets	19	**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 (note 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 RMB'000
Cash consideration	**—**
Cash and cash equivalents disposed of	**(134)**
Net cash outflows from the deemed disposal of a subsidiary	**(134)**

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB121,462,000 and RMB112,304,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

Changes in liabilities arising from financing activities

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	**(583,474)**	**(23,525)**	**(40,386)**	**349,395**
Receivable	**—**	**—**	**—**	**125,370**
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	**—**	**5,655**	**137**	**368,272**
Decrease arising from termination and modification	**—**	**(14,325)**	**—**	**—**
At 31 December 2019	**697,566**	**116,049**	**—**	**3,583,019**

2018

	BANK LOANS RMB'000	FINANCE LEASE PAYABLES RMB'000	CONVERTIBLE BONDS RMB'000	REDEEMABLE CONVERTIBLE PREFERRED SHARES RMB'000
At 1 January 2018	661,847	6,551	870,740	950,271
Changes from financing cash flows	547,777	(6,870)	—	1,323,442
Exercise of warrant	—	—	—	35,784
Repayment of loan	—	—	—	163,456
Equity component of redeemable convertible preferred shares	—	—	—	(105,693)
Derivative financial instruments	—	—	—	(72,001)
Conversion of convertible bonds in equity	—	—	(807,012)	—
Foreign exchange movement	74,993	—	(24,037)	160,419
Interest expense	—	319	480	286,093
At 31 December 2018	1,284,617	—	40,171	2,741,771

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flow is as follows:

	2019 RMB'000
Within operating activities	**32,058**
Within investing activities	**—**
Within financing activities	**23,525**
	55,583

42. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Development of land and buildings	**268,304**	403,671
Purchase of property plant and equipment	**6,545**	—
	274,849	403,671

The capital commitment for the development of land and buildings at 31 December 2019 represented the commitment to invest in an aggregate amount of RMB227,335,000 (2018: RMB403,671,000) in the development of a piece of land in Zhuhai.

The Group has commitments for the construction of an exhibition hall and office of RMB40,969,000 at 31 December 2019, which are scheduled to be paid within one year.

42. COMMITMENTS (continued)

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its buildings and machinery under operating lease arrangements. Leases for buildings and machinery were negotiated for terms ranging from less than 12 months to 15 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	54,189
After one year but not more than five years	54,930
After five years	105,360
	214,479

(c) The Group has lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts are RMB93,170,000 due within one year, RMB381,928,000 due in the second to fifth years, inclusive and RMB97,794,000 due after five years.

43. 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	2019 RMB'000	2018 RMB'000
Provision of services to a company controlled by a director of the Company	(i)	**611,465**	568,204
Provision of hardware products to a company controlled by a director of the Company	(ii)	**120**	—
Purchases of products from a company controlled by a director of the Company	(iii)	**6,359**	6,734
Purchase of services from a company controlled by a director of the Company	(iv)	**19,141**	110,735
Licence fee from a company controlled by a director of the Company	(v)	**8,466**	15,995
Licence fee from a company whose parent has a significant influence on the Company	(vi)	**469,496**	370,481
Licence fee to a joint venture	(vii)	**176,293**	203,459
Interest income from non-controlling shareholders of subsidiaries	(viii)	**1,299**	1,308
Provision of services to an associate	(ix)	**14,629**	11,638
Licence fee from an associate	(x)	**9,612**	8,352
Partial disposal of a joint venture to an associate	(xi)	**2,018**	—

43. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

(i) 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 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 2019, Kingsoft Cloud entered into the framework agreement with a company controlled by a director of the Company. Pursuant to the framework agreement, the Group provides hardware products to affiliates of this related company at the prevailing fair market price.

(iii) 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 purchased hardware products, including but not limited to smart phones and phone accessories at market price from affiliates of this related company.

(iv) 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, 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.

(v) 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 with an affiliate of this related company at the prevailing fair market price. The RMB8,466,000 (2018: RMB15,995,000) represented license fee received from the affiliate of this related company under the co-operation agreements. In addition, the affiliate of this related company also acted as a distribution platform to collect payment from players on behalf of the Group and remitted the net amount of RMB5,522,000 (2018: RMB6,325,000) after deduction of commission to the Group in accordance with the co-operation agreements. The total amount of RMB13,988,000 (2018: RMB22,320,000) is disclosed as the continuing connected transactions.

(vi) During 2015 to 2019, the Group entered into various licensing agreements with a company whose parent has a significant influence on the Company to operate the Group's online games with this related company at the prevailing fair market price.

(vii) 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.

(viii) The interest income from non-controlling shareholders of subsidiaries was approximately RMB1,299,000 in 2019. Details of the loans are disclosed in note 43(b).

(ix) 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.

(x) In 2017, the Group entered into an exclusive licensing agreement with an associate to grant the exclusive right to use certain office software.

(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 interest to the associate for a consideration of RMB2,018,000. Upon the completion of capital injection transaction on 20 September 2019, the equity interests in a joint venture held by the Group was diluted from 30% to 27.27%. The share transfer transaction was completed in November 2019.

43. 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	2019 RMB'000	2018 RMB'000
Due from related parties:			
Loans to non-controlling shareholders of Beijing Kingsoft Office	(i)	**34,148**	32,939
Loan to associates	(ii)	**11,826**	2,411
Loan to a joint venture	(iii)	**7,200**	—
Other receivables from a joint venture		**837**	66
Other receivables from an associate		**—**	412
Other receivables from a company controlled by a director of the Company		**688**	—
	27	**54,699**	35,828
Receivables from an associate	26	**6,417**	11,016
Receivables from a company controlled by a director of the Company	26	**84,170**	131,933
Receivables from a company whose parent has significant influence on the Company	26	**172,319**	162,152
Due to related parties:			
Advance from a company controlled by a key management of the Company		**301**	301
Advance from an associate		**34**	8,504
Advance from non-controlling shareholder of Seasun Holdings		**136**	54,895
	30	**471**	63,700
Payables to an associate	29	**139**	421
Payables to a company controlled by a director of the Company	29	**28,151**	52,577
Payables to a company whose parent has significant influence on the Company	29	**10**	515
Payables to a joint venture	29	**89,376**	78,503
Lease Liability to a company controlled by a director of the Company	(iv)	**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 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 balance included unpaid principal and interest receivable of RMB28,984,000 (2018: RMB29,133,000) and RMB5,164,000 (2018: RMB3,806,000), respectively, as at 31 December 2019.

43. RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

(ii) In 2018, the Group entered into a loan agreement with an associate, pursuant to which, the Group provided a loan of US$350,000 (equivalent to RMB2,932,000) with interest rate of 3.01% per annum. The outstanding balance included unpaid principal and interest receivable of RMB2,392,000 and RMB19,000 at 31 December 2018 which was fully paid during the year ended 31 December 2019.

On 9 September 2019 and 25 November 2019, the Group entered into two loan agreements with an associate, pursuant to which, the Group provided a loan of US$600,000 (equivalent to RMB4,192,000) and US$350,000 (equivalent to RMB2,446,000) with interest rate of 3.32% per annum. The outstanding balance included unpaid principal and interest receivable of RMB6,638,000 and RMB47,000 at 31 December 2019.

On 8 May 2019, the Group entered into a loan agreement with an associate, pursuant to which, the Group provided a loan of RMB5,000,000 with interest rate of 4.35% per annum. The outstanding balance included unpaid principal and interest receivable of RMB5,000,000 and RMB141,000 at 31 December 2019.

(iii) On 27 May 2019 and 29 October 2019, the Group entered into two loan agreements with a joint venture, pursuant to which, the Group shall provide loans amounting to RMB8,400,000 with interest rate of 4.35%–4.90% per annum. Up to 31 December 2019, the joint venture withdrew RMB7,200,000, which are outstanding at year end.

(iv) In November 2018, the Group entered into a lease agreement with a company controlled by a director of the Company. Pursuant to the lease agreement, the related company agreed to lease premises to a subsidiary of the Group for a term of fifteen years commencing from 1 January 2019 at market price. The annual rent (including value-added tax) for the three years from 1 January 2019 to 31 December 2021 is RMB9,345,000. For every three years since 1 January 2019, the rental rate will be increased by 6%. At the commencement date, the Group recognised a right-of-use asset amounting to RMB99,602,000 and a lease liability amounting to RMB91,106,000 in accordance with IFRS 16. At 27 December 2019, the Group entered into a supplementary agreement with the related company, which reduced 50% rental for the year of 2020. The right-of-use asset and lease liability decreased by RMB4,248,000 accordingly. In December 2019, the Group paid the 2020 annual rent RMB4,248,000. During the year ended 31 December 2019, an interest of RMB4,644,000 was accrued. At 31 December 2019, the ending balance of lease liability amounted to RMB87,254,000.

(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:

	2019 RMB'000	**2018 RMB'000**
Salaries, allowances and benefits in kind	**1,965**	2,067
Pension plan contributions	**130**	140
Share-based compensation costs	**48,954**	46,067
Total compensation paid to key management personnel	**51,049**	48,274

44. 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:

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 COSTS 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
Restricted cash	—	—	—	—
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		976,097	976,097
Interest-bearing bank loans	—	697,566	697,566
Derivative financial instruments	128,236	—	128,236
Liability component of redeemable convertible preferred shares	—	3,583,019	3,583,019
Total	128,236	6,758,286	6,886,522

44. 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)

2018

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 COSTS RMB'000	TOTAL RMB'000
Financial assets at fair value through profit or loss	84,044	—	—	84,044
Equity investments at fair value through other comprehensive income	—	756,718	—	756,718
Financial assets included in other non-current assets	—	—	3,326	3,326
Trade receivables	—	—	1,184,650	1,184,650
Financial assets included in prepayments, other receivables and other assets	—	—	818,419	818,419
Restricted cash	—	—	98,102	98,102
Cash and bank deposits	—	—	9,868,809	9,868,809
Total	84,044	756,718	11,973,306	12,814,068

FINANCIAL LIABILITIES	HELD FOR TRADING RMB'000	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000	TOTAL RMB'000
Trade payables	—	947,702	947,702
Financial liabilities included in other payables and accruals	10,000	577,153	587,153
Interest-bearing bank loans	—	1,284,617	1,284,617
Derivative financial instruments	154,765	—	154,765
Liability component of convertible bonds	—	40,171	40,171
Liability component of redeemable convertible preferred shares	—	2,741,771	2,741,771
Total	164,765	5,591,414	5,756,179

45. 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	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
FINANCIAL ASSETS				
Loan receivables	**4,288**	3,326	**4,288**	3,326
Equity investments designated at fair value through other comprehensive income	**756,992**	756,718	**756,992**	756,718
Financial assets at fair value through profit or loss	**139,234**	84,044	**139,234**	84,044
	900,514	844,088	**900,514**	844,088
FINANCIAL LIABILITIES				
Derivative financial instruments	**128,236**	154,765	**128,236**	154,765
Liability component of convertible bonds	**—**	40,171	**—**	40,171
Liability components of redeemable convertible preferred shares	**3,583,019**	2,741,771	**3,583,019**	2,741,771
Interest-bearing bank loans	**697,566**	1,284,617	**697,566**	1,284,617
	4,408,821	4,221,324	**4,408,821**	4,221,324

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 and the valuation process and results are discussed with the audit committee.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of loan receivables and interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank loans as at 31 December 2019 were assessed to be insignificant. The fair values of the liability portion of the convertible bonds and the liability component of the redeemable convertible preferred shares are estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

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

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated by reference with market value or 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 investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of financial assets at fair value through profit or loss have been estimated as follows: (i) 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; (ii) for convertible bonds, the fair value has been estimated by probability expected return method. The valuation requires the directors to make estimates about the possibility of different scenarios; and (iii) for other financial assets at fair value through profit or loss, the fair values have been estimated by reference with market approach or discount cashflow approach, and using equity valuation allocation model. The valuation requires the directors to make estimates about underlying equity value, expected volatility and risk-free rate. The estimation of 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 fair values of derivative financial instruments have been estimated using the equity valuation allocation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about underlying equity value, expected volatility and risk-free rate. 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 condensed consolidated profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of contingent consideration have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future dividends and proceeds on subsequent disposal of the shares. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 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**

As at 31 December 2018

	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	751,678	—	5,040	756,718
Financial assets at fair value through profit or loss	5,000	—	79,044	84,044
	756,678	—	84,084	840,762

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

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

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

	2019 RMB'000	2018 RMB'000
Equity investments designated at fair value through other comprehensive income/financial assets at fair value through profit or loss:		
At 1 January	**84,084**	68,420
Transfer from Level 1	**5,000**	—
Additions	**33,882**	12,888
Total gains/(losses) recognised in profit or loss	**19,094**	(863)
Total gains recognised in other comprehensive income	**4,461**	3,639
At 31 December	**146,521**	84,084

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019:

	VALUATION TECHNIQUES	SIGNIFICANT UNOBSERVABLE INPUTS	SENSITIVITY OF FAIR VALUE TO THE INPUT
Financial assets at fair value through profit or loss	Equity valuation allocation model	Risk-free rate	5% increase (decrease) in risk-free rate would result in decrease (increase) in fair value by RMB10,000 (RMB10,000)
		Volatility	5% increase (decrease) in volatility would result in decrease (increase) in fair value by RMB141,000 (RMB142,000)
	Black-Scholes Model	Fair value per share	5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB5,837,000 (RMB5,765,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB122,000 (RMB50,000)
		Volatility	5% increase (decrease) in volatility would result in increase (decrease) in fair value by RMB668,000 (RMB596,000)
Equity investments designated at fair value through other comprehensive income	Valuation multiples	Discount for lack of marketability	5% increase (decrease) in discount for lack of marketability would result in decrease (increase) in fair value by RMB108,000 (RMB108,000)

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

Fair value hierarchy (continued)

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**

As at 31 December 2018

	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
Contingent consideration	—	—	10,000	10,000
Derivative financial instruments	—	—	154,765	154,765
	—	—	164,765	164,765

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

	2019 RMB'000	2018 RMB'000
Other financial liabilities at fair value through profit or loss:		
At 1 January	**164,765**	121,076
Additions	**15,645**	82,001
Settled	**(10,000)**	(35,784)
Total gains recognised in profit or loss	**(44,368)**	(11,694)
Total losses recognised in other comprehensive income	**2,194**	9,166
At 31 December	**128,236**	164,765

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

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

Below is a summary of significant unobservable inputs to the valuation of financial liabilities together with a quantitative sensitivity analysis as at 31 December 2019.

	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUT	SENSITIVITY OF FAIR VALUE TO THE INPUT
Derivative financial instruments	Equity valuation allocation model	Fair value of equity value	5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB28,723,000 (RMB24,531,000)
		Risk-free rate	5% increase (decrease) in risk-free rate would result in increase (decrease) in fair value by RMB676,000 (RMB838,000)
		Volatility	5% increase (decrease) in volatility would result in increase (decrease) in fair value by RMB2,866,000 (RMB3,689,000)
		Probability of IPO	5% increase (decrease) in probability of IPO would result in decrease (increase) in fair value by RMB9,571,000 (RMB9,573,000)

During the year, except for transfers from level 1 to level 3 as disclosed above, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: nil).

Assets for which fair values are disclosed:

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
Loans receivable	**—**	**4,288**	**—**	**4,288**

As at 31 December 2018

	FAIR VALUE MEASUREMENT USING			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	TOTAL RMB'000
Loans receivable	—	3,326	—	3,326

45. 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 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**

As at 31 December 2018

	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	—	—	40,171	40,171
Liability component of redeemable convertible preferred shares	—	—	2,741,771	2,741,771
Interest-bearing bank loans	—	1,284,617	—	1,284,617
	—	1,284,617	2,781,942	4,066,559

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, redeemable convertible preferred shares, cash and bank deposits and 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 interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates and loans to related parties bearing floating interest rates.

The Group's policy is to reduce the interest expenses through a combination of bank loans denominated in different currencies. As at 31 December 2019, approximately RMB523,215,000 and RMB174,351,000 of the Group's bank loans were denominated in US$ and RMB(2018: RMB1,029,480,000 and RMB255,137,000), among which, RMB523,215,000 (2018: RMB769,877,000) bank loans bore interest at floating rates.

For the year ended 31 December 2019, if the average interest rate bank loans had been 5% (2018: 5%) higher/lower with all other variables held constant, the profit of the Group for the year would have been approximately RMB1,262,000 (2018: RMB2,270,000) lower/higher as a result of higher/lower finance costs.

46. 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 dominated 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 loss before tax (due to changes in the fair values of monetary assets and liabilities) for the year:

	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**
2018	
If RMB strengthens 5% against HK$	(13,814)
If RMB weakens 5% against HK$	13,814
If RMB strengthens 5% against US$	(88,699)
If RMB weakens 5% against US$	88,699

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 26 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.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging

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*	**—**	**—**	**2,059,031**	**2,059,031**
Financial assets included in prepayments, other receivables and other assets				
— Normal**	**1,224,240**	**—**	**—**	**1,224,240**
— Doubtful**	**—**	**5,042**	**—**	**5,042**
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**
	15,020,645	**5,042**	**2,059,031**	**17,084,718**

As at 31 December 2018

	12-MONTH ECLs	LIFETIME ECLs		
	STAGE 1 RMB'000	STAGE 2 RMB'000	SIMPLIFIED APPROACH RMB'000	TOTAL RMB'000
Trade receivables*	—	—	1,184,650	1,184,650
Financial assets included in prepayments, other receivables and other assets				
— Normal**	815, 605	—	—	815,605
— Doubtful**	—	2,814	—	2,814
Financial assets included in other non-current assets				
— Normal**	3,326	—	—	3,326
Cash and bank deposits				
— Not yet past due	9,868,809	—	—	9,868,809
Restricted cash				
— Not yet past due	98,102	—	—	98,102
	10,785,842	2,814	1,184,650	11,973,306

* For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 26 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".

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The principal approach used by the Group to manage liquidity risk arising from financial liabilities is to maintain an adequate level of cash and bank deposits with different banks.

The contractual maturities of trade payables, interest-bearing bank loans, convertible bonds, lease liabilities and redeemable convertible preferred shares are disclosed in notes 29, 31, 33, 17 and 34 respectively. For trade payables, they are generally on credit terms of two to three months after the invoice date. For other payables and accruals, there are generally no specified contractual maturities for these liabilities, and they are paid on a regular basis or upon counterparty's formal notification.

The Group has been continuously generating cash inflows from its operating activities and recording an increase of cash and bank deposits. As at 31 December 2019, the Group's cash and bank deposits were approximately RMB13,792,117,000 (2018: RMB9,868,809,000), accounting for 79.6% (2018: 81.7%) of the Group's current assets and 56.5% (2018: 49.2%) of the Group's total assets. The Group believes that the exposure to liquidity risk is minimal.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2019					
	ON DEMAND	LESS THAN 3 MONTHS	3 TO LESS THAN 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	1,477,568	9,137	45,761	13,774	—	1,546,240
Lease liabilities	—	5,137	18,419	50,193	81,624	155,373
	1,477,568	1,245,428	762,854	4,353,794	81,624	7,921,268

	2018				
	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	—	—	40,557	—	40,557
Redeemable convertible preferred shares	—	—	—	3,404,480	3,404,480
Interest-bearing bank loans	—	539,182	548,967	249,968	1,338,117
Trade payables	—	667,107	226,978	53,617	947,702
Other payables and accruals	790,017	207,217	37,253	—	1,034,487
	790,017	1,413,506	853,755	3,708,065	6,765,343

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments included in financial assets at fair value through profit or loss (note 23) and equity investments at fair value through other comprehensive income (note 22) as at 31 December 2019. The Group's listed investments are listed on NASDAQ and are valued at quoted market prices at the end of the reporting period.

The market equity indices for NASDAQ, at the close of business of the nearest trading day in the year to the end of the reporting period, and the respective highest and lowest points during the year were as follows:

	31 DECEMBER 2019	HIGH/LOW 2019	31 DECEMBER 2018	HIGH/LOW 2018
The United States — NASDAQ Index	**8,972.60**	**9,052.00/ 6,457.13**	6,635.28	8,133.30/ 6,190.17

The following table demonstrates the sensitivity to every 1% change in the fair values of the Group's principal equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the equity investments at fair value through other comprehensive income, the impact is deemed to be on the fair value reserve.

	CARRYING AMOUNT OF EQUITY INVESTMENTS RMB'000	INCREASE IN EQUITY RMB'000
2019		
Investments listed in:		
The United States — Equity investments at fair value through other comprehensive income	**739,705**	**7,397**

	CARRYING AMOUNT OF EQUITY INVESTMENTS RMB'000	INCREASE IN EQUITY RMB'000
2018		
Investments listed in:		
The United States — Equity investments at fair value through other comprehensive income	741,678	7,417

46. 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 2019 and 31 December 2018.

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

	2019 RMB'000	2018 RMB'000
Total liabilities	**(8,792,242)**	(7,128,213)
Total assets	**24,401,623**	20,049,812
Asset-liability ratio	**36%**	36%

47. CONTINGENT LIABILITIES

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

48. EVENTS AFTER THE REPORTING PERIOD

The novel coronavirus (COVID-19) has spread across Mainland China and beyond, causing disruptions to businesses and economic activity. Up to the date of this report, the outbreak did not pose any significant impact to the Group's operations. Due to the increasing demands for remote office work by various enterprises in the short run, there is a substantial increase in the number of monthly active users ("MAU") of Kingsoft Docs product, the online cooperative editing product of office software and services business. However, this will not impose direct impact on the operating result of office software and services business.

The Group will continue to take the necessary precautions to keep the health and safety of our employees and monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group.

49. 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:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**3,723,087**	3,605,110
Property, plant and equipment	**18**	22
Investments in associates	**192,466**	188,387
Total non-current assets	**3,915,571**	3,793,519
CURRENT ASSETS		
Prepayments, other receivables and other assets	**407**	1,285
Due from subsidiaries	**2,328,500**	2,004,384
Cash and bank deposits	**47,568**	608,420
Total current assets	**2,376,475**	2,614,089
CURRENT LIABILITIES		
Other payables and accruals	**10,549**	20,376
Interest-bearing bank loans	**523,215**	1,029,480
Income tax payable	**12,346**	12,346
Due to subsidiaries	**1,527,123**	1,411,057
Due to an associate	**34**	8,504
Liability component of convertible bonds	**—**	40,171
Total current liabilities	**2,073,267**	2,521,934
NET CURRENT ASSETS	**303,208**	92,155
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,218,779**	3,885,674
Total non-current liabilities	**—**	—
Net assets	**4,218,779**	3,885,674
EQUITY		
Issued capital	**5,316**	5,316
Share premium account	**2,995,605**	2,972,969
Treasury shares	**(14,631)**	(18,089)
Equity component of convertible bonds	**—**	1,274
Other reserves	**1,232,489**	924,204
TOTAL EQUITY	**4,218,779**	3,885,674

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

A summary of the Company's reserves is as follows:

	SHARE PREMIUM ACCOUNT RMB'000	TREASURY SHARES RMB'000	EQUITY COMPONENT OF CONVERTIBLE BONDS RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED PROFITS RMB'000	OTHER CAPITAL RESERVE RMB'000	TOTAL RMB'000
AT 1 JANUARY 2018	2,287,958	(22,517)	7,564	178,356	41,935	368,256	27,085	2,888,637
Total comprehensive income for the year	—	—	—	—	201,709	68,868	—	270,577
Approved and paid final dividend in respect of the previous year	(126,608)	—	—	—	—	—	—	(126,608)
Share-based compensation costs	—	—	—	42,423	—	—	—	42,423
Vesting of awarded shares	—	4,428	—	(4,428)	—	—	—	—
Conversion of convertible bonds	823,525	—	(6,290)	—	—	—	—	817,235
Share repurchased for cancellation	(11,906)	—	—	—	—	—	—	(11,906)
AT 31 DECEMBER 2018 AND 1 JANUARY 2019	**2,972,969**	**(18,089)**	**1,274**	**216,351#**	**243,644#**	**437,124#**	**27,085#**	**3,880,358**
Total comprehensive income/(loss) 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	**2,995,605**	**(14,631)**	**—**	**230,752#**	**331,510#**	**641,696#**	**28,531#**	**4,213,463**

These reserve accounts comprise the other reserves of RMB1,232,489,000 (2018: RMB924,204,000) 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 2019. 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.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2020.

TERMS AND GLOSSARIES

"2011 Share Option Scheme"	the share option scheme adopted by the Company on 9 December 2011
"2014 Convertible Bonds"	the five-year convertible bonds issued by the Company in the principal amount of HK$2,327,000,000 which bear interest at a rate of 1.25% per annum payable semi-annually on 11 April 2014
"ADPCU"	daily average peak concurrent users
"Antutu Technology"	Beijing Antutu Technology Co., Ltd.* (北京安兔兔科技有限公司)
"APA"	average paying accounts
"Articles of Association"	the articles of association of the Company
"Beijing Cheetah"	Beijing Cheetah Mobile Technology Co., Ltd.* (北京獵豹移動科技有限公司), formerly know as Beike Internet (Beijing) Security Technology Co., Ltd.* (貝殼網際 (北京) 安全技術有限公司)
"Beijing Cloud Network"	Beijing Kingsoft Cloud Network Technology Co., Ltd.* (北京金山雲網絡技術有限公司)
"Beijing Cloud Technology"	Beijing Kingsoft Cloud Technology Co., Ltd.* (北京金山雲科技有限公司)
"Beijing Digital Entertainment"	Beijing Kingsoft Digital Entertainment Technology Co., Ltd.* (北京金山數字娛樂科技有限公司)
"Beijing Network Technology"	Beijing Cheetah Network Technology Co., Ltd.* (北京獵豹網絡科技有限公司)
"Beijing Office Software"	Beijing Kingsoft Office Software Inc.* (北京金山辦公軟件股份有限公司), a non-wholly owned subsidiary of the Company listed on the SSE STAR Market on 18 November 2019
"Board"	the board of directors of the Company
"Code"	the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules
"Cheetah Group"	Cheetah Mobile and its subsidiaries
"Cheetah Mobile"	Cheetah Mobile Inc, a non-wholly owned subsidiary of the Company until 1 October 2017 and was listed on NYSE in May 2014
"Chengdu Digital Entertainment"	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)
"Conew Technology"	Beijing Conew Technology Development Co., Ltd.* (北京可牛科技發展有限公司)
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"Guangzhou Network"	Guangzhou Kingsoft Network Co., Ltd.* (廣州金山網絡科技有限公司)
"Guangzhou Seasun Shiyou"	Guangzhou Seasun Shiyou Technology Co., Ltd.* (廣州西山居世遊網絡科技有限公司)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IAS"	International Accounting Standard issued by the International Accounting Standards Board
"IFRSs"	International Financial Reporting Standards
"Kingsoft Cloud"	Kingsoft Cloud Holdings Limited, a subsidiary of the Company
"Kingsoft Cloud Group"	Kingsoft Cloud and its subsidiaries
"Kingsoft Cloud Share Award Scheme"	the share award scheme approved and adopted by the directors of Kingsoft Cloud on 22 February 2013
"Kingsoft Cloud Share Option Scheme"	the share option scheme approved and adopted by the shareholders of the Company and Kingsoft Cloud on 27 February 2013
"Kingsoft Qijian"	Beijing Kingsoft Qijian Digital Technology Co., Ltd.* (北京金山奇劍數碼科技有限公司)
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"MAU"	monthly active users
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"NASDAQ"	National Association of Securities Dealers Automated Quotations
"NYSE"	New York Stock Exchange

"PRC", "China" or "Mainland China"	the People's Republic of China excluding, for the purpose of this annual report only, Hong Kong, the Macau Special Administrative Region and Taiwan
"R&D"	research and development
"Reporting Period"	the year ended 31 December 2019
"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
"SEC"	the Securities and Exchange Commission of the United States
"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 Online Game"	Zhuhai Kingsoft Online Game Technology Co., Ltd.* (珠海金山網絡遊戲科技有限公司)
"Zhuhai Qiwen"	Zhuhai Qiwen Office Software Co., Ltd.* (珠海奇文辦公軟件有限公司)
"Zhuhai Seasun Shiyou"	Zhuhai Seasun Shiyou Technology Co., Ltd.* (珠海西山居世遊科技有限公司)
"Zhuhai Software"	Zhuhai Kingsoft Software Co., Ltd.* (珠海金山軟件有限公司)
"%"	per cent