

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

ANNOUNCEMENT OF THE RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (“**Board**”) of directors (the “**Directors**”) of Kingsoft Corporation Limited (the “**Company**”) hereby announces the audited results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2018. The results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	Year-on-year
	<i>RMB'000</i>	<i>RMB'000</i>	Change
Revenue	5,906,187	5,181,290	14%
Operating profit/(loss)	(302,320)	813,912	(137%)
Operating profit/(loss) before share-based compensation costs	(90,384)	1,049,106	(109%)
Profit attributable to owners of the parent*	389,214	3,201,837	(88%)
	<i>RMB</i>	<i>RMB</i>	
Basic earnings per share			
— For profit for the year	0.29	2.46	(88%)
— For profit from continuing operations	0.29	0.62	(53%)
Diluted earnings per share			
— For profit for the year	0.27	2.36	(89%)
— For profit from continuing operations	0.27	0.61	(56%)

* Profit attributable to owners of the parent before the effect of share-based compensation costs (including that from continuing operations and a discontinued operation) is RMB536.8 million and RMB3,406.7 million for the years ended 31 December 2018 and 31 December 2017, respectively. For the year ended 31 December 2017, we recognized a gain on deemed disposal of a subsidiary of RMB2,224.3 million. Excluding the aforesaid deemed disposal gain, profit attributable to owners of the parent is RMB389.2 million for the year ended 31 December 2018 (2017: RMB977.5 million), representing a 60% decrease year-on-year.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: HK\$0.11 per share).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

		As at 31 December	
		2018	2017
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		2,036,424	1,329,203
Investment properties		63,943	—
Prepaid land lease payments		288,401	289,561
Goodwill		9,559	9,559
Other intangible assets		56,382	56,375
Investments in joint ventures		155,574	177,110
Investments in associates		4,349,397	3,878,421
Available-for-sale investments		—	1,269,216
Equity investments designated at fair value through other comprehensive income		746,718	—
Financial assets at fair value through profit or loss		84,044	63,430
Deferred tax assets		96,527	101,807
Other non-current assets		83,220	42,640
		<hr/>	<hr/>
Total non-current assets		7,970,189	7,217,322
Current assets			
Inventories		11,679	10,327
Trade receivables	10	1,184,650	1,167,745
Prepayments, other receivables and other assets		906,383	679,612
Available-for-sale investments		—	88,000
Equity investments designated at fair value through other comprehensive income		10,000	—
Restricted cash		98,102	93,400
Cash and bank deposits		9,868,809	8,505,984
		<hr/>	<hr/>
Total current assets		12,079,623	10,545,068

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2018**

		As at 31 December	
	<i>Notes</i>	2018	2017
		RMB'000	RMB'000
Current liabilities			
Trade payables	11	229,288	179,301
Other payables and accruals		1,818,974	1,612,667
Interest-bearing bank loans	12	1,053,393	374,165
Deferred revenue		722,781	608,557
Income tax payable		86,601	125,465
Liability component of convertible bonds	13	40,171	832,876
Derivative financial instruments		154,765	121,076
		<u>4,105,973</u>	<u>3,854,107</u>
Total current liabilities			
		<u>4,105,973</u>	<u>3,854,107</u>
Net current assets		<u>7,973,650</u>	<u>6,690,961</u>
Total assets less current liabilities		<u>15,943,839</u>	<u>13,908,283</u>
Non-current liabilities			
Deferred revenue		29,661	20,788
Deferred tax liabilities		19,584	58,707
Interest-bearing bank loans	12	231,224	287,682
Liability component of convertible bonds	13	—	37,864
Liability component of redeemable convertible preferred shares		2,741,771	950,271
		<u>2,741,771</u>	<u>950,271</u>
Total non-current liabilities		<u>3,022,240</u>	<u>1,355,312</u>
Net assets		<u>12,921,599</u>	<u>12,552,971</u>
Equity			
Equity attributable to owners of the parent			
Issued capital		5,316	5,127
Share premium account		2,972,969	2,287,958
Treasury shares		(18,089)	(22,517)
Equity component of convertible bonds	13	1,274	7,564
Other reserves		10,076,369	9,810,458
		<u>13,037,839</u>	<u>12,088,590</u>
Non-controlling interests		<u>(116,240)</u>	<u>464,381</u>
Total equity		<u>12,921,599</u>	<u>12,552,971</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

		Year ended 31 December	
	<i>Notes</i>	2018	2017
		RMB'000	RMB'000
CONTINUING OPERATIONS			
Revenue			
Online games		2,551,715	3,120,186
Cloud services		2,217,507	1,332,522
Office software and services and others		1,136,965	728,582
		<u>5,906,187</u>	<u>5,181,290</u>
Cost of revenue		<u>(3,169,429)</u>	<u>(2,168,907)</u>
Gross profit		2,736,758	3,012,383
Research and development costs, net		(1,838,658)	(1,446,044)
Selling and distribution expenses		(727,381)	(544,957)
Administrative expenses		(449,498)	(256,847)
Share-based compensation costs	6	(211,936)	(235,194)
Other income		277,891	294,036
Other expenses		(89,496)	(9,465)
		<u>(302,320)</u>	<u>813,912</u>
Operating profit/(loss)		(302,320)	813,912
Other losses, net	5	(145,618)	(156,489)
Finance income		326,156	194,967
Finance costs		(326,966)	(112,391)
Share of profits and losses of:			
Joint ventures		49,898	121,039
Associates		373,833	51,076
		<u>(25,017)</u>	<u>912,114</u>
Profit/(loss) before tax from continuing operations	4	(25,017)	912,114
Income tax expense	7	(140,225)	(133,834)
		<u>(165,242)</u>	<u>778,280</u>
Profit/(loss) for the year from continuing operations		(165,242)	778,280
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation		—	294,058
Gain on deemed disposal of a subsidiary		—	2,224,291
		<u>—</u>	<u>2,518,349</u>
Profit/(loss) for the year		(165,242)	3,296,629
Attributable to:			
Owners of the parent		389,214	3,201,837
Non-controlling interests		(554,456)	94,792
		<u>(165,242)</u>	<u>3,296,629</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)**

		Year ended 31 December	
		2018	2017
	<i>Note</i>	<i>RMB</i>	<i>RMB</i>
Earnings per share attributable to ordinary equity holders of the parent			
Basic	9		
— For profit for the year		<u>0.29</u>	<u>2.46</u>
— For profit from continuing operations		<u>0.29</u>	<u>0.62</u>
Diluted			
— For profit for the year		<u>0.27</u>	<u>2.36</u>
— For profit from continuing operations		<u>0.27</u>	<u>0.61</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
PROFIT/(LOSS) FOR THE YEAR	(165,242)	3,296,629
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value, net of tax	—	782,464
Exchange differences:		
Exchange differences on translation of foreign operations	264,068	(249,071)
Reclassification adjustments for deemed disposal of a subsidiary	—	(57,355)
Share of other comprehensive income/(loss) of associates	37,670	(19,724)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	301,738	456,314
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	(551,033)	—
Share of other comprehensive loss of associates	(9,785)	—
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(560,818)	—
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	(259,080)	456,314
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(424,322)	3,752,943
Attributable to:		
Owners of the parent	107,569	3,718,433
Non-controlling interests	(531,891)	34,510
	(424,322)	3,752,943

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the parent													Total equity RMB'000
	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000	Equity component of convertible bonds RMB'000	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Other capital reserve RMB'000	Available-for-sale investment revaluation reserve 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	
At 31 December 2017	5,127	2,287,958	(22,517)	7,564	228,087	329,588	1,846,459	812,539	—	31,921	6,561,864	12,088,590	464,381	12,552,971
Effect of adoption of IFRS 9	—	—	—	—	—	—	—	(812,539)	812,539	—	—	—	—	—
Effect of adoption of IFRS 15	—	—	—	—	—	—	—	—	—	—	5,722	5,722	—	5,722
At 1 January 2018 (restated)	5,127	2,287,958	(22,517)	7,564	228,087	329,588	1,846,459	—	812,539	31,921	6,567,586	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 designated 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
Vested awarded shares transferred to employees	—	—	4,428	—	—	(5,911)	1,483	—	—	—	—	—	—	—
Share of reserves of associates	—	—	—	—	—	—	(12,954)	—	—	—	—	(12,954)	—	(12,954)
Conversion of convertible bonds	192	823,525	—	(6,290)	—	—	—	—	—	—	—	817,427	—	817,427
Share 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*	—	223,221*	311,094*	6,937,401*	13,037,839	(116,240)	12,921,599

* These reserve accounts comprise the consolidated other reserves of RMB10,076,369,000 (2017: RMB9,810,458,000) in the consolidated statement of financial position.

	Attributable to owners of the parent													Total equity RMB'000
	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000	Equity component of convertible bonds RMB'000	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Other capital reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Foreign currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000		
At 1 January 2017	5,097	2,369,129	(25,477)	72,295	225,276	468,930	1,339,013	30,075	297,789	3,105,080	7,887,207	2,114,517	10,001,724	
Profit for the year	—	—	—	—	—	—	—	—	—	3,201,837	3,201,837	94,792	3,296,629	
Other comprehensive income for the year:														
Changes in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	782,464	—	—	782,464	—	782,464	
Exchange differences related to foreign operations	—	—	—	—	—	—	—	—	(188,789)	—	(188,789)	(60,282)	(249,071)	
Reclassification adjustments for deemed disposal of a subsidiary	—	—	—	—	—	—	—	—	(57,355)	—	(57,355)	—	(57,355)	
Share of other comprehensive loss of associates	—	—	—	—	—	—	—	—	(19,724)	—	(19,724)	—	(19,724)	
Total comprehensive income for the year	—	—	—	—	—	—	—	782,464	(265,868)	3,201,837	3,718,433	34,510	3,752,943	
Approved and paid final dividend in respect of the previous year	—	(112,678)	—	—	—	—	—	—	—	—	(112,678)	—	(112,678)	
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(161,218)	(161,218)	
Share-based compensation costs	—	—	—	—	—	204,716	—	—	—	—	204,716	100,309	305,025	
Exercise of share options	30	31,507	—	—	—	(10,935)	—	—	—	—	20,602	—	20,602	
Vested awarded shares transferred to employees	—	—	—	2,960	—	(75,365)	92,906	—	—	—	20,501	—	20,501	
Share of reserves of associates	—	—	—	—	—	—	4,276	—	—	—	4,276	195	4,471	
Redemption of convertible bonds	—	—	—	(64,731)	—	—	27,085	—	—	—	(37,646)	—	(37,646)	
Profit appropriation	—	—	—	—	33,102	—	—	—	—	(33,102)	—	—	—	
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	13,167	13,167	
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	383,179	—	—	—	383,179	213,756	596,935	
Deemed disposal of a subsidiary	—	—	—	—	(30,291)	(257,758)	—	—	—	—	288,049	(1,850,855)	(1,850,855)	
At 31 December 2017	5,127	2,287,958	(22,517)	7,564	228,087*	329,588*	1,846,459*	812,539*	31,921*	6,561,864*	12,088,590	464,381	12,552,971	

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from operating activities	769,509	1,890,385
Net cash flows used in investing activities	(779,523)	(4,108,113)
Net cash flows from/(used in) financing activities	1,509,907	(266,388)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	1,499,893	(2,484,116)
Cash and cash equivalents at beginning of year	3,036,488	5,776,336
Effect of foreign exchange rate changes, net	8,403	(255,732)
	<hr/>	<hr/>
Cash and cash equivalents at end of year	4,544,784	3,036,488
Non-pledged time deposits with original maturity of over three months when acquired	2,811,271	1,912,156
Principal protected structure deposits with original maturity of over three months when acquired	2,512,754	3,557,340
	<hr/>	<hr/>
Cash and bank deposits as stated in the consolidated statement of financial position	9,868,809	8,505,984
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

1. Corporate and Group information

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 Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 9 October 2007.

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.

2. Basis of preparation and significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention, except for contingent consideration, derivative financial instruments, equity investments and certain financial assets which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Significant accounting policies

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

2. Basis of preparation and significant accounting policies(continued)

Significant accounting policies(continued)

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014–2016 Cycle</i>	<i>Amendments to IFRS 1 and IAS 28</i>

Other than as explained below regarding the impact of IFRS 9 and IFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

The Group adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on 1 January 2018, using a modified retrospective method. The Group didn't restate comparative information and recognised the transition adjustments against the opening balance of retained earnings at 1 January 2018. The effect of adopting IFRS 9 and IFRS 15 is as follows:

The adoption of IFRS 9 has a significant impact on the classification and measurement of the Group's financial assets. Under IAS 39 *Financial Instruments: Recognition and Measurement*, the Group's available-for-sale investments were measured at fair value or stated at cost less any impairment losses when the fair value cannot be reliably measured, upon the adoption of the IFRS 9, these available-for-sale investments of RMB1,357.2 million as at 1 January 2018 were reclassified to equity investments designated at fair value through other comprehensive income of RMB1,355.5 million and financial assets at fair value through profit or loss of RMB1.7 million, respectively.

The adoption of IFRS 15 has no material impact on the financial statements of the Company and its subsidiaries, and the cumulative catch-up adjustments related to an associate of the Group at the date of initial application of IFRS 15 increased the Group's opening balance of retained earnings as at 1 January 2018 by RMB5.7 million.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Operating segment information

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

- (a) the entertainment software segment engages in the research and development of games, and the provision of online games, mobile games and casual game services;
- (b) the cloud services segment engages in the provision of cloud storage and cloud computation services; and
- (c) the office software and services and others segment engages in the design, research and development and sales and marketing of the office software products and services of WPS Office.

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

3. Operating segment information (continued)

Year ended 31 December 2018	Entertainment software <i>RMB'000</i>	Cloud services <i>RMB'000</i>	Office software and services and others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Sales from continuing operations	<u>2,551,715</u>	<u>2,217,507</u>	<u>1,136,965</u>	<u>5,906,187</u>
Segment results	683,762	(847,008)	333,965	170,719
<i>Reconciliation:</i>				
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				<u>373,833</u>
Loss before tax from continuing operations				<u><u>(25,017)</u></u>

3. Operating segment information (continued)

Year ended 31 December 2017	Entertainment software <i>RMB'000</i>	Cloud services <i>RMB'000</i>	Office software and services and others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Sales from continuing operations	3,120,186	1,332,522	728,582	5,181,290
Sales to a discontinued operation	420	20,376	16,908	37,704
	<u>3,120,606</u>	<u>1,352,898</u>	<u>745,490</u>	<u>5,218,994</u>
<i>Reconciliation:</i>				
Elimination of sales to a discontinued operation				<u>(37,704)</u>
Revenue from continuing operations				<u><u>5,181,290</u></u>
Segment results	1,413,124	(623,769)	269,731	1,059,086
<i>Reconciliation:</i>				
Elimination of results from a discontinued operation				(37,704)
Administrative expenses				(256,847)
Share-based compensation costs				(235,194)
Other income				294,036
Other expenses				(9,465)
Other losses, net				(156,489)
Finance income				194,967
Finance costs				(112,391)
Share of profits and losses of:				
Joint ventures				121,039
Associates				51,076
Profit before tax from continuing operations				<u><u>912,114</u></u>

3. Operating segment information (continued)

Geographical information

Revenue of continuing operations from external customers:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Mainland China	5,670,334	4,900,473
Hong Kong	210,867	270,088
Other countries	24,986	10,729
Total	<u>5,906,187</u>	<u>5,181,290</u>

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

4. Profit/(loss) before tax from continuing operations

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	1,537,702	1,177,535
Social insurance costs and staff welfare	273,816	209,703
Share-based compensation costs	211,936	235,194
Pension plan contributions	160,269	122,557
	<u>2,183,723</u>	<u>1,744,989</u>
Minimum lease payments under operating leases	2,048,909	1,141,112
Cost of inventories sold	7,205	7,674
Cost of services provided	659,085	650,971
Depreciation of property, plant and equipment	479,328	323,819
Depreciation of investment properties	1,079	—
Amortisation of prepaid land lease payments	5,052	4,448
Amortisation of other intangible assets	28,634	33,416
Impairment of trade and other receivables*	56,843	4,880
Donations*	426	1,817

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

5. Other losses, net

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Loss on disposal of associates	—	(1,050)
Impairment loss of available-for-sale investments	—	(168,712)
Impairment loss of investments in associates	(5,530)	—
Impairment loss of investments in joint ventures	(6,433)	(21,222)
Loss on deemed disposal of an associate	(12,092)	—
Foreign exchange differences, net	(136,996)	46,092
Fair value gains on financial instruments at fair value through profit or loss, net	15,433	28,670
Loss on redemption of convertible bonds	—	(3,383)
Others	—	(36,884)
	<u>(145,618)</u>	<u>(156,489)</u>

6. Share-based compensation costs

(a) Share option schemes

2007 Pre-IPO Share Option Scheme

The Company adopted the 2007 Pre-IPO Share Option Scheme in January 2007. The 2007 Pre-IPO Share Option Scheme was terminated on 3 September 2007. No share options have been granted since then. The following table illustrates the number of and movements in the Company's share options outstanding under the 2007 Pre-IPO Share Option Scheme for the year ended 31 December 2017, and their weighted average exercise prices (“**WAEP**”).

6. Share-based compensation costs (continued)

(a) Share option schemes (continued)

2007 Pre-IPO Share Option Schemes (continued)

	2017 Number of share options	2017 WAEP US\$ per share
Outstanding at 1 January	3,089,700	0.2400
Exercised during the year	<u>(3,089,700)</u>	0.2400
Outstanding at 31 December	<u>—</u>	—
Exercisable at 31 December	<u>—</u>	—

No share option was outstanding under the 2007 Pre-IPO Share Option Scheme as at 31 December 2018 and 2017.

2011 Share Option Scheme

The Company operates the 2011 share option scheme (the “**2011 Scheme**”) for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Scheme include the Group’s executive directors (exclusive of any non-executive director) and other employees of the Group. The 2011 Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The following share options were outstanding under the 2011 Scheme during the years ended 31 December 2018 and 2017:

	2018 Number of share options	2018 WAEP HK\$ per share	2017 Number of share options	2017 WAEP HK\$ per share
Outstanding at 1 January	4,600,000	20.58	5,900,000	3.05
Granted during the year	—	—	4,600,000	20.58
Exercised during the year	<u>—</u>	—	<u>(5,900,000)</u>	3.05
Outstanding at 31 December	<u>4,600,000</u>	20.58	<u>4,600,000</u>	20.58
Exercisable at 31 December	<u>1,720,000</u>	20.42	<u>800,000</u>	20.25

6. Share-based compensation costs (continued)

(b) Share Award Scheme

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.

The following awarded shares were outstanding under the Share Award Scheme during the years ended 31 December 2018 and 2017:

	2018	2017
	Number of Awarded Shares	Number of Awarded Shares
Outstanding as at 1 January	5,830,300	1,606,301
Granted during the year	455,000	5,535,000
Forfeited during the year	(16,600)	(56,900)
Vested and transferred during the year	(1,895,800)	(1,254,101)
Outstanding as at 31 December	<u>4,372,900</u>	<u>5,830,300</u>
Exercisable as at 31 December	<u>500</u>	<u>7,500</u>

7. Income tax

PRC corporate income tax represents the tax charged on the estimated assessable profits of entities within the Group established 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% (2017: 16.5%) on estimated assessable profits arising in Hong Kong during the year ended 31 December 2018.

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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Current — Mainland China	111,316	168,179
Current — Hong Kong	52,066	69,642
Current — Elsewhere	1,216	17,787
Deferred	(24,373)	(119,614)
	<hr/>	<hr/>
Total tax charge for the year	<u>140,225</u>	<u>135,994</u>
	<hr/>	<hr/>
Total tax charge for the year from continuing operations	140,225	133,834
Total tax charge for the year from a discontinued operation	—	2,160
	<hr/>	<hr/>
	<u>140,225</u>	<u>135,994</u>

8. Dividends

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final dividend (note (a)):		
HK\$ nil (2017: HK\$0.11) per share		
based on issued share capital as at year end	—	123,326
Less: Dividend for shares held for share award scheme		
as at year end	—	(898)
	<hr/>	<hr/>
	<u>—</u>	<u>122,428</u>

Note:

- (a) The actual amount of the 2017 dividend finally paid was RMB126.6 million, after eliminating the amount of RMB0.8 million paid for shares held by the Share Award Scheme Trust.

9. Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,362,648,887 (2017: 1,298,969,084) in issue during the year.

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

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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	389,214	802,551
From a discontinued operation	<u>—</u>	<u>2,399,286</u>
	389,214	3,201,837
Increase in earnings adjusted for the convertible bonds of the Company	78	30,703
Decrease in earnings adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries and associate	<u>(13,121)</u>	<u>(1,081)</u>
	<u>376,171</u>	<u>3,231,459</u>
Attributable to:		
Continuing operations	376,171	832,852
Discontinued operation	<u>—</u>	<u>2,398,607</u>
	<u>376,171</u>	<u>3,231,459</u>

9. Earnings per share attributable to ordinary equity holders of the parent (continued)

	Number of shares	
	2018	2017
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	1,362,648,887	1,298,969,084
Effect of dilution — weighted average number of ordinary shares:		
Share options	—	3,225,699
Awarded shares	2,932,857	3,553,233
Convertible bonds	2,496,713	60,753,341
	<u>1,368,078,457</u>	<u>1,366,501,357</u>

10. Trade receivables

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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 30 days	562,380	473,039
31 to 60 days	240,592	152,404
61 to 90 days	67,551	143,342
91 to 365 days	239,901	344,455
1 to 2 years	69,616	44,221
Over 2 years	4,610	10,284
	<u>1,184,650</u>	<u>1,167,745</u>

11. 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:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
0 to 30 days	98,456	87,583
31 to 60 days	35,958	32,690
61 to 90 days	21,815	2,309
91 to 365 days	61,717	54,446
Over one year	11,342	2,273
	<u>229,288</u>	<u>179,301</u>

12. Interest-bearing bank loans

	Effective interest rate	Maturity	Principal amount <i>RMB'000</i>
At 31 December 2018			
Current			
Bank loans — unsecured	3.30%–3.40% per annum	2019	1,029,480
Current portion of long term bank loans-unsecured	4.28% per annum	2019	<u>23,913</u>
			1,053,393
Non-current			
Bank loans — unsecured	4.28% per annum	2020–2021	<u>231,224</u>
			<u>1,284,617</u>
At 31 December 2017			
Current			
Bank loan — unsecured	2.37% per annum	2018	326,710
Current portion of long term bank loans-unsecured	4.28% per annum	2018	<u>47,455</u>
			374,165
Non-current			
Bank loans — unsecured	4.28% per annum	2019–2021	<u>287,682</u>
			<u>661,847</u>

12. Interest-bearing bank loans (continued)

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Analysed into:		
Within one year or on demand	1,053,393	374,165
In the second year	138,623	56,458
In the third to fifth year, inclusive	<u>92,601</u>	<u>231,224</u>
	<u><u>1,284,617</u></u>	<u><u>661,847</u></u>

- (a) The Group has overdraft facilities amounting to US\$175.0 million and RMB400.0 million, respectively (2017: US\$75.0 million and RMB400.0 million, respectively), of which US\$150.0 million and RMB335.1 million, respectively (2017: US\$50.0 million and RMB335.1 million, respectively) had been utilised as at the end of reporting period.
- (b) As at 31 December 2018, interest-bearing bank loans of the Group amounting to RMB1,029.5 million and RMB255.1 million were denominated in US\$ and RMB, respectively (2017: RMB326.7 million and RMB335.1 million, respectively).

13. Convertible bonds

- (a) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK\$1,356.0 million 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 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 conversion price of the 2013 Convertible Bonds was adjusted to HK\$16.46 per share effective on 2 June 2016, in accordance with the respective terms and conditions of the 2013 Convertible Bonds.

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. Accordingly, the 2013 Convertible Bonds were delisted from the official list of the Singapore Exchange Securities Trading Limited with effect from 18 January 2018.

13. Convertible bonds (continued)

- (b) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HK\$2,327.0 million 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 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 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 2014 Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon.

The conversion price of the 2014 Convertible Bonds was adjusted to HK\$42.67 per share effective on 2 June 2016, in accordance with the respective terms and conditions of the 2014 Convertible Bonds.

On 11 April 2017, the Company redeemed, at the options of certain bondholders of the 2014 Convertible Bonds, representing the principal amount of HK\$2,281.0 million of the 2014 Convertible Bonds at an aggregate principal amount together with accrued and unpaid interest to such date. There was no conversion or redemption of the 2014 Convertible Bonds during the year of 2018. The aggregate outstanding principal amount of the 2014 Convertible Bonds as at 31 December 2018 was HK\$46.0 million.

OPERATIONAL HIGHLIGHTS

			For the three months ended					
	31 December 2018	30 September 2018	30 June 2018	31 March 2018	31 December 2017	30 September 2017	30 June 2017	31 March 2017
Online Games								
Daily Average Peak Concurrent Users("ADPCU")	673,413	729,372	798,354	698,480	874,693	871,792	934,115	937,438
Monthly Average Paying Accounts ("APA")	<u>3,036,203</u>	<u>3,430,132</u>	<u>3,272,023</u>	<u>3,297,038</u>	<u>3,978,222</u>	<u>4,073,300</u>	<u>4,321,447</u>	<u>4,200,840</u>

FINANCIAL HIGHLIGHTS

	Three months ended		
	31 December 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Unaudited)	30 September 2018 RMB'000 (Unaudited)
CONTINUING OPERATIONS			
Revenue			
Online games	659,106	751,379	678,349
Cloud services	726,584	401,948	603,272
Office software and services and others	373,269	227,171	256,091
	1,758,959	1,380,498	1,537,712
Cost of revenue	(1,003,598)	(611,845)	(843,209)
Gross profit	755,361	768,653	694,503
Research and development costs, net	(513,236)	(401,285)	(514,519)
Selling and distribution expenses	(214,877)	(174,440)	(228,109)
Administrative expenses	(146,059)	(79,095)	(114,671)
Share-based compensation costs	(51,337)	(51,080)	(50,712)
Other income	72,365	75,021	57,310
Other expenses	(58,921)	(282)	(28,704)
Operating profit/(loss)	(156,704)	137,492	(184,902)
Other losses, net	(8,280)	(26,898)	(82,868)
Finance income	86,126	55,542	90,412
Finance costs	(95,318)	(34,841)	(91,712)
Share of profits and losses of:			
Joint ventures	1,235	38,471	15,866
Associates	260,657	59,971	27,563
Profit/(loss) before tax from continuing operations	87,716	229,737	(225,641)
Income tax benefit/(expense)	(11,147)	5,475	(28,964)
Profit/(loss) for the period from continuing operations	76,569	235,212	(254,605)
DISCONTINUED OPERATION			
Gain on deemed disposal of a subsidiary	—	2,224,291	—
Profit/(loss) for the period	76,569	2,459,503	(254,605)
Attributable to:			
Owners of the parent	229,139	2,474,863	(59,258)
Non-controlling interests	(152,570)	(15,360)	(195,347)
	76,569	2,459,503	(254,605)

FINANCIAL HIGHLIGHTS (continued)

	Three months ended		
	31 December 2018 RMB (Unaudited)	31 December 2017 RMB (Unaudited)	30 September 2018 RMB (Unaudited)
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit/(loss) for the period	<u><u>0.17</u></u>	<u><u>1.90</u></u>	<u><u>(0.04)</u></u>
— For profit/(loss) from continuing operations	<u><u>0.17</u></u>	<u><u>0.19</u></u>	<u><u>(0.04)</u></u>
Diluted			
— For profit/(loss) for the period	<u><u>0.16</u></u>	<u><u>1.82</u></u>	<u><u>(0.04)</u></u>
— For profit/(loss) from continuing operations	<u><u>0.16</u></u>	<u><u>0.19</u></u>	<u><u>(0.04)</u></u>

FINANCIAL HIGHLIGHTS (continued)

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
CONTINUING OPERATIONS		
Revenue		
Online games	2,551,715	3,120,186
Cloud services	2,217,507	1,332,522
Office software and services and others	1,136,965	728,582
	<u>5,906,187</u>	<u>5,181,290</u>
Cost of revenue	(3,169,429)	(2,168,907)
	<u>2,736,758</u>	<u>3,012,383</u>
Gross profit		
Research and development costs, net	(1,838,658)	(1,446,044)
Selling and distribution expenses	(727,381)	(544,957)
Administrative expenses	(449,498)	(256,847)
Share-based compensation costs	(211,936)	(235,194)
Other income	277,891	294,036
Other expenses	(89,496)	(9,465)
	<u>(302,320)</u>	<u>813,912</u>
Operating profit/(loss)		
Other losses, net	(145,618)	(156,489)
Finance income	326,156	194,967
Finance costs	(326,966)	(112,391)
Share of profits and losses of:		
Joint ventures	49,898	121,039
Associates	373,833	51,076
	<u>(25,017)</u>	<u>912,114</u>
Profit/(loss) before tax from continuing operations		
Income tax expense	(140,225)	(133,834)
	<u>(165,242)</u>	<u>778,280</u>
Profit/(loss) for the year from continuing operations		
DISCONTINUED OPERATION		
Profit for the year from a discontinued operation	—	294,058
Gain on deemed disposal of a subsidiary	—	2,224,291
	<u>—</u>	<u>2,518,349</u>
Profit/(loss) for the year	<u>(165,242)</u>	<u>3,296,629</u>
Attributable to:		
Owners of the parent	389,214	3,201,837
Non-controlling interests	(554,456)	94,792
	<u>(165,242)</u>	<u>3,296,629</u>

FINANCIAL HIGHLIGHTS (continued)

	Year ended 31 December	
	2018	2017
	<i>RMB</i>	<i>RMB</i>
Earnings per share attributable to ordinary equity holders of the parent		
Basic		
— For profit for the year	<u>0.29</u>	<u>2.46</u>
— For profit from continuing operations	<u>0.29</u>	<u>0.62</u>
Diluted		
— For profit for the year	<u>0.27</u>	<u>2.36</u>
— For profit from continuing operations	<u>0.27</u>	<u>0.61</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2018 Compared to Fourth Quarter of 2017 and Third Quarter of 2018

Revenue

Revenue for the fourth quarter of 2018 increased 27% year-on-year and 14% quarter-on-quarter to RMB1,759.0 million. Revenue from the online games, cloud services, office software and services and others represented 37%, 41% and 22%, respectively, of the Group's total revenue for the fourth quarter of 2018. Revenue from the three business lines is reported net of intra-group transactions.

Revenue from the online games business for the fourth quarter of 2018 decreased 12% year-on-year and 3% quarter-on-quarter to RMB659.1 million. The year-on-year decrease largely reflected natural declining life-cycles of existing games, partially offset by the revenue contribution from introducing a series of new mobile games.

ADPCU for the Group's online games for the fourth quarter of 2018 decreased 23% year-on-year and 8% quarter-on-quarter to 0.7 million. APA for the Group's online games for the fourth quarter of 2018 decreased 24% year-on-year and 11% quarter-on-quarter to 3.0 million. The decreases were largely due to the natural declining life-cycles of existing games.

Revenue from the cloud services for the fourth quarter of 2018 increased 81% year-on-year and 20% quarter-on-quarter to RMB726.6 million. The strong increases were mainly due to increased usage of mobile video, internet sectors, and revenue growth from enterprise cloud services, demonstrating that Kingsoft Cloud Holdings Limited and its subsidiaries (collectively, “**Kingsoft Cloud**”) further strengthened the leading position in specific sectors and enlarged enterprise cloud business by providing comprehensive cloud services with advanced technology.

Revenue from the office software and services and others for the fourth quarter of 2018 increased 64% year-on-year and 46% quarter-on-quarter to RMB373.3 million. The year-on-year increase was mainly due to: i) fast revenue growth from value-added services of WPS Office personal edition and sales of enterprise edition, driven by providing more intelligent functions and richer content; and ii) healthy revenue growth from WPS online marketing services driven by increased user traffic by continuous optimization of operational strategy. The quarter-on-quarter increase primarily reflected favorable seasonality of sales of WPS Office enterprise edition and revenue of online marketing services of its personal edition.

Cost of Revenue and Gross Profit

Cost of revenue for the fourth quarter of 2018 increased 64% year-on-year and 19% quarter-on-quarter to RMB1,003.6 million. The increases were primarily due to increase in bandwidth and internet data center (“**IDC**”) cost associating with fast-growing customer usage and increased investments in cloud business as well.

Gross profit for the fourth quarter of 2018 decreased 2% year-on-year and increased 9% quarter-on-quarter to RMB755.4 million. The Group's gross profit margin decreased by thirteen percentage points year-on-year and decreased by two percentage points quarter-on-quarter to 43%. The decreases of the gross profit margins are mainly due to increased revenue contribution from cloud services, which has relative lower gross profit margin and higher growth potential.

Research and Development (“R&D”) Costs, net

R&D costs, net for the fourth quarter of 2018 increased 28% year-on-year and kept flat with last quarter to RMB513.2 million. The year-on-year increase was mainly due to enhanced R&D investments, reflecting that we engaged in developing new technologies, further improving the functions of our products and optimizing user experience.

Selling and Distribution Expenses

Selling and distribution expenses for the fourth quarter of 2018 increased 23% year-on-year and decreased 6% quarter-on-quarter to RMB214.9 million. The year-on-year increase primarily reflected increased investments of WPS and cloud businesses in exploring enterprise and government markets. The quarter-on-quarter decrease was mainly due to decreased promotional activities of online games.

Administrative Expenses

Administrative expenses for the fourth quarter of 2018 increased 85% year-on-year and 27% quarter-on-quarter to RMB146.1 million. The year-on-year increase was largely due to increased staff-related costs and professional service fees. The quarter-on-quarter increase was mainly attributable to increased professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the fourth quarter of 2018 increased 1% year-on-year and 1% quarter-on-quarter to RMB51.3 million.

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

Operating loss before share-based compensation costs for the fourth quarter of 2018 was RMB105.4 million, compared to profit of RMB188.6 million in the corresponding period last year, and loss of RMB134.2 million in the third quarter of 2018.

Other Losses, net

Net other losses for the fourth quarter of 2018 were RMB8.3 million, compared to net other losses of RMB26.9 million in the corresponding period last year, and net other losses of RMB82.9 million in the third quarter of 2018. The net other losses in the third quarter of 2018 was mainly due to the recognition of foreign exchange loss.

Share of Profits and Losses of Associates

We recorded share of profits of associates of RMB260.7 million for the fourth quarter of 2018, compared to share of profits of RMB60.0 million for the fourth quarter of 2017 and share of profits of RMB27.6 million for the third quarter of 2018. The increase in the fourth quarter of 2018 was mainly because Cheetah Mobile Inc. and its subsidiaries (collectively, “**Cheetah Mobile**”) disposed shares in certain investee companies in this quarter.

Income Tax Benefit/(Expense)

Income tax expense for the fourth quarter of 2018 was RMB11.1 million, compared to income tax benefit of RMB5.5 million and income tax expense of RMB29.0 million for the fourth quarter of 2017 and third quarter of 2018 respectively. The year-on-year change was primarily attributable to the specific deferred tax assets recognized in the fourth quarter of 2017.

Profit/(Loss) Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent was RMB229.1 million, compared to profit of RMB2,474.9 million in the corresponding period last year, and loss of RMB59.3 million in the third quarter of 2018.

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 is profit/(loss) attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent.

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

Profit attributable to owners of the parent before share-based compensation costs for the fourth quarter of 2018 was RMB261.9 million, compared to profit of RMB2,508.2 million in the corresponding period last year, and loss of RMB21.6 million in the third quarter of 2018. The net profit margin excluding the effect of share-based compensation costs was 15%, 182% and (1%) for the three months ended 31 December 2018, 31 December 2017 and 30 September 2018, respectively.

Year 2018 Compared to Year 2017

Revenue

Revenue for the year of 2018 increased 14% year-on-year to RMB5,906.2 million. Revenue from the online games, cloud services and office software and services and others represented 43%, 38% and 19%, respectively, of the Group's total revenue for the year of 2018.

Revenue from the online games business for the year of 2018 decreased 18% year-on-year to RMB2,551.7 million. The year-on-year decrease was mainly due to decreased revenue from existing games, which was partially offset by contributions from new mobile games.

Revenue from the cloud services for the year of 2018 increased 66% year-on-year to RMB2,217.5 million. The increase was mainly driven by robust customer usage from mobile video and internet sectors, reflecting the continuous efforts of Kingsoft Cloud in expanding the markets in specific industries and rapidly rising demand from customers.

Revenue from the office software and services and others for the year of 2018 increased 56% year-on-year to RMB1,137.0 million. The year-on-year increase was primarily attributable to: i) the strong and sustainable revenue growth of value-added services of WPS Office personal edition and sales of enterprises edition, as we continued to improve the user benefits powered by advanced technology; and ii) increased revenue from WPS online marketing services driven by improved monetization capabilities of WPS free user traffic.

Cost of Revenue and Gross Profit

Cost of revenue for the year of 2018 increased 46% year-on-year to RMB3,169.4 million. The year-on-year increase was primarily due to increased IDC cost associated with increased customer usage of cloud services, as well as continuous investments in technology infrastructure.

Gross profit for the year of 2018 decreased 9% year-on-year to RMB2,736.8 million. The Group's gross profit margin decreased by twelve percentage points year-on-year to 46%.

R&D Costs, net

R&D costs, net for the year of 2018 increased 27% year-on-year to RMB1,838.7 million. The year-on-year increase was primarily attributable to increased investments in new products and technologies.

Selling and Distribution Expenses

Selling and distribution expenses for the year of 2018 increased 33% year-on-year to RMB727.4 million. The year-on-year increase mainly reflected greater spending of WPS and cloud businesses in expanding the enterprise and government market.

Administrative Expenses

Administrative expenses for the year of 2018 increased 75% year-on-year to RMB449.5 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 2018 decreased 10% year-on-year to RMB211.9 million.

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

Operating loss before share-based compensation costs for the year of 2018 was RMB90.4 million as a result of the combination of above reasons, compared to profit of RMB1,049.1 million for the last year.

Other Losses, net

Net other losses for 2018 were RMB145.6 million, compared to net other losses of RMB156.5 million for the last year. The net other losses of 2018 was mainly due to the recognition of foreign exchange loss. The net other losses of 2017 primarily represented the additional provisions for impairment on the carrying value of investments in XunLei Limited and 21Vianet, Inc.

Share of Profits and Losses of Associates

Share of profits of associates for 2018 were RMB373.8 million, compared to share of profits of RMB51.1 million for the last year. The change was mainly attributable to more net profits arising from Cheetah Mobile and the fact that the Group recognized its share of profit of Cheetah Mobile for the twelve-month period of 2018, compared to three-month period of 2017 as it had become an associate of the Group since 1 October 2017.

Income Tax Expense

Income tax expenses for the year of 2018 increased 5% year-on-year to RMB140.2 million.

Gain on Deemed Disposal of a Subsidiary

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

Profit attributable to Owners of the Parent

For the reasons described above, profit attributable to owners of the parent (including that from continuing operations and a discontinued operation) was RMB389.2 million and RMB3,201.8 million for the year 2018 and 2017, respectively.

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

Profit attributable to owners of the parent before share-based compensation costs (including that from continuing operations and a discontinued operation) was RMB536.8 million and RMB3,406.7 million for the year 2018 and 2017, respectively.

The net profit margin excluding the effect of share-based compensation costs (including that from continuing operations and a discontinued operation) was 9% and 39% for the year 2018 and 2017, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of 2018. As at 31 December 2018, the Group had major financial resources in the forms of restricted cash and cash and bank deposits amounting to RMB98.1 million and RMB9,868.8 million, respectively, which totally represented 50% of the Group's total assets.

As at 31 December 2018, the Group's gearing ratio, which represents total liabilities divided by total assets, was 36%, as compared to 29% as at 31 December 2017. As at 31 December 2018, the Group had debts of convertible bonds of HK\$46.1 million (equivalent to RMB40.2 million) and bank loans of RMB255.1 million and US\$150 million (equivalent to RMB1,029.5 million).

Foreign Currency Risk Management

The Group has transactional currency exposures. Such exposures arise from revenue derived from overseas markets by operating units in currencies other than the units' functional currencies. Approximately 5% of the Group's revenue were denominated in currencies other than the functional currencies.

As at 31 December 2018, RMB4,255.8 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Net Cash Generated from Operating Activities

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

Net cash generated from operating activities (including that from continuing operations and a discontinued operation) was RMB769.5 million and RMB1,890.4 million for the years ended 31 December 2018 and 31 December 2017, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fixed assets and intangible assets. Cash used for capital expenditures (including that from continuing operations and a discontinued operation) was RMB1,406.2 million and RMB722.2 million for the years ended 31 December 2018 and 31 December 2017, respectively.

BUSINESS REVIEW AND PROSPECTS

Mr. Jun LEI, Chairman of the Company, commented, “We delivered a steady fourth quarter in 2018 and our revenue continued to grow. I was encouraged by the outstanding performance of our cloud services and office software and services during the quarter and the year. One of the highlights was Kingsoft Cloud’s progressing in video cloud sector with strong revenue growth. WPS Office products continued to attract more and more users, and an ecosystem surrounding the products was gradually established. We launched a new season for our flagship JX Online III PC game, and our existing mobile game JX Online I maintained its performance during the quarter, even though China’s game market experienced a number of uncertainties at the time. The development in these businesses was in line with our strategic planning.”

Mr. Tao ZOU, Chief Executive Officer of the Company, added, “Our top line in the fourth quarter continued to grow, increasing 27% year-on-year and 14% quarter-on-quarter to RMB1,759.0 million. The revenue growth reflected our strong and stable execution capability under the changing environment. We were particularly delighted to see that the cloud services and office software and services and others businesses maintain their robust growth during the quarter, with revenue reaching a 20% and a 46% quarter-on-quarter growth, respectively.

With the changing market and regulation environment in China, the performance of our online games business was under pressure in 2018. Nevertheless, our flagship PC game JX Online III launched a new season in this quarter and was much welcomed by our gamers. The update of the game not only provided our gamers with a new game experience, but also strengthened our confidence in the long-term development of the game. In 2018, we continued to host JX Online III Masters Competition to further develop the Esports business. The peak concurrent viewers of the competition reached 11.23 million across all the streaming platforms in 2018, which helped to bring new value to our classic IP. Our existing mobile game JX Online I performed well during the quarter and maintained its popularity among gamers. We released new mobile games including JX World II and the Legend of Sword and Fairy 4 in 2018, which also recorded decent performances. We are going to focus on our cooperation with Tencent in the coming year on the release of our key mobile games JX Online III and JX Online II. Going forward, in response to the changing market and rapidly evolving game industry, we will continue to focus on improving user experience and provide high-quality content.

In the fourth quarter, Kingsoft Cloud maintained its leading position in video sector, with breakthroughs in enterprise cloud markets such as government, finance, healthcare and media, leading to a rapid growth of the business. Under the changing network environment and player terminal, the revenue of video cloud business continued its fast growth, with achievements in the application of artificial intelligence (“AI”)-based products such as Image Enhancement and Smart High Definition for video cloud services. Regarding the financial cloud, Kingsoft Cloud became an important cooperative partner with China Construction Bank during the bank’s strategic Fintech transformation. In the face of an increasingly competitive market, Kingsoft Cloud is confident to continue to develop the verticals by leveraging its established cloud ecosystem, talented team and strong research and development capabilities. Kingsoft Cloud will work with upstream and downstream partners, continue to promote the all-cloud services and strive to meet the customer needs for optimizing cost and better experience.

For the fourth quarter of 2018, WPS Office continued its healthy growth by adding a series of smart and efficient products and features to attract a larger user base. As of November 2018, the monthly active users (“MAU”) of Android WPS Office had exceeded 100 million in Mainland China. The MAU of WPS Docs, our online collaborative office application, exceeded 69 million within four months after its release, and at the same time, the users of its WeChat Mini Program version exceeded 80 million at the end of 2018. My WPS, the WeChat Mimi Program serving WPS members, ranked among the top 10 mini programs on the Aladdin Index and was the only utility application on the list. With its rapid growth in overseas markets, WPS Office recently won the “2018 Top App for Overseas Growth” presented by App Annie. After teaming up with Alibaba’s DingTalk in December 2018, WPS provided a customized Web Office for DingTalk Smart Docs, aiming to create a smart office ecosystem through its open platform. To better meet the needs of government and enterprise clients, WPS 2019 rolled out new features in security and collaboration. At the global “AI Challenger 2018”, our AI LAB team won the first and second place in the competition of machine translation, which is an AI technology in natural language processing that will be applied to our smart writing products. Such technology is expected to greatly enhance the user experience in creative writing and office work.”

Mr. Jun LEI concluded, “In the face of the changing market condition, we achieved a year of steady revenue growth with the Group’s hard work in 2018. Our profitability was affected, yet our fundamentals remained intact. Looking ahead, we see a clear momentum of growth driven by the further development of all our businesses. We expect to bring our new flagship mobile games to our users within this year and continue the strong growth and development of our cloud services and office software and service businesses. With these moves, I am confident that our performance will improve in the coming year.”

OTHER INFORMATION

Employee and Remuneration Policies

The Group upholds a high standard of business ethics and personal conduct of its employees. The Group strives to ensure that our staff enjoy a healthy, safe and inspiring environment which promotes them to work and interact with others. These were demonstrated by the Group organizing various kinds of outdoor trips as well as the provision of certain facilities such as indoor sports center and staff canteen in our headquarter.

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 pension scheme, the Group has also adopted share option schemes and share award schemes for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

As at 31 December 2018, the Group employed approximately 6,185 full-time employees (2017: 5,228) inclusive of all its staff in Mainland China and overseas offices. The staff costs of the Group including Directors’ and senior management’s emoluments in 2018 and 2017 were approximately RMB2,183.7 million and RMB1,745.0 million, respectively.

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

In August 2018, the Company repurchased 204,000 of its own ordinary shares on the Stock Exchange at a price range from HK\$13.82 to HK\$14.00. In September 2018, the Company repurchased 796,000 of its ordinary shares on the Stock Exchange at a price range from HK\$13.42 to HK\$13.72. During the year ended 31 December 2018, the Company repurchased a total of 1,000,000 of its own ordinary shares on the Stock Exchange at a total cost of approximately HK\$13.68 million. The company considered that it is in the best interest of the shareholders to return some surplus funds to them which will in turn enhance shareholders' value.

Save as disclosed above, during the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

Code of Conduct Regarding Directors' Securities Transaction

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") to govern securities transactions by Directors. Further to the specific enquiries made by the Company to all Directors, the Directors have confirmed their compliance with the Model Code during their terms of services for the year ended 31 December 2018.

Closure of Register of Members

For the purposes of determining shareholders' eligibility to attend and vote at AGM, the register of members of the Company will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the AGM

Latest time to lodge transfer documents for registration	4:30 pm on Wednesday, 15 May 2019
Closure of the register of members of the Company	Thursday, 16 May 2019 to Wednesday, 22 May 2019 (both dates inclusive)
Record date	Wednesday, 22 May 2019

During the above closure periods, no transfer of shares will be registered. In order to qualify for the right to attend and vote at the forthcoming AGM, 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 no later than the aforementioned latest time.

Review by Audit Committee

The Audit Committee of the Company has been established since 2007 with responsibility of assisting the Board in providing an independent review of the financial statements and internal control system. It acts in accordance with its terms of reference which clearly defines its

membership, authority, duties and frequency of meetings. It meets regularly with our management, external auditor and internal audit personnel to discuss accounting principles and practices adopted by the Group and internal control and financial reporting matters. During the year ended 31 December 2018, 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.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters with management.

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2018, and is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

Code on Corporate Governance Practices

The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in Corporate Governance Code and Corporate Governance Report (the "Code") contained in Appendix 14 to the Listing Rules, except for the code provision A.6.7 and C.1.2 of the Code.

The code provision A.6.7 of the Code is regarding the non-executive directors' attendance to general meetings. Non-executive Director, Mr. Chi Ping LAU, did not attend the annual general meeting of the Company held on 23 May 2018 due to pre-arranged engagements. Executive Director, Mr. Tao ZOU, non-executive Directors, Mr. Jun LEI, Mr. Chi Ping LAU and Mr. Shun Tak WONG, did not attend the extraordinary general meeting of the Company held on 27 February 2018 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.

Forward Looking Statements

This announcement contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements are based upon current plans, estimates and projections and represent the Company's expectations or beliefs concerning future events, therefore, no undue reliance should be placed upon them.

Forward looking statements contain inherent risks and uncertainties. The Company warns that should any of these risks or uncertainties ever materialize or should any number of important factors or events occur or not occur, then the actual results of the Company may differ materially from those either expressed or implied in any of these forward looking statements.

Publication of the Annual Results, Annual Reports and Corporate Governance Report

All the financial and other related information of the Company required by the Listing Rules will be published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.kingsoft.com) in due course.

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 26 March 2019

As at the date of this announcement, the Executive Directors are Messrs. Tao ZOU and Yuk Keung NG; the Non-executive Directors are Messrs. Jun LEI, Pak Kwan KAU and Chi Ping LAU; the Independent Non-executive Directors are Messrs. Shun Tak WONG, David Yuen Kwan TANG and Ms. Wenjie WU.