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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 2017

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**” or “**Kingsoft**”) for the year ended 31 December 2017. The results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i> <i>(Restated)*</i>	Year-over-year Change
Revenue	5,181,290	3,833,537	35%
Operating profit	813,912	925,133	(12%)
Operating profit before share-based compensation costs	1,049,106	980,005	7%
Profit/(loss) attributable to owners of the parent**	3,201,837	(270,732)	Not Applicable
	<i>RMB</i>	<i>RMB</i> <i>(Restated)*</i>	
Basic earnings per share			
— For profit/(loss) for the year	2.46	(0.21)	Not Applicable
— For profit/(loss) from continuing operations	0.62	(0.21)	Not Applicable
Diluted earnings per share			
— For profit/(loss) for the year	2.36	(0.21)	Not Applicable
— For profit/(loss) from continuing operations	0.61	(0.21)	Not Applicable

* The comparative figures are restated to reflect the reclassification between continuing operations and a discontinued operation of the Group. The operating results of Cheetah Mobile Inc. and its subsidiaries (collectively, “**Cheetah Mobile**”) for the nine months ended 30 September 2017 have been presented as a discontinued operation of the Group.

** Profit/(loss) attributable to owners of the parent before the effect of share-based compensation costs (including that from continuing operations and a discontinued operation) is RMB3,406.7 million and RMB(78.4) million for the years ended 31 December 2017 and 31 December 2016, respectively. For the year ended 31 December 2017, we recognized a gain on deemed disposal of a subsidiary of RMB2,224.3 million (2016: nil) and made impairment provisions for investments of RMB242.8 million (2016: RMB1,258.9 million). Excluding the aforesaid deemed disposal gain and impairment provisions, profit attributable to owners of the parent is RMB1,187.5 million for the year ended 31 December 2017 (2016: RMB915.2 million), representing a 30% increase year-over-year.

DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.11 per share for the year ended 31 December 2017 (2016: HK\$0.10 per share). The final dividend, subject to the approval of the shareholders at the annual general meeting (the “AGM”) of the Company to be held on 23 May 2018, is expected to be paid on 15 June 2018 to the shareholders whose names appear on the register of members of the Company on 4 June 2018.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

		As at 31 December	
		2017	2016
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,329,203	1,097,766
Prepaid land lease payments		289,561	268,046
Goodwill		9,559	954,656
Other intangible assets		56,375	295,751
Investments in joint ventures		177,110	165,512
Investments in associates		3,878,421	406,773
Available-for-sale investments		1,269,216	1,050,654
Other financial assets		63,430	71,091
Deferred tax assets		101,807	119,868
Other non-current assets		42,640	43,459
		<hr/>	<hr/>
Total non-current assets		7,217,322	4,473,576
		<hr/>	<hr/>
Current assets			
Inventories		10,327	11,098
Trade receivables	10	1,167,745	1,774,156
Prepayments, deposits and other receivables		679,612	1,122,028
Available-for-sale investments		88,000	204,849
Restricted cash		93,400	98,381
Pledged deposits		—	69,370
Cash and bank deposits		8,505,984	9,825,494
		<hr/>	<hr/>
Total current assets		10,545,068	13,105,376
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2017

		As at 31 December	
	<i>Notes</i>	2017	2016
		RMB'000	RMB'000
Current liabilities			
Trade payables	11	179,301	560,488
Other payables and accruals		1,612,667	2,082,407
Interest-bearing bank loans	12	374,165	379,544
Deferred revenue		608,557	547,462
Income tax payable		125,465	119,931
Liability component of convertible bonds	13	832,876	—
Derivative financial instruments		121,076	41,387
		<hr/>	<hr/>
Total current liabilities		3,854,107	3,731,219
		<hr/>	<hr/>
Net current assets		6,690,961	9,374,157
		<hr/>	<hr/>
Total assets less current liabilities		13,908,283	13,847,733
		<hr/>	<hr/>
Non-current liabilities			
Other liabilities		—	19,681
Deferred revenue		20,788	37,609
Deferred tax liabilities		58,707	122,201
Interest-bearing bank loans	12	287,682	438,330
Liability component of convertible bonds	13	37,864	2,911,354
Liability component of redeemable convertible preferred shares		950,271	316,834
		<hr/>	<hr/>
Total non-current liabilities		1,355,312	3,846,009
		<hr/>	<hr/>
Net assets		12,552,971	10,001,724
		<hr/>	<hr/>
Equity			
Equity attributable to owners of the parent			
Issued capital		5,127	5,097
Share premium account		2,287,958	2,369,129
Treasury shares		(22,517)	(25,477)
Equity component of convertible bonds	13	7,564	72,295
Other reserves		9,810,458	5,466,163
		<hr/>	<hr/>
		12,088,590	7,887,207
Non-controlling interests		464,381	2,114,517
		<hr/>	<hr/>
Total equity		12,552,971	10,001,724
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

		Year ended 31 December	
		2017	2016
	Notes	RMB'000	RMB'000 (Restated)
CONTINUING OPERATIONS			
Revenue			
Online games		3,120,186	2,545,671
Cloud services		1,332,522	737,196
Office software and services and others		728,582	550,670
		<u>5,181,290</u>	<u>3,833,537</u>
Cost of revenue		<u>(2,168,907)</u>	<u>(1,292,448)</u>
Gross profit		3,012,383	2,541,089
Research and development costs, net		(1,446,044)	(1,084,510)
Selling and distribution expenses		(544,957)	(323,263)
Administrative expenses		(256,847)	(196,903)
Share-based compensation costs	6	(235,194)	(54,872)
Other income		294,036	51,310
Other expenses		(9,465)	(7,718)
		<u>813,912</u>	<u>925,133</u>
Operating profit		813,912	925,133
Other losses, net	5	(156,489)	(1,152,235)
Finance income		194,967	158,043
Finance costs		(112,391)	(107,105)
Share of profits and losses of:			
Joint ventures		121,039	101,291
Associates		51,076	(6,683)
		<u>912,114</u>	<u>(81,556)</u>
Profit/(loss) before tax from continuing operations	4	912,114	(81,556)
Income tax expense	7	(133,834)	(177,156)
		<u>778,280</u>	<u>(258,712)</u>
Profit/(loss) for the year from continuing operations		778,280	(258,712)
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation		294,058	(33,563)
Gain on deemed disposal of a subsidiary		2,224,291	—
		<u>2,518,349</u>	<u>(33,563)</u>
PROFIT/(LOSS) FOR THE YEAR		3,296,629	(292,275)
Attributable to:			
Owners of the parent		3,201,837	(270,732)
Non-controlling interests		94,792	(21,543)
		<u>3,296,629</u>	<u>(292,275)</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

	<i>Notes</i>	Year ended 31 December	
		2017	2016
		<i>RMB</i>	<i>RMB</i>
			<i>(Restated)</i>
Earnings per share attributable to ordinary equity holders of the parent			
	9		
Basic			
— For profit/(loss) for the year		2.46	(0.21)
— For profit/(loss) from continuing operations		0.62	(0.21)
Diluted			
— For profit/(loss) for the year		2.36	(0.21)
— For profit/(loss) from continuing operations		0.61	(0.21)
		<u><u> </u></u>	<u><u> </u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to owners of the parent												
	Issued capital	Share premium account	Treasury shares	Equity component of convertible bonds	Statutory reserves	Share-based compensation reserve	Other capital reserve	Available-for-sale investment revaluation reserve	Foreign currency translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	5,097	2,369,129	(25,477)	72,295	225,276	468,930	1,339,013	30,075	297,789	3,105,080	7,887,207	2,114,517	10,001,724
Profit for the year	—	—	—	—	—	—	—	—	—	3,201,837	3,201,837	94,792	3,296,629
Other comprehensive income for the year:													
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	782,464	—	—	782,464	—	782,464
Exchange differences related to foreign operations	—	—	—	—	—	—	—	—	(188,789)	—	(188,789)	(60,282)	(249,071)
Reclassification adjustments for deemed disposal of a subsidiary	—	—	—	—	—	—	—	—	(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

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

	Attributable to owners of the parent												
	Issued capital	Share premium account	Treasury shares	Equity component of convertible bonds	Statutory reserves	Share-based compensation reserve	Other capital reserve	Available-for-sale investment revaluation reserve	Foreign currency translation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	5,092	2,474,663	(34,766)	72,295	197,881	375,240	1,276,487	(7,511)	106,151	3,405,108	7,870,640	2,040,715	9,911,355
Loss for the year	—	—	—	—	—	—	—	—	—	(270,732)	(270,732)	(21,543)	(292,275)
Other comprehensive loss for the year:													
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	37,586	—	—	37,586	(10,433)	27,153
Exchange differences related to foreign operations	—	—	—	—	—	—	—	—	190,267	—	190,267	75,017	265,284
Reclassification adjustments for disposal of an associate	—	—	—	—	—	—	—	—	129	—	129	—	129
Total comprehensive loss for the year	—	—	—	—	—	—	—	37,586	190,396	(270,732)	(42,750)	43,041	291
Approved and paid final dividend in respect of the previous year	—	(110,111)	—	—	—	—	—	—	—	—	(110,111)	—	(110,111)
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	3,393	3,393
Share-based compensation costs	—	—	—	—	—	192,358	—	—	—	—	192,358	168,714	361,072
Exercise of share options	5	4,577	—	—	(2,098)	—	—	—	—	—	2,484	—	2,484
Vested awarded shares transferred to employees	—	—	9,289	—	(96,570)	109,322	—	—	—	—	22,041	—	22,041
Share of reserves of an associate	—	—	—	—	—	254	—	—	—	—	254	258	512
Profit appropriation	—	—	—	—	27,395	—	—	—	—	(27,395)	—	—	—
Subsidiaries' business combination under common control	—	—	—	—	—	—	—	—	1,242	(1,901)	(659)	659	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(47,050)	—	—	—	(47,050)	(142,263)	(189,313)
At 31 December 2016	5,097	2,369,129	(25,477)	72,295	225,276 [#]	468,930 [#]	1,339,013 [#]	30,075 [#]	297,789 [#]	3,105,080 [#]	7,887,207	2,114,517	10,001,724

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Net cash flows from operating activities	1,890,385	1,393,218
Net cash flows used in investing activities	(4,108,113)	(3,127,785)
Net cash flows (used in)/from financing activities	(266,388)	600,815
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(2,484,116)	(1,133,752)
Cash and cash equivalents at beginning of year	5,776,336	6,629,275
Effect of foreign exchange rate changes, net	(255,732)	280,813
	<hr/>	<hr/>
Cash and cash equivalents at end of year	3,036,488	5,776,336
Non-pledged time deposits with original maturity of over three months when acquired	1,912,156	1,229,887
Principal protected structure deposits with original maturity of over three months when acquired	3,557,340	2,819,271
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Cash and bank deposits as stated in the consolidated statement of financial position	8,505,984	9,825,494
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NOTES TO FINANCIAL STATEMENTS

1. Corporate 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.

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

2. Basis of preparation and significant accounting policies

Discontinued operation

On 12 February 2017, the Company entered into a voting proxy agreement with Mr. Sheng Fu, the chief executive officer and director of Cheetah Mobile Inc. Pursuant to this agreement, the Company would delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah Mobile Inc. to Mr. Sheng Fu (as the representative of the management of Cheetah Mobile Inc.), subject to the shareholders' approval and signing of the definitive agreement in relation to the possible investment in robotics business between Cheetah Mobile and Mr. Sheng Fu. Upon completion of the above delegation with effect on 1 October 2017, the Group lost control over Cheetah Mobile and Cheetah Mobile was accounted for as an associate of the Company.

Cheetah Mobile carries out the “information security and internet services segment” of the Group. On 29 September 2017, the aforementioned voting proxy agreement was approved by the shareholders of the Company, with effect on 1 October 2017. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the operating results of Cheetah Mobile before the deemed disposal have been presented as a discontinued operation in the consolidated statement of profit or loss. The comparative figures for the consolidated statement of profit or loss are restated to reflect the reclassification between continuing operations and a discontinued operation of the Group accordingly.

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

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 available-for-sale investments, other financial assets, contingent consideration and derivative financial instruments, which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Significant accounting policies

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

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Annual Improvements to 2014–2016 Cycle	<i>Amendments to a number of IFRSs</i>

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

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

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

As disclosed in note 2, the operating results of Cheetah Mobile before the deemed disposal were classified as a discontinued operation of the Group and were excluded from the segment information in 2017, the comparative figures of segment information for the year ended 31 December 2016 were restated accordingly.

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 to external customers	3,120,186	1,332,522	728,582	5,181,290
Sales to a discontinued operation	420	20,376	16,908	37,704
Intersegment sales	4,809	49,620	51,993	106,422
	<u>3,125,415</u>	<u>1,402,518</u>	<u>797,483</u>	<u>5,325,416</u>
<i>Reconciliation:</i>				
Elimination of sales to a discontinued operation				(37,704)
Elimination of intersegment sales				<u>(106,422)</u>
Revenue from continuing operations				<u><u>5,181,290</u></u>
Segment results	1,360,850	(576,396)	279,244	1,063,698
<i>Reconciliation:</i>				
Elimination of results from a discontinued operation				(37,704)
Elimination of intersegment results				(4,612)
Administrative expenses				(256,847)
Share-based compensation costs				(235,194)
Other income				294,036
Other expenses				(9,465)
Other losses, net				(156,489)
Finance income				194,967
Finance costs				(112,391)
Share of profits of:				
Joint ventures				121,039
Associates				<u>51,076</u>
Profit before tax from continuing operations				<u><u>912,114</u></u>

3. Operating segment information (continued)

Year ended 31 December 2016 (Restated)	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 to external customers	2,545,671	737,196	550,670	3,833,537
Sales to a discontinued operation	717	21,439	38,601	60,757
Intersegment sales	3,899	17,770	37,263	58,932
	<u>2,550,287</u>	<u>776,405</u>	<u>626,534</u>	<u>3,953,226</u>
<i>Reconciliation:</i>				
Elimination of sales to a discontinued operation				(60,757)
Elimination of intersegment sales				<u>(58,932)</u>
Revenue from continuing operations				<u><u>3,833,537</u></u>
Segment results	1,279,532	(312,400)	234,493	1,201,625
<i>Reconciliation:</i>				
Elimination of results from a discontinued operation				(60,757)
Elimination of intersegment results				(7,552)
Administrative expenses				(196,903)
Share-based compensation costs				(54,872)
Other income				51,310
Other expenses				(7,718)
Other losses, net				(1,152,235)
Finance income				158,043
Finance costs				(107,105)
Share of profits and losses of:				
Joint ventures				101,291
Associates				<u>(6,683)</u>
Loss before tax from continuing operations				<u><u>(81,556)</u></u>

3. Operating segment information (continued)

Geographical information

Revenue of continuing operations from external customers:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i> <i>(Restated)</i>
Mainland China	4,900,473	2,299,528
Hong Kong	270,088	1,533,757
Other countries	10,729	252
Total	<u>5,181,290</u>	<u>3,833,537</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/(crediting):

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

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

5. Other losses, net

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i> <i>(Restated)</i>
Gain/(loss) on disposal of an associate	(1,050)	25,169
Impairment loss of available-for-sale investments	(168,712)	(1,109,544)
Impairment loss of investments in an associate	—	(194)
Impairment loss of investments in joint ventures	(21,222)	(8,102)
Impairment loss of property, plant and equipment	—	(20,750)
Loss on disposal of items of property, plant and equipment	—	(28,179)
Foreign exchange gain/(loss)	46,092	(34,276)
Fair value gains, net on financial instruments at fair value through profit or loss	28,670	23,641
Loss on redemption of convertible bonds	(3,383)	—
Others	(36,884)	—
	<u>(156,489)</u>	<u>(1,152,235)</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 of the 2007 Pre-IPO Share Option Scheme for the years ended 31 December 2017 and 2016, 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	2017	2016	2016
	Number of	WAEP US\$	Number of	WAEP US\$
	share options	per share	share options	per share
Outstanding at 1 January	3,089,700	0.2400	4,622,100	0.2412
Forfeited during the year	—	—	(26,000)	0.4616
Exercised during the year	<u>(3,089,700)</u>	0.2400	<u>(1,506,400)</u>	0.2400
Outstanding at 31 December	<u>—</u>	—	<u>3,089,700</u>	0.2400
Exercisable at 31 December	<u>—</u>	—	<u>3,089,700</u>	0.2400

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 2017 and 2016:

	2017	2017	2016	2016
	Number of	WAEP HK\$	Number of	WAEP HK\$
	share options	per share	share options	per share
Outstanding at 1 January	5,900,000	3.05	5,900,000	3.05
Granted during the year	4,600,000	20.58	—	—
Exercised during the year	<u>(5,900,000)</u>	3.05	<u>—</u>	—
Outstanding at 31 December	<u>4,600,000</u>	20.58	<u>5,900,000</u>	3.05
Exercisable at 31 December	<u>800,000</u>	20.25	<u>5,300,000</u>	3.02

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 2017 and 2016:

	2017	2016
	Number of Awarded Shares	Number of Awarded Shares
Outstanding as at 1 January	1,606,301	6,109,601
Granted during the year	5,535,000	30,000
Forfeited during the year	(56,900)	(668,300)
Vested and transferred during the year	(1,254,101)	(3,865,000)
	<u>5,830,300</u>	<u>1,606,301</u>
Outstanding as at 31 December		
	<u>7,500</u>	<u>50,500</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% (2016: 16.5%) on estimated assessable profits arising in Hong Kong during the year ended 31 December 2017.

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

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

8. Dividends

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

Notes:

- (a) The actual amount of the 2016 dividend finally paid was RMB112.7 million, after eliminating the amount of RMB0.9 million paid for shares held by the Share Award Scheme Trust.
- (b) The proposed final dividend for the year is subject to the approval of the shareholders of the Company at the forthcoming AGM.

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

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

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

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

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

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the year used in the basic earnings per share calculation	1,298,969,084	1,290,193,487
Effect of dilution — weighted average number of ordinary shares:		
Share options	3,225,699	—
Awarded shares	3,553,233	—
Convertible bonds	<u>60,753,341</u>	<u>—</u>
	<u>1,366,501,357</u>	<u>1,290,193,487</u>

10. Trade receivables

An aging 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:

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

11. Trade payables

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

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

12. Interest-bearing bank loans

	<i>Note</i>	Effective interest rate	Maturity	Principal amount <i>RMB'000</i>
At 31 December 2017				
Current				
Bank loan — unsecured		2.37% per annum	2018	326,710
Current portion of long term bank loans-unsecured		4.28% per annum	2018	47,455
				374,165
Non-current				
Bank loans — unsecured		4.28% per annum	2019–2021	287,682
				661,847
At 31 December 2016				
Current				
Bank loan — secured	(b)	2.07%–2.41% per annum	2017	346,850
Current portion of long term bank loans-unsecured		0.00%–3.02% per annum	2017	32,694
				379,544
Non-current				
Bank loans — unsecured		0.00%–4.28% per annum	2018–2021	438,330
				817,874

12. Interest-bearing bank loans (continued)

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

- (a) The Group has overdraft facilities amounting to US\$75.0 million and RMB400.0 million, respectively (2016: US\$110.0 million and RMB400.0 million, respectively), of which US\$50.0 million and RMB335.1 million, respectively (2016: US\$69.8 million and RMB319.5 million, respectively) had been utilised as at the end of reporting period.
- (b) As at 31 December 2017, no interest-bearing bank loans of the Group was secured by the pledge of certain of the Group's time deposits (2016: RMB69.4 million).
- (c) As at 31 December 2017, interest-bearing bank loans of the Group amounting to RMB326.7 million, RMB335.1 million and nil were denominated in US\$, RMB and Euro, respectively (2016: RMB447.4 million, RMB319.5 million and RMB51.0 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.

There was no conversion or redemption of the 2013 Convertible Bonds during the year ended 31 December 2017. The aggregate outstanding principal amount of the 2013 Convertible Bonds as at 31 December 2017 was HK\$1,000.0 million.

- (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. The aggregate outstanding principal amount of the 2014 Convertible Bonds as at 31 December 2017 was HK\$46.0 million.

14. Events after the reporting period

(a) Further Series D Financing of Kingsoft Cloud

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

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

(b) Conversion of the 2013 Convertible Bonds

On 15 January 2018, all outstanding 2013 Convertible Bonds as at 31 December 2017 had been fully converted into the Company’s ordinary shares. As a result of the conversion, 60,753,330 conversion 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.

OPERATIONAL HIGHLIGHTS

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

FINANCIAL HIGHLIGHTS

	Three months ended		
	31 December 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Unaudited) (Restated)	30 September 2017 RMB'000 (Unaudited)
CONTINUING OPERATIONS			
Revenue			
Online games	751,379	820,087	746,656
Cloud services	401,948	255,279	358,101
Office software and services and others	227,171	217,573	198,257
	<u>1,380,498</u>	<u>1,292,939</u>	<u>1,303,014</u>
Cost of revenue	<u>(611,845)</u>	<u>(427,342)</u>	<u>(558,717)</u>
Gross profit	768,653	865,597	744,297
Research and development costs, net	(401,285)	(310,136)	(355,047)
Selling and distribution expenses	(174,440)	(106,319)	(154,082)
Administrative expenses	(79,095)	(50,080)	(63,044)
Share-based compensation costs	(51,080)	(6,617)	(74,314)
Other income	75,021	22,444	55,460
Other expenses	(282)	(8,125)	(2,851)
	<u>137,492</u>	<u>406,764</u>	<u>150,419</u>
Other gains/(losses), net	(26,898)	(140,495)	4,995
Finance income	55,542	41,667	47,533
Finance costs	(34,841)	(29,634)	(23,718)
Share of profits and losses of:			
Joint ventures	38,471	46,821	11,096
Associates	59,971	(2,368)	(3,415)
	<u>229,737</u>	<u>322,755</u>	<u>186,910</u>
Income tax credit/(expense)	5,475	(59,596)	(45,048)
	<u>235,212</u>	<u>263,159</u>	<u>141,862</u>
Profit for the period from continuing operations	235,212	263,159	141,862
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	—	69,940	130,345
Gain on deemed disposal of a subsidiary	2,224,291	—	—
	<u>2,224,291</u>	<u>69,940</u>	<u>130,345</u>
PROFIT FOR THE PERIOD	2,459,503	333,099	272,207
Attributable to:			
Owners of the parent	2,474,863	261,326	238,461
Non-controlling interests	(15,360)	71,773	33,746
	<u>2,459,503</u>	<u>333,099</u>	<u>272,207</u>

FINANCIAL HIGHLIGHTS (continued)

	Three months ended		
	31 December 2017 <i>RMB</i> <i>(Unaudited)</i>	31 December 2016 <i>RMB</i> <i>(Unaudited)</i> <i>(Restated)</i>	30 September 2017 <i>RMB</i> <i>(Unaudited)</i>
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the period	1.90	0.20	0.18
— For profit from continuing operations	0.19	0.17	0.12
Diluted			
— For profit for the period	1.82	0.20	0.18
— For profit from continuing operations	0.19	0.17	0.12

FINANCIAL HIGHLIGHTS (continued)

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

FINANCIAL HIGHLIGHTS (continued)

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

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2017 Compared to Fourth Quarter of 2016 and Third Quarter of 2017

Revenue

Revenue for the fourth quarter of 2017 increased 7% year-over-year and 6% quarter-over-quarter to RMB1,380.5 million. Revenue from the online games, cloud services, office software and services and others represented 54%, 29% and 17%, respectively, of the Group's total revenue for the fourth quarter of 2017. Revenue from the three business lines is reported net of intra-group transactions.

Revenue from the online games business for the fourth quarter of 2017 decreased 8% year-over-year and increased 1% quarter-over-quarter to RMB751.4 million. The slight year-over-year decrease reflected the mature life cycle of JX Online I mobile game, partially offset by the revenue growth of JX Online III with constant content and function upgrades.

ADPCU for the Group's online games for the fourth quarter of 2017 decreased 14% year-over-year and kept flat quarter-over-quarter to 0.9 million. APA for the Group's online games for the fourth quarter of 2017 decreased 12% year-over-year and 2% quarter-over-quarter to 4.0 million. The year-over-year and quarter-over-quarter decreases reflected the natural declining life cycles of the Group's older games, which were partially offset by the launch of new mobile games in the fourth quarter of 2017.

Revenue from the cloud services, including cloud storage and computation for the fourth quarter of 2017 increased 57% year-over-year and 12% quarter-over-quarter to RMB401.9 million. The year-over-year and quarter-over-quarter increases were mainly driven by robust customer usage, especially from mobile video, mobile game and internet sectors.

Revenue from the office software and services and others for the fourth quarter of 2017 increased 4% year-over-year and 15% quarter-over-quarter to RMB227.2 million. The year-over-year and quarter-over-quarter increases were largely due to increased sales of WPS Office to government agencies, as the result of increased user engagement driven by continuous optimization of the products and services.

Cost of Revenue and Gross Profit

Cost of revenue for the fourth quarter of 2017 increased 43% year-over-year and 10% quarter-over-quarter to RMB611.8 million. The year-over-year increase was mainly due to higher bandwidth and internet data center ("IDC") cost resulting from increased customer usage of cloud services. The quarter-over-quarter increase was largely due to greater sharing cost associated with new launched licensed mobile games, as well as higher bandwidth and IDC cost associated with increased customer usage of cloud services.

Gross profit for the fourth quarter of 2017 decreased 11% year-over-year and increased 3% quarter-over-quarter to RMB768.7 million. The Group's gross profit margin decreased by eleven percentage points year-over-year and one percentage point quarter-over-quarter to 56%.

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

R&D costs, net for the fourth quarter of 2017 increased 29% year-over-year and 13% quarter-over-quarter to RMB401.3 million. The increases were primarily due to higher staff-related costs.

Selling and Distribution Expenses

Selling and distribution expenses for the fourth quarter of 2017 increased 64% year-over-year and 13% quarter-over-quarter to RMB174.4 million. The year-over-year and quarter-over-quarter increases were primarily attributable to increased marketing and advertising activities for online games and increased staff-related costs.

Administrative Expenses

Administrative expenses for the fourth quarter of 2017 increased 58% year-over-year and 25% quarter-over-quarter to RMB79.1 million. The year-over-year and quarter-over-quarter increases were mainly due to an increase in staff-related costs and higher professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the fourth quarter of 2017 increased 672% year-over-year and decreased 31% quarter-over-quarter to RMB51.1 million. The year-over-year increase was primarily due to the new grants of awarded shares and options to selected employees as well as an increase in the fair value of awarded shares and options of certain subsidiaries.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the fourth quarter of 2017 decreased 54% year-over-year and 16% quarter-over-quarter to RMB188.6 million as a result of the combination of the above reasons. The margin of operating profit before share-based compensation costs for the fourth quarter of 2017 decreased by eighteen percentage points year-over-year and three percentage points quarter-over-quarter to 14%.

Other Gains/(Losses), net

Net other losses of RMB26.9 million were recorded for the fourth quarter of 2017, as compared to net other losses of RMB140.5 million for the fourth quarter of 2016 and net other gains of RMB5.0 million for the third quarter of 2017. The losses in the fourth quarter of 2016 were mainly due to the additional provision for impairment on the carrying value of investments in XunLei Limited (“**XunLei**”) and 21Vianet, Inc. (“**21Vianet**”), as their further decrease of the market value in the fourth quarter.

Share of Profits and Losses of Associates

Share of profits of associates of RMB60.0 million were recorded for the fourth quarter of 2017, compared to share of losses of RMB2.4 million and RMB3.4 million for the fourth quarter of 2016 and the third quarter of 2017 respectively. Cheetah Mobile has been accounted as our associate since 1 October 2017 and its profit increased substantially on year-over-year and quarter-over-quarter basis, primarily resulting from the improved operating profit.

Income Tax Credit/(Expense)

Income tax credit for the fourth quarter of 2017 was RMB5.5 million, compared to income tax expense of RMB59.6 million and RMB45.0 million for the fourth quarter of 2016 and third quarter of 2017 respectively. The significant decreases were primarily attributable to the specific deferred tax assets recognized in the fourth quarter of 2017.

Gain on Deemed Disposal of a Subsidiary

Gain on deemed disposal of a subsidiary of RMB2,224.3 million for the fourth quarter 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

As a result of the reasons discussed above, profit attributable to owners of the parent for the fourth quarter of 2017 increased 847% year-over-year and 938% quarter-over-quarter to RMB2,474.9 million.

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

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

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

Profit attributable to owners of the parent before share-based compensation costs for the fourth quarter of 2017 increased 760% year-over-year and 718% quarter-over-quarter to RMB2,508.2 million. The net profit margin excluding the effect of share-based compensation costs was 182%, 11% and 12% for the three months ended 31 December 2017, 31 December 2016 and 30 September 2017, respectively.

Year 2017 Compared to Year 2016

Revenue

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

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

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

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

Cost of Revenue and Gross Profit

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

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

R&D Costs, net

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Share-based Compensation Costs

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

Operating Profit before Share-based Compensation Costs

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

Other Losses, net

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

Income Tax Expense

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

Gain on Deemed Disposal of a Subsidiary

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

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

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

Profit/(loss) attributable to Owners of the Parent

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

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

Profit/(loss) attributable to owners of the parent before share-based compensation costs (including that from continuing operations and a discontinued operation) was RMB3,406.7 million and RMB(78.4) million for the year 2017 and 2016, respectively.

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

Liquidity and Financial Resource

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

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

Foreign Currency Risk Management

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

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

Net Cash Generated from Operating Activities

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

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

Capital Expenditures

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

BUSINESS REVIEW AND PROSPECTS

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

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

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

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

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

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

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

As at 31 December 2017, the Group employed approximately 5,228 full-time employees (2016: 6,925) inclusive of all its staff in Mainland China and overseas offices, most of whom are based at the Company's offices in Beijing and Zhuhai. Since Cheetah Mobile Inc. ceased to be a subsidiary of the Company with effect on 1 October 2017, the number of full-time employees of the Group as at 31 December 2017 did not include the number of Cheetah Mobile. The staff costs of the Group including Directors' and senior management's emoluments in 2017 and 2016 were approximately RMB1,745.0 million and RMB1,228.0 million (*restated*), respectively.

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

On 11 April 2017, being the put option date of the 2014 Convertible Bonds, the Company redeemed an aggregate principal amount of HK\$2,281.0 million at the principal amount of the 2014 Convertible Bonds together with interest accrued to that date at the option of certain bondholders. As at the date of this announcement, the outstanding 2014 Convertible Bonds at an aggregate principal amount of HK\$46.0 million are convertible into 1,078,041 shares of the Company upon full conversion. More details regarding the 2014 Convertible Bonds are set out in note 13 to the financial statements.

Save as disclosed above, during the year ended 31 December 2017, 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, they have confirmed their compliance with the Model Code during their terms of services for the year ended 31 December 2017.

Closure of Register of Members

For the purposes of determining shareholders' eligibility to attend and vote at AGM, and entitlement to the final dividend, 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, 16 May 2018
Closure of the register of members of the Company	Thursday, 17 May 2018 to Wednesday, 23 May 2018 (both dates inclusive)
Record date	Wednesday, 23 May 2018

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Tuesday, 29 May 2018
Closure of the register of members of the Company	Wednesday, 30 May 2018 to Monday, 4 June 2018 (both dates inclusive)
Record date	Monday, 4 June 2018

During the above closure periods, no transfer of shares will be registered. In order to qualify for the proposed final dividend and 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 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 2017, the 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 2017, 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 24 May 2017 due to pre-arranged engagements. Executive Director, Mr. Tao ZOU, non-executive Directors, Mr. Jun LEI, Mr. Chi Ping LAU and Mr. Wenjie WU, did not attend the extraordinary general meeting of the Company held on 29 September 2017 due to pre-arranged engagements. The code provision C.1.2 of the Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive Directors overseeing the daily operation of the Group and the effective communication among the executive Directors, the management and the non-executive Directors (including the independent non-executive Directors) on the Group's affairs, the current practice is sufficient for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

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.

APPRECIATION

Last but not least, on behalf of the Board, I would like to take this opportunity to express my gratitude to our management and staff for their hard work and contributions, and our shareholders, business associates and investors for their support during the year.

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 21 March 2018

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.