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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 2015

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 2015. The results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

	Year ended 31 December			Year-over-year Change
	2015 <i>RMB'000</i>	2015 <i>HK\$'000</i> **	2014 <i>RMB'000</i>	
Revenue	5,676,106	6,775,013	3,350,133	69%
Profit attributable to owners of the parent*	369,178	440,652	768,783	(52%)
	<i>RMB</i>	<i>HK\$</i>	<i>RMB</i>	
Basic earnings per share	0.29	0.35	0.66	(56%)
Diluted earnings per share	0.29	0.35	0.63	(54%)

* Profit attributable to owners of the parent before the effect of share-based compensation costs is RMB552.3 million and RMB875.4 million for the years ended 31 December 2015 and 31 December 2014, respectively, representing a decrease of 37% year-over-year. The significant year-over-year decrease was primarily due to the one-off gain from disposal of Kuaipan Personal Version business and the shares of Sky Profit Limited in the prior year.

** The conversion of Renminbi (“**RMB**”) into Hong Kong Dollar (“**HK\$**”) in this announcement is based on RMB0.8378 to HK\$1.00 as published by the Bank of China on 31 December 2015. Translations of amounts from RMB into HK\$ are solely for the convenience of the reader. This convenient translation is not intended to imply that RMB amounts could have been, or could be, converted, realised, or settled into HK\$ at that rate on 31 December 2015, or at any other rate.

DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.1 per share for the year ended 31 December 2015 (2014: HK\$0.13 per share). The final dividend, if approved by the shareholders at the annual general meeting (the “AGM”) of the Company to be held on 20 May 2016, will be paid on 16 June 2016 to the shareholders whose names appear on the register of members of the Company on 1 June 2016.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

		As at 31 December	
		2015	2014
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		966,079	583,637
Prepaid land lease payments		272,386	281,066
Goodwill		619,037	267,288
Other intangible assets		246,839	197,425
Investments in joint ventures		74,291	118,153
Investments in associates		250,009	30,718
Available-for-sale investments		2,226,302	566,672
Other financial asset		26,294	10,063
Deferred tax assets		55,304	77,988
Loan receivables		12,971	13,555
Long term prepayment		4,819	40,246
Other long term receivables		88,499	122,524
Total non-current assets		4,842,830	2,309,335
Current assets			
Inventories		5,371	6,945
Trade receivables	11	966,000	411,137
Prepayments, deposits and other receivables		837,398	515,219
Available-for-sale investments		50,000	56,913
Other financial assets		—	78,378
Restricted cash		130,187	—
Pledged deposits		46,657	19,978
Cash and bank deposits		8,606,434	6,983,699
Total current assets		10,642,047	8,072,269

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2015**

		As at 31 December	
	<i>Notes</i>	2015	2014
		RMB'000	RMB'000
Current liabilities			
Trade payables	12	185,417	80,344
Interest-bearing bank loans	13	147,029	15,778
Other payables and accruals		1,808,689	931,437
Deferred revenue		425,964	310,983
Income tax payable		137,416	56,806
		<u>2,704,515</u>	<u>1,395,348</u>
Total current liabilities		2,704,515	1,395,348
Net current assets		7,937,532	6,676,921
Total assets less current liabilities		12,780,362	8,986,256
Non-current liabilities			
Other liabilities		72,105	22,272
Deferred revenue		24,141	13,535
Deferred tax liabilities		62,540	41,583
Interest-bearing bank loans	13	10,523	—
Liability component of convertible bonds		2,699,698	2,792,322
		<u>2,869,007</u>	<u>2,869,712</u>
Total non-current liabilities		2,869,007	2,869,712
Net assets		9,911,355	6,116,544
Equity			
Equity attributable to owners of the parent			
Issued capital	14	5,092	4,730
Share premium account		2,474,663	219,207
Treasury shares		(34,766)	(83,964)
Equity component of convertible bonds		72,295	74,505
Other reserves		5,353,356	4,346,897
		<u>7,870,640</u>	<u>4,561,375</u>
Non-controlling interests		2,040,715	1,555,169
Total equity		9,911,355	6,116,544

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

	<i>Notes</i>	Year ended 31 December	
		2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Revenue			
Online game		1,368,811	1,252,753
Cheetah Mobile		3,561,739	1,674,060
Office software and others		745,556	423,320
		5,676,106	3,350,133
Cost of revenue		(1,319,399)	(589,655)
Gross profit		4,356,707	2,760,478
Research and development costs, net of government grants		(1,347,566)	(956,097)
Selling and distribution expenses		(1,755,727)	(797,416)
Administrative expenses		(442,577)	(297,412)
Share-based compensation costs	7	(356,012)	(201,922)
Other income		147,364	30,199
Other expenses		(60,140)	(29,873)
Operating profit		542,049	507,957
Other (losses)/gains, net	6	(72,829)	305,367
Finance income		194,511	238,900
Finance costs		(78,067)	(75,944)
Share of losses of:			
Joint ventures		(24,005)	(7,657)
Associates		(19,299)	(6,868)
Profit before tax	5	542,360	961,755
Income tax expense	8	(200,656)	(95,188)
Profit for the year		341,704	866,567
Attributable to:			
Owners of the parent		369,178	768,783
Non-controlling interests		(27,474)	97,784
		341,704	866,567
		<i>RMB</i>	<i>RMB</i>
Earnings per share attributable to ordinary equity holders of the parent	10		
Basic		0.29	0.66
Diluted		0.29	0.63

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
PROFIT FOR THE YEAR	341,704	866,567
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value	186,632	(238,806)
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss		
— gain on disposal	(940)	(3,465)
— impairment losses	25,891	6,545
Income tax effects	—	4,367
Exchange differences on translation of foreign operations	278,776	(7,099)
Share of other comprehensive income/(loss) of an associate	559	(688)
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OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	490,918	(239,146)
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TOTAL COMPREHENSIVE INCOME FOR THE YEAR	832,622	627,421
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Attributable to:		
Owners of the parent	774,513	538,769
Non-controlling interests	58,109	88,652
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	832,622	627,421
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	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 2015	4,730	219,207	(83,964)	74,505	185,513	231,360	1,192,967	(211,898)	(94,797)	3,043,752	4,561,375	1,555,169	6,116,544
Profit for the year	—	—	—	—	—	—	—	—	—	369,178	369,178	(27,474)	341,704
Other comprehensive income for the year:													
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	204,387	—	—	204,387	7,196	211,583
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	200,389	—	200,389	78,387	278,776
Share of comprehensive income of an associate	—	—	—	—	—	—	—	—	559	—	559	—	559
Total comprehensive income for the year	—	—	—	—	—	—	—	204,387	200,948	369,178	774,513	58,109	832,622
Approved and paid final dividend in respect of the previous year	—	(121,521)	—	—	—	—	—	—	—	—	(121,521)	—	(121,521)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(18,860)	(18,860)
Issue of new shares	308	2,145,716	—	—	—	—	—	—	—	—	2,146,024	—	2,146,024
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	62,223	62,223
Share-based compensation costs	—	—	—	—	—	183,129	—	—	—	—	183,129	172,911	356,040
Exercise of share options	2	2,079	—	—	—	(989)	—	—	—	—	1,092	—	1,092
Vested awarded shares transferred to employees	—	—	4,035	—	—	(38,260)	38,178	—	—	—	3,953	—	3,953
Share of reserves of an associate	—	—	—	—	—	—	281	—	—	—	281	296	577
Conversion of convertible bonds	65	279,679	—	(2,210)	—	—	—	—	—	—	277,534	—	277,534
Share repurchased for cancellation	(13)	(50,497)	45,163	—	—	—	—	—	—	—	(5,347)	—	(5,347)
Profit appropriation	—	—	—	—	12,368	—	—	—	—	(12,368)	—	—	—
Business combination under common control	—	—	—	—	—	—	—	—	—	4,546	4,546	(4,546)	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	45,061	—	—	—	45,061	215,413	260,474
At 31 December 2015	5,092	2,474,663	(34,766)	72,295	197,881[#]	375,240[#]	1,276,487[#]	(7,511)[#]	106,151[#]	3,405,108[#]	7,870,640	2,040,715	9,911,355

These reserve accounts comprise the consolidated other reserves of RMB5,353,356,000 (2014: RMB4,346,897,000) 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	Equity component of redeemable convertible preferred shares	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	RMB'000
At 1 January 2014	4,718	369,052	(53,890)	8,500	10,015	173,228	166,756	500,055	12,596	(89,277)	2,278,468	3,380,221	450,470	3,830,691
Profit for the year	—	—	—	—	—	—	—	—	—	—	768,783	768,783	97,784	866,567
Other comprehensive income for the year:														
Changes in fair value of available-for-sale investments, net of tax	—	—	—	—	—	—	—	—	(224,494)	—	—	(224,494)	(6,865)	(231,359)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	—	(4,832)	—	(4,832)	(2,267)	(7,099)
Share of comprehensive loss of an associate	—	—	—	—	—	—	—	—	—	(688)	—	(688)	—	(688)
Total comprehensive income for the year	—	—	—	—	—	—	—	—	(224,494)	(5,520)	768,783	538,769	88,652	627,421
Approved and paid final dividend in respect of the previous year	—	(110,723)	—	—	—	—	—	—	—	—	—	(110,723)	—	(110,723)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(45,605)	(45,605)
Share-based compensation costs	—	—	—	—	—	—	107,496	—	—	—	107,496	95,287	202,783	
Exercise of share options	12	11,844	—	—	—	—	(4,701)	—	—	—	7,155	—	7,155	
Vested awarded shares transferred to employees	—	—	15,089	—	—	—	(38,191)	23,102	—	—	—	—	—	
Issue of convertible bonds	—	—	—	66,005	—	—	—	—	—	—	—	66,005	—	66,005
Extinguishing of redeemable convertible preferred shares with issuance of subsidiary's convertible preferred shares and warrants	—	—	—	—	(10,015)	—	—	—	—	—	—	(10,015)	71,952	61,937
Repurchase of shares	—	—	(45,163)	—	—	—	—	—	—	—	—	(45,163)	—	(45,163)
Distribution in specie	—	(50,966)	—	—	—	—	—	—	—	—	—	(50,966)	—	(50,966)
Profit appropriation	—	—	—	—	—	12,285	—	—	—	—	(12,285)	—	—	
Subsidiaries business combination under common control	—	—	—	—	—	—	—	—	—	8,786	8,786	(8,786)	—	
Capital contribution from equity holders	—	—	—	—	—	—	—	—	—	—	—	—	47,821	47,821
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	71,576	71,576
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	669,810	—	—	—	669,810	783,802	1,453,612	
At 31 December 2014	4,730	219,207[#]	(83,964)	74,505	—	185,513	231,360	1,192,967	(211,898)	(94,797)	3,043,752	4,561,375	1,555,169	6,116,544

Share premium account has been adjusted for the proposed 2014 dividend in accordance with the current year's presentation, following the implementation of the Hong Kong Companies Ordinance (Cap.622).

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from operating activities	1,435,334	952,264
Net cash flows used in investing activities	(471,910)	(3,367,589)
Net cash flows from financing activities	2,233,959	2,950,177
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Net increase in cash and cash equivalents	3,197,383	534,852
Cash and cash equivalents at beginning of year	3,193,934	2,677,248
Effect of foreign exchange rate changes, net	237,958	(18,166)
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Cash and cash equivalents at end of year	6,629,275	3,193,934
Non-pledged time deposits with original maturity of over three months when acquired	356,939	1,706,473
Principle protected structure deposits with original maturity of over three months when acquired	1,620,220	2,083,292
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Cash and bank deposits as stated in the consolidated statement of financial position	8,606,434	6,983,699
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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;
- research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices; and
- research, development and distribution of office application software, provision of cloud storage, cloud computation and dictionary services across devices, and provision of online marketing services.

2. 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 and other financial assets, which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

3. Changes in accounting policy and disclosures

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

Amendments to IAS 19 <i>Annual Improvements to IFRSs 2010–2012 Cycle</i>	<i>Defined Benefit Plans: Employee Contributions</i>
Amendment to IFRS 2	<i>Share-based Payment</i>
Amendment to IFRS 3	<i>Business Combinations</i>
Amendment to IFRS 8	<i>Operating Segments</i>
Amendment to IAS 16	<i>Property, Plant and Equipment</i>
Amendment to IAS 24	<i>Related Party Disclosures</i>
Amendment to IAS 38	<i>Intangible Assets</i>
<i>Annual Improvements to IFRSs 2011–2013 Cycle</i>	
Amendment to IFRS 3	<i>Business Combinations</i>
Amendment to IFRS 13	<i>Fair Value Measurement</i>
Amendment to IAS 40	<i>Investment Property</i>

The adoption of the above revised standards has had no significant financial effect on these financial statements.

In addition, the Group has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

4. 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 research and development of games, and provision of online games, mobile games and casual game services;
- (b) the information security and internet services segment engages in the research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices; and
- (c) the office software and others segment engages in the research, development and distribution of office application software, the provision of cloud storage, cloud computation and dictionary services across devices, and the provision of online marketing services.

4. Segment information (continued)

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

Year ended 31 December 2015	Entertainment software RMB'000	Information security and internet services RMB'000	Office software and others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	1,368,811	3,561,739	745,556	5,676,106
Intersegments sales	11,207	13,884	75,294	100,385
	<u>1,380,018</u>	<u>3,575,623</u>	<u>820,850</u>	<u>5,776,491</u>
<i>Reconciliation:</i>				
Elimination of intersegments sales				<u>(100,385)</u>
Revenue				<u><u>5,676,106</u></u>
Segment results	514,911	743,436	(2,943)	1,255,404
<i>Reconciliation:</i>				
Elimination of intersegments results				(1,990)
Administrative expenses				(442,577)
Share-based compensation costs				(356,012)
Other income				147,364
Other expenses				(60,140)
Other losses, net				(72,829)
Finance income				194,511
Finance costs				(78,067)
Share of losses of:				
Joint ventures				(24,005)
Associates				(19,299)
Profit before tax				<u><u>542,360</u></u>

4. Segment information (continued)

Year ended 31 December 2014	Entertainment software <i>RMB'000</i>	Information security and internet services <i>RMB'000</i>	Office software and others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Sales to external customers	1,252,753	1,674,060	423,320	3,350,133
Intersegments sales	<u>15,211</u>	<u>4,146</u>	<u>58,483</u>	<u>77,840</u>
	1,267,964	1,678,206	481,803	3,427,973
<i>Reconciliation:</i>				
Elimination of intersegments sales				<u>(77,840)</u>
Revenue				<u><u>3,350,133</u></u>
Segment results	587,695	400,067	31,209	1,018,971
<i>Reconciliation:</i>				
Elimination of intersegments results				(12,006)
Administrative expenses				(297,412)
Share-based compensation costs				(201,922)
Other income				30,199
Other expenses				(29,873)
Other gains, net				305,367
Finance income				238,900
Finance costs				(75,944)
Share of losses of:				
Joint ventures				(7,657)
Associates				<u>(6,868)</u>
Profit before tax				<u><u>961,755</u></u>

4. Segment information (continued)

Geographical information

(a) Revenue from external customers:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Mainland China	3,671,641	2,974,878
Hong Kong	1,683,637	261,855
Japan	98,310	94,665
Other countries	<u>222,518</u>	<u>18,735</u>
Total	<u><u>5,676,106</u></u>	<u><u>3,350,133</u></u>

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

(b) Non-current assets:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Mainland China	1,858,088	1,361,944
Japan	10,920	7,551
Other countries	<u>564,452</u>	<u>149,038</u>
Total	<u><u>2,433,460</u></u>	<u><u>1,518,533</u></u>

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

5. Profit before tax

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

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	1,208,021	840,865
Social insurance costs and staff welfare	246,664	167,821
Share-based compensation costs	356,012	201,922
Pension plan contributions	117,182	77,374
	<u>1,927,879</u>	<u>1,287,982</u>
Minimum lease payments under operating leases	252,880	246,931
Depreciation	187,764	87,504
Amortisation of prepaid land lease payments	4,340	3,194
Amortisation of other intangible assets	134,119	73,488
Foreign exchange differences, net	26,721	(5,619)
Impairment of other intangible assets**	25,250	9,187
Impairment of trade and other receivables**	10,347	19,751
Government grants*	(144,703)	(35,719)
Interest income from loans to related parties	(2,482)	(2,565)
Bank interest income	(191,991)	(236,330)
Interest income from long term receivables	(38)	(5)
	<u>(194,511)</u>	<u>(238,900)</u>

* Government grants received/receivable for which the related expenditures have not yet been incurred are included in "deferred revenue" in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

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

6. Other (losses)/gains, net

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Gain on previously held equity investment remeasured at acquisition date fair value	15,030	—
Gain on deemed disposal of associates	16,373	—
Gain on partial disposal of an associate	13,000	—
Gain on disposal of an associate	626	—
Gain on deemed disposal of a joint venture	527	—
Gain on disposal of a business	676	193,632
Gain on disposal of an investment in a joint venture classified as held for sale	—	116,845
Gain on disposal of available-for-sale investments	5,092	1,968
Gain on extinguishing redeemable convertible preferred shares	—	9,892
Gain on extinguishing a financial liability	9,757	—
Dividend income from an available-for-sale investment	700	—
Loss on disposal of other financial assets	(6,513)	(7,052)
Impairment loss of goodwill	(23,746)	—
Impairment loss of available-for-sale investments	(33,565)	(8,664)
Impairment loss of investment in an associate	(1,380)	(472)
Impairment loss of a joint venture	(1,425)	—
Foreign exchange (loss)/gain	(26,721)	5,619
Fair value loss on financial instruments at fair value through profit or loss	(41,260)	(6,401)
	<u>(72,829)</u>	<u>305,367</u>

7. Share-based compensation costs

(a) Share option schemes

2004 and 2007 Pre-IPO Share Option Schemes

The Company has adopted two option schemes for the purpose of providing incentives and awards to its employees, senior management and directors: the 2004 pre-IPO share option scheme (the “**2004 Scheme**”) and the 2007 pre-IPO share option scheme (the “**2007 Scheme**”).

7. Share-based compensation costs (continued)

(a) Share option schemes (continued)

2004 and 2007 Pre-IPO Share Option Schemes (continued)

The 2004 Scheme and the 2007 Scheme were terminated on 3 September 2007. The following table illustrates the numbers and weighted average exercise prices (“WAEP”) of, and movements in, the Company’s share options under these two schemes for the years ended 31 December 2015 and 2014.

	2015	2015	2014	2014
	Number of	WAEP US\$	Number of	WAEP US\$
	share options	per share	share options	per share
2004 Scheme				
Outstanding at 1 January	53,240	0.0506	645,300	0.0314
Exercised during the year	<u>(53,240)</u>	0.0506	<u>(592,060)</u>	0.0296
Outstanding at 31 December	<u><u>—</u></u>	—	<u><u>53,240</u></u>	0.0506
Exercisable at 31 December	<u><u>—</u></u>	—	<u><u>53,240</u></u>	0.0506
2007 Scheme				
Outstanding at 1 January	5,312,500	0.2412	7,329,300	0.2457
Exercised during the year	<u>(690,400)</u>	0.2406	<u>(2,016,800)</u>	0.2582
Outstanding at 31 December	<u>4,622,100</u>	0.2412	<u><u>5,312,500</u></u>	0.2412
Exercisable at 31 December	<u>4,622,100</u>	0.2412	<u><u>5,312,500</u></u>	0.2412
Total outstanding at 31 December	<u>4,622,100</u>	0.2412	<u><u>5,365,740</u></u>	0.2392
Total exercisable at 31 December	<u>4,622,100</u>	0.2412	<u><u>5,365,740</u></u>	0.2392

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 Company’s directors, including independent non-executive directors, 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.

7. Share-based compensation costs (continued)

(a) Share option schemes (continued)

2011 Share Option Scheme (continued)

The following share options were outstanding under the 2011 Scheme during the years ended 31 December 2015 and 2014:

	2015	2015	2014	2014
	Number of	WAEP	Number of	WAEP
	share	HK\$	share	HK\$
	options	per share	options	per share
Outstanding at 1 January	8,900,000	2.95	10,500,000	3.00
Exercised during the year	—	—	(1,600,000)	3.04
Forfeited during the year	<u>(3,000,000)</u>	2.89	—	—
Outstanding at 31 December	<u>5,900,000</u>	2.99	<u>8,900,000</u>	2.95
Exercisable at 31 December	<u>4,700,000</u>	2.99	<u>4,100,000</u>	2.95

(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. The vesting period of the awarded shares is determined by the Board.

The following table illustrates the numbers of and movements in the Company's awarded shares for the years ended 31 December 2015 and 2014.

	2015	2014
	Number of	Number of
	Awarded	Awarded
	Shares	Shares
Outstanding as at 1 January	11,597,068	13,102,935
Granted during the year	285,000	4,168,000
Forfeited during the year	(4,052,000)	(883,900)
Exercised and transferred during the year	<u>(1,720,467)</u>	<u>(4,789,967)</u>
Outstanding as at 31 December	<u>6,109,601</u>	<u>11,597,068</u>
Exercisable as at 31 December	<u>31,000</u>	<u>31,000</u>

8. Income tax

PRC corporate income tax represents the tax charged on the estimated assessable profits arising from 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% (2014: 16.5%) on estimated assessable profits arising from Hong Kong during the year ended 31 December 2015.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiary in Japan was 35.64% for the year ended 31 December 2015 (2014: 38%).

The Group's subsidiary in Malaysia was granted the Multimedia Super Corridor Malaysia Status ("MSC Malaysia Status"). Therefore, the online game related activities of the subsidiary were exempted from corporate income tax for the period from April 2015 to December 2019.

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Current — Mainland China	149,720	94,107
Current — Hong Kong	20,830	16,308
Current — Elsewhere	16,795	13,177
Deferred	13,311	(28,404)
	<hr/>	<hr/>
Total tax charge for the year	<u>200,656</u>	<u>95,188</u>

9. Dividends

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Final dividend proposed (notes (a) and (b)): HK\$0.1 (2014: HK\$0.13) per share based on issued share capital as at year end	109,122	121,509
Less: Dividend for shares held for share award scheme as at year end	<u>(1,227)</u>	<u>(2,071)</u>
	<u><u>107,895</u></u>	<u><u>119,438</u></u>

Notes:

- (a) The actual amount of the 2014 dividend finally paid was RMB121.5 million, after eliminating the amount of RMB1.6 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 Company's shareholders at the forthcoming annual general meeting.

10. 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 1,271,480,719 (2014: 1,165,055,520) 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 and the share option schemes and the share award schemes adopted by the Company and its subsidiaries, 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.

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

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent	369,178	768,783
(Decrease)/Increase in earnings adjusted for the convertible bonds and the share option schemes and the share award schemes adopted by the Company and subsidiaries	<u>(2,524)</u>	<u>31,704</u>
	<u>366,654</u>	<u>800,487</u>
	Number of shares	
	2015	2014
Shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme	1,271,480,719	1,165,055,520
Effect of dilution — weighted average number of ordinary shares:		
Share options	9,554,323	13,711,658
Awarded shares	5,267,400	10,228,899
Convertible bond	<u>—</u>	<u>80,064,713</u>
	<u>1,286,302,442</u>	<u>1,269,060,790</u>

11. Trade receivables

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
0 to 30 days	618,235	338,453
31 to 60 days	114,974	36,366
61 to 90 days	71,687	11,890
91 to 365 days	116,429	23,668
Over one year	<u>44,675</u>	<u>760</u>
	<u>966,000</u>	<u>411,137</u>

12. Trade payables

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
0 to 30 days	138,561	45,073
31 to 60 days	10,806	6,148
61 to 90 days	4,968	1,979
91 to 365 days	22,779	24,852
Over one year	8,303	2,292
	<u>185,417</u>	<u>80,344</u>

13. Interest-bearing bank loans

	<i>Notes</i>	Effective interest rate	Maturity	Principal amount <i>RMB'000</i>
At 31 December 2015				
Current				
Bank loan — secured	(a)	HIBOR plus 0.75% per annum	2016	16,756
Bank loan — secured	(b)	LIBOR plus 1.65% per annum	2016	129,872
Current portion of long term bank loans		1.98% per annum	2016	<u>401</u>
				<u>147,029</u>
Non-Current				
Bank loans — secured		1.98%–2.92% per annum	2017–2021	<u>10,523</u>
				<u><u>157,552</u></u>
At 31 December 2014				
Current				
Bank loan — secured	(a)	HIBOR plus 0.75% per annum	2015	<u><u>15,778</u></u>

13. Interest-bearing bank loans (continued)

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Analysed into:		
Within one year or on demand	147,029	15,778
In the second year	2,273	—
In the third to fifth year, inclusive	6,558	—
Beyond five year	1,692	—
	<u>157,552</u>	<u>15,778</u>

- (a) The interest-bearing bank loan represented a drawdown of HK\$20.0 million (equivalent to RMB16.8 million) (2014: HK\$20.0 million, equivalent to RMB15.8 million) from the Group's banking facilities of HK\$100.0 million. The bank loan was secured by the Group's time deposit of RMB20.7 million (2014: RMB20.0 million).
- (b) The interest-bearing bank loan represented a drawdown of US\$20.0 million (equivalent to RMB129.9 million) (2014: nil) from the Group's banking facilities of US\$50.0 million. The bank loan was secured by the Group's time deposit of US\$4.0 million (equivalent to RMB26.0 million) (2014: nil).
- (c) As at 31 December 2015, interest-bearing bank loans of the Group amounting to RMB16.8 million, RMB129.9 million and RMB10.9 million were denominated in HK\$, US\$ and EUR, respectively (2014: RMB15.8 million, nil and nil, respectively).

14. Issued capital

- (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 3.00% per annum payable semi-annually (the “**2013 Convertible Bonds**”). The 2013 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date (both days inclusive), 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.

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

14. Issued capital (continued)

- (b) On 4 June 2015, the Company entered into a placing and subscription agreement with Color Link Management Limited (as the vender) and the placing agents to place 100,000,000 ordinary shares at the price of HK\$27.40 per share, with the net proceeds of approximately RMB2,146 million.

15. Events after the reporting period

On 5 February 2016, the Company entered into the share purchase agreement with certain investors, pursuant to which, the Group's subsidiary, Kingsoft Cloud agreed to issue, and the Company and these investors agree to subscribe for 102,292,297 series C preferred shares at a total consideration of approximately US\$60 million. Upon completion of the transaction, the Company will remain the same shareholding in Kingsoft Cloud.

On 26 February 2016, the Company entered into the share purchase agreement with Xiaomi Corporation and other shareholders of Zhigu Holdings Limited (“**Zhigu**”), an associate of the Company, pursuant to which, the Company agreed to sell and Xiaomi Corporation agreed to purchase all the shares held by the Company in Zhigu at a consideration of US\$7.5 million (equivalent to RMB48.6 million).

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	31 December 2015	30 September 2015	30 June 2015	31 March 2015	31 December 2014	30 September 2014	30 June 2014	31 March 2014
Online Games								
Daily Average Peak Concurrent Users (“ADPCU”)	542,384	562,354	607,571	672,779	661,002	617,717	572,374	599,384
Monthly Average Paying Accounts (“APA”)	2,919,683	3,301,297	3,438,493	3,069,052	2,717,443	2,374,699	2,255,404	1,972,027
Monthly Average Revenue per Paying User (“ARPU”) (RMB)	<u>44</u>	<u>32</u>	<u>27</u>	<u>33</u>	<u>39</u>	<u>41</u>	<u>43</u>	<u>48</u>
	In December 2015	In September 2015	In June 2015	In March 2015	In December 2014	In September 2014	In June 2014	In March 2014
Cheetah Mobile								
Mobile Monthly Active Users (“MAU”) (Million)	635	567	494	444	395	341	284	223
% of Mobile MAU from Overseas Markets	79%	74%	71%	71%	69%	65%	67%	63%
Mobile Users Installations (Million)	<u>2,341</u>	<u>1,942</u>	<u>1,596</u>	<u>1,341</u>	<u>1,089</u>	<u>862</u>	<u>662</u>	<u>502</u>

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended 31 December 2015

The following table sets forth the comparative numbers for the three months ended 31 December 2015, 30 September 2015 and 31 December 2014, respectively.

	Three months ended		
	31 December 2015	30 September 2015	31 December 2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue			
Online game	414,952	330,902	346,133
Cheetah Mobile	1,099,649	971,727	581,637
Office software and others	263,125	204,151	144,051
	<u>1,777,726</u>	<u>1,506,780</u>	<u>1,071,821</u>
Cost of revenue	<u>(419,519)</u>	<u>(369,264)</u>	<u>(226,413)</u>
Gross profit	1,358,207	1,137,516	845,408
Research and development costs, net of government grants	(365,237)	(362,796)	(264,396)
Selling and distribution expenses	(592,577)	(476,911)	(244,300)
Administrative expenses	(94,017)	(130,873)	(89,701)
Share-based compensation costs	(112,807)	(125,226)	(58,779)
Other income	82,700	36,035	11,496
Other expenses	<u>(25,785)</u>	<u>(13,227)</u>	<u>(15,198)</u>
Operating profit	250,484	64,518	184,530
Other losses, net	(63,874)	(14,794)	(8,812)
Finance income	46,130	50,290	64,951
Finance costs	(17,735)	(21,674)	(18,936)
Share of losses of:			
Joint ventures	(4,821)	(6,682)	(5,066)
Associates	<u>(2,038)</u>	<u>(8,547)</u>	<u>(540)</u>
Profit before tax	208,146	63,111	216,127
Income tax expense	<u>(112,934)</u>	<u>(26,435)</u>	<u>(15,511)</u>
Profit for the period	<u>95,212</u>	<u>36,676</u>	<u>200,616</u>
Attributable to:			
Owners of the parent	113,116	47,554	173,887
Non-controlling interests	<u>(17,904)</u>	<u>(10,878)</u>	<u>26,729</u>
	<u>95,212</u>	<u>36,676</u>	<u>200,616</u>
Earnings per share attributable to ordinary equity holders of the parent	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Basic	0.09	0.04	0.15
Diluted	0.09	0.04	0.14

Revenue

Revenue for the fourth quarter of 2015 increased 18% quarter-over-quarter and 66% year-over-year to RMB1,777.7 million. Revenue from the online game, Cheetah Mobile and office software and others businesses represented 23%, 62% and 15%, respectively, of the Group's total revenue for the fourth quarter of 2015. Revenues from the three business lines are reported net of intra-group transactions.

Revenue from the online game business mainly consists of revenues from operations of proprietary PC-based online games, mobile games, and game licensing services, which are generated from the Group's companies, other than Cheetah Mobile and its subsidiaries, through research, development and provision of online games across devices. Revenue from the online game business for the fourth quarter of 2015 increased 25% quarter-over-quarter and 20% year-over-year to RMB415.0 million. The quarter-over-quarter increase was mainly attributable to the increased popularity of JX Online III and a series of successful in-game promotions in the fourth quarter, driven by our continuous optimization and innovation of the game. The year-over-year increase was primarily driven by sustainable and significant revenue growth of JX Online III, reflecting our expanded user base and continuous improvements in game experiences.

ADPCU for the Group's online games for the fourth quarter of 2015 decreased 4% quarter-over-quarter and 18% year-over-year to 0.5 million. The year-over-year decrease was mainly due to the natural decline in the ADPCU of games in Vietnam. Monthly APA for the Group's online games for the fourth quarter of 2015 decreased 12% quarter-over-quarter and increased 7% year-over-year to 2.9 million. The quarter-over-quarter decrease was primarily attributable to the decreases of JX Online III with no expansion pack release in the fourth quarter. The year-over-year increase was due to the expanded user base of JX Online III. The monthly ARPU for the Group's online games for the fourth quarter of 2015 increased 38% quarter-over-quarter and 13% year-over-year to RMB44.

Revenue from Cheetah Mobile business mainly consists of revenues from online marketing services, internet value-added services, and internet security services and others, which are generated from Cheetah Mobile and its subsidiaries through research, development and operation of information security software, internet browser, mission critical mobile applications, and operation of games and provision of global content distribution channel for its business partners. Revenue from Cheetah Mobile business for the fourth quarter of 2015 increased 13% quarter-over-quarter and 89% year-over-year to RMB1,099.6 million. The quarter-over-quarter and year-over-year increases were primarily due to the revenue growth from mobile advertising business, especially in overseas markets, driven by the growing global mobile user base and substantial improvements in mobile monetization.

Mobile MAU from Cheetah Mobile increased 12% quarter-over-quarter and 61% year-over-year to 635 million in December 2015. In December 2015, approximately 79% of mobile MAU were from oversea markets, compared to approximately 69% in December 2014. Our mobile user installations as of 31 December 2015 has reached to 2.3 billion, a 21% increase quarter-over-quarter and a 115% increase year-over-year. The robust mobile user growth mainly reflected that our mission critical applications continued to gain traffic share and were expanding rapidly in the global market through our efforts in market exploration, market expansion and continuous improvements of user experiences.

Revenue from the office software and others business consists of revenues from all the other businesses, including office application software, cloud storage and computing services, dictionary services, etc. Revenue from the office software and others businesses for the fourth quarter of 2015 increased 29% quarter-over-quarter and 83% year-over-year to RMB263.1 million. The quarter-over-quarter increase was primarily due to: i) the strong ramp-up from the sales of WPS Office in peak season; ii) the rapid growth driven by seasonal strength in WPS online advertising; iii) the rapid growth of cloud storage and computing service by extending the business to new market sectors. The year-over-year increase mainly reflected: i) the exceptional progress of Kingsoft Cloud in tapping the market; ii) the improvement on monetization capabilities of WPS free user traffic; and iii) the steady increase from the sales of WPS Office.

Cost of Revenue and Gross Profit

Cost of revenue for the fourth quarter of 2015 increased 14% quarter-over-quarter and 85% year-over-year to RMB419.5 million. The quarter-over-quarter and year-over-year increases were primarily due to: i) higher traffic acquisition costs associated with Cheetah Mobile advertising platform and higher oversea bandwidth and internet data center (“IDC”) costs, in line with its revenue; and ii) an increase in bandwidth and equipment depreciation expenses of Kingsoft Cloud as a result of rapid usage growth and investments in cloud computation and data platform.

Gross profit for the fourth quarter of 2015 increased 19% quarter-over-quarter and 61% year-over-year to RMB1,358.2 million. The Group’s gross profit margin increased by one percentage point quarter-over-quarter and decreased by three percentage points year-over-year to 76%.

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

R&D costs, net of government grants, for the fourth quarter of 2015 increased 1% quarter-over-quarter and 38% year-over-year to RMB365.2 million. The year-over-year increase was mainly due to higher personnel-related costs driven by the increased headcount of Cheetah Mobile and online game business, as well as an increase in the salary.

Selling and Distribution Expenses

Selling and distribution expenses for the fourth quarter of 2015 increased 24% quarter-over-quarter and 143% year-over-year to RMB592.6 million. The quarter-over-quarter and the year-over-year increases were primarily due to promotional activities for core mobile applications of Cheetah Mobile.

Administrative Expenses

Administrative expenses for the fourth quarter of 2015 decreased 28% quarter-over-quarter and increased 5% year-over-year to RMB94.0 million. The quarter-over-quarter decrease was mainly due to a decrease in professional service fees. The year-over-year increase was mainly due to the increase of staff-related expenses.

Share-based Compensation Costs

Share-based compensation costs for the fourth quarter of 2015 decreased 10% quarter-over-quarter and increased 92% year-over-year to RMB112.8 million. The year-over-year increase mainly reflected the grants of Cheetah Mobile's options and awarded shares to selected employees.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the fourth quarter of 2015 increased 91% quarter-over-quarter and 49% year-over-year to RMB363.3 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 2015 increased by seven percentage points quarter-over-quarter and decreased by three percentage points year-over-year to 20%.

Other Income

Other income for the fourth quarter of 2015 increased 129% quarter-over-quarter and 619% year-over-year to RMB82.7 million. The increase primarily reflected the government financial incentives we received in the fourth quarter of 2015.

Other Losses, net

Other losses, net for the fourth quarter of 2015 recorded a loss of RMB63.9 million, which mainly due to fair value loss on a financial instrument at fair value through profit or loss, compared to a loss of RMB14.8 million for the third quarter of 2015 and a loss of RMB8.8 million for the fourth quarter of 2014.

Finance Income

Finance income for the fourth quarter of 2015 decreased 8% quarter-over-quarter and 29% year-over-year to RMB46.1 million.

Income Tax Expense

Income tax expense for the fourth quarter of 2015 increased 327% quarter-over-quarter and 628% year-over-year to RMB112.9 million. The effective tax rate increased by twelve percentage points quarter-over-quarter and forty-seven percentage points year-over-year to 54% in the fourth quarter, which was primarily due to the one-time impact from imtragroup rearrangements of certain operating businesses.

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 2015 increased 138% quarter-over-quarter and decreased 35% year-over-year to RMB113.1 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, which is defined as profit attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent, a measure supplementary to the consolidated financial statements presented in accordance with IFRSs.

We believe the profit attributable to owners of the parent before share-based compensation costs will enhance investors' overall understanding of the Group's 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 2015 increased 21% quarter-over-quarter and decreased 29% year-over-year to RMB142.9 million. The net profit margin excluding the effect of share-based compensation costs was 8%, 8% and 19% for the three months ended 31 December 2015, 30 September 2015 and 31 December 2014, respectively.

For the Year Ended 31 December 2015

The following table sets forth the comparative numbers for the years ended 31 December 2015 and 31 December 2014, respectively.

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Revenue		
Online game	1,368,811	1,252,753
Cheetah Mobile	3,561,739	1,674,060
Office software and others	745,556	423,320
	<u>5,676,106</u>	<u>3,350,133</u>
Cost of revenue	<u>(1,319,399)</u>	<u>(589,655)</u>
Gross profit	4,356,707	2,760,478
Research and development costs, net of government grants	(1,347,566)	(956,097)
Selling and distribution expenses	(1,755,727)	(797,416)
Administrative expenses	(442,577)	(297,412)
Share-based compensation costs	(356,012)	(201,922)
Other income	147,364	30,199
Other expenses	(60,140)	(29,873)
	<u>542,049</u>	<u>507,957</u>
Operating profit	542,049	507,957
Other (losses)/gains, net	(72,829)	305,367
Finance income	194,511	238,900
Finance costs	(78,067)	(75,944)
Share of losses of:		
Joint ventures	(24,005)	(7,657)
Associates	(19,299)	(6,868)
	<u>542,360</u>	<u>961,755</u>
Profit before tax	542,360	961,755
Income tax expense	(200,656)	(95,188)
	<u>341,704</u>	<u>866,567</u>
Profit for the year	341,704	866,567
Attributable to:		
Owners of the parent	369,178	768,783
Non-controlling interests	(27,474)	97,784
	<u>341,704</u>	<u>866,567</u>
Earnings per share attributable to ordinary equity holders of the parent	RMB	RMB
Basic	0.29	0.66
Diluted	0.29	0.63

Revenue

Revenue for the year of 2015 increased 69% year-over-year to RMB5,676.1 million. Approximately 24% of the revenue was generated from the online game business, 63% of the revenue was generated from Cheetah Mobile business and 13% of the revenue was generated from the office software and others business.

— *Online game*

Revenue from the online game business for the year of 2015 increased 9% year-over-year to RMB1,368.8 million. This was primarily attributable to the healthy growth of JX Online III with growing user base through release of a series of expansion packs, improvement of game experiences, and to a lesser extent, the contribution from mobile games.

— *Cheetah Mobile*

Revenue from Cheetah Mobile business for the year of 2015 increased 113% year-over-year to RMB3,561.7 million. The remarkable increase was mainly driven by Cheetah Mobile's organic business growth, which is attributable to its growing global mobile user base and substantial improvements in mobile monetization, especially in overseas market.

— *Office Software and others*

Revenue from the office software and others for the year of 2015 increased 76% year-over-year to RMB745.6 million. The year-over-year increase was primarily attributable to: i) the rapid expansion of cloud service to new market sectors and solid growth of cloud storage demand from Xiaomi; and ii) the significant improvement in the monetization capabilities of WPS free user traffic.

Cost of Revenue and Gross Profit

Cost of revenue for the year of 2015 increased 124% year-over-year to RMB1,319.4 million. The increase was largely attributable to higher traffic acquisition costs associated with Cheetah Mobile advertising platform and higher bandwidth and IDC costs associated with Cheetah Mobile's increased user traffic worldwide and big data analytics, as well as an increase in bandwidth and equipment depreciation expenses of Kingsoft Cloud as a result of rapid usage growth and investments in cloud computation and data platform.

Gross profit for the year of 2015 increased 58% year-over-year to RMB4,356.7 million. The Group's gross profit margin decreased by five percentage points year-over-year to 77%.

R&D Costs, net of Government Grants

R&D costs, net of government grants, for the year of 2015 increased 41% year-over-year to RMB1,347.6 million. This increase was mainly reflected the expansion of the Group's research team with higher salaries and benefits.

Selling and Distribution Expenses

Selling and distribution expenses for the year of 2015 increased 120% year-over-year to RMB1,755.7 million. The increase was primarily driven by increased marketing expenses as Cheetah Mobile accelerated the process of global market expansion.

Administrative Expenses

Administrative expenses for the year of 2015 increased 49% year-over-year to RMB442.6 million. The year-over-year increase was mainly due to the increase in professional service fees, and staff-related expenses of Cheetah Mobile.

Share-based Compensation Costs

Share-based compensation costs for the year of 2015 increased 76% year-over-year to RMB356.0 million. The increase was primarily due to the new grants of Cheetah Mobile's options and awarded shares to selected employees.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the year of 2015 increased 27% year-over-year to RMB898.1 million as a result of the combination of above reasons. The margin of operating profit before share-based compensation costs decreased by five percentage points year-over-year to 16%.

Other (Losses)/Gains, net

Other (losses)/gains, net for the year of 2015 recorded a loss of RMB72.8 million, compared to a gain of RMB305.4 million for the year of 2014, which mainly reflected gains from the disposal of a business and an investment in a joint venture in 2014.

Finance Income

Finance income for the year of 2015 decreased 19% year-over-year to RMB194.5 million.

Income Tax Expense

Income tax expenses for the year of 2015 increased 111% year-over-year to RMB200.7 million. The Group's effective tax rate increased by twenty-seven percentage point year-over-year to 37%. The increase was mainly due to: (i) the rise up of the applicable corporate tax rate for some subsidiaries; the expiration of tax exemption periods for a certain subsidiary, which is subject to 12.5% corporate

tax rate, and the increase in corporate income tax rate from 10% to 15% for one of our subsidiaries in 2015; (ii) one time impact due to intragroup rearrangement of certain operating businesses, and (iii) the heavy investments in Kingsoft Cloud were not recognized in deferred tax asset in 2015.

Profit attributable to Owners of the Parent

For the reasons described above, profit attributable to owners of the parent for the year of 2015 decreased 52% year-over-year to RMB369.2 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 for the year of 2015 decreased 37% year-over-year to RMB552.3 million.

The profit margin excluding the effect of share-based compensation costs for the year of 2015 decreased by sixteen percentage points year-over-year to 10%.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 December 2015, the Group had major financial resources in the forms of cash and cash equivalent and time deposits with initial term of over three months amounting to RMB6,629.3 million and RMB1,977.2 million, respectively, which totally represented 56% of the Group's total assets.

As at 31 December 2015, the Group's gearing ratio, which represents total liabilities divided by total assets, was 36%, compared to 41% as at 31 December 2014. As at 31 December 2015, the Group had HK\$3,222.6 million (equivalent to RMB2,699.7 million) debt of convertible bonds and HK\$20.0 million (equivalent to RMB16.8 million), US\$20.0 million (equivalent to RMB129.9 million) and EUR1.5 million (equivalent to RMB10.9 million) bank loans.

Foreign Currency Risk Management

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

As at 31 December 2015, RMB4,501.8 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 maybe, as adjusted for non-cash items, such as depreciation, amortisation of capitalized software costs, and share-based compensation costs, as well as the effect of changes in certain items of statement of financial position, such as deferred revenue, other payables and accruals.

Net cash generated from operating activities was RMB1,435.3 million and RMB952.3 million for the years ended 31 December 2015 and 31 December 2014, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, property, land use right, fixed assets and intangible assets. Cash used for capital expenditures was RMB806.1 million and RMB848.9 million for the years ended 31 December 2015 and 31 December 2014, respectively.

BUSINESS REVIEW AND PROSPECTS

Mr. Jun LEI, Chairman of Kingsoft commented, "2015 marked a year of great achievements for Kingsoft in implementing mobilization, globalization and "All-in Cloud" strategies. Our mobile MAU reached a new high of 736.4 million in December 2015, and the mobile and overseas revenue now accounted for 67% and 51% of Cheetah Mobile's total revenue in 2015, respectively. The significant progresses Kingsoft Cloud made in 2015 also far exceeded our expectations. We believe that all these achievements have well positioned us in further exploring the mobile Internet and cloud service business in the year ahead."

Mr. Jun LEI continued, "2015 was another year of consistent and strong growth. We achieved more than 69% annual revenue growth and our total revenue reached a new record of RMB5,676.1 million. As we focused on heavy investments in mobile application development, global market expansion and cloud services breakthrough, we have experienced short-term pressure on profit in 2015. Excluding the impact of share-based compensation costs, the operating profit for 2015 increased 27% year-over-year to RMB898.1 million, while the operating profit margin decreased by five percentage points year-over-year to 16%. This in effect reflected the transformation of our businesses from overdependence on online game business with high operating margin to Cheetah Mobile and Kingsoft Cloud businesses with rapid growth and great market potential."

Dr. HongJiang ZHANG, Chief Executive Officer of Kingsoft added, "Cheetah Mobile continued to achieve its strategic goals in 2015 in terms of overseas user expansion and better monetization of its growing global mobile user base. In December 2015, Cheetah Mobile had over 635 million mobile users globally with 79% of them located outside of China. Cheetah remained the third largest global publisher in Google Play's non-game category, with four of its mobile applications, namely Clean Master, CM Security, Photo Grid and CM Lockers, ranked among the top-40 most downloaded non-game applications on Google Play in December 2015. Robust mobile and overseas performances drove Cheetah Mobile's top-line growth in the year. Cheetah Mobile's revenue grew by 113% year-over-year to RMB3,561.7 million. On the mobile monetization side, mobile revenues already accounted for 72% of its total revenue in the fourth quarter of 2015, up from 37% in the fourth quarter of 2014.

Looking forward, Cheetah Mobile remains firmly committed to strengthening its mobile and global businesses and building Cheetah Mobile into one of the leading mobile platforms globally. Cheetah Mobile will continue to leverage its mission critical applications as the main entry point to acquire users, build a content platform to enhance user engagement, and strengthen its strong data analytics capabilities to fortify its strategic advantage. Cheetah Mobile will also stay focused on building a profitable and sustainable growth model over the long-term, as well as implementing a more balanced approach when looking at its key priorities, such as user acquisition, user engagement, revenue growth and profitability.

In year 2015, Kingsoft Cloud exhibited outstanding achievements in its focused businesses — game cloud, video cloud and government and corporate cloud. Kingsoft Cloud established the first national game industry ecological base in Hainan province in 2015. It held the Game Ecosystem Annual Conference 2015 in December, attracting more than 400 game industry participants, and showcased its leading position in the game cloud market. The video cloud service business was officially launched in November 2015. With outstanding technical advantages, it was able to provide highly stable and cost-effective services to its clients, including GIF Deft and Today's Headlines, the leading mobile video providers in China. During the year, Kingsoft Cloud entered into strategic partnerships with Peking University Healthcare and Kingdee, and won a contract from fierce competition to provide cloud services to Beijing municipal government. Kingsoft Cloud sees tremendous opportunities and explosive growth potential in cloud services industry, and will continue to solidify its leading position in its focused market segments and further explore new market opportunities in 2016.

We have delivered 9% annual growth in online game revenue in 2015. Our flagship title JX online III marched into its sixth year of outstanding performance with compound annual growth rate over 55% in the past four years, far outpaced the growth rate of the MMO market in China. Two major mobile games were launched in 2015, i.e., 3D version of “Journey to the West: Conquering the Demons” and “Brave Cross”, and both were ranked as one of the top ten popular games on Xiaomi and IOS game platforms. With its achieved sustainability and continuous innovations, JX online III is expected to continue generating significant revenue and profitability in the coming years. We have also prepared a strong pipeline of mobile games, which will be launched in 2016.

Kingsoft WPS Office also contributed an excellent performance in the past year. Total revenue from Kingsoft WPS Office, net of advertising revenue from cooperation with Cheetah Mobile, posted a strong annual growth rate at 35%. The traditional PC business maintained steady growth, with improved monetization capability on the traffic from WPS Office Personal Edition. To solidify its leading position as an office solution provider in China and capture the fast growing enterprise markets, Kingsoft WPS firmly executed its “WPS+cloud” strategy to provide universal integrated cloud office services. In December 2015, the global MAU of WPS family reached 182 million, among which the mobile MAU of WPS Office were nearly 77 million, with an 18% increase year-over-year. In December, WPS IOS was award as “Best of 2015” by Apple App Store, and WPS Android was awarded by Google Play as “Best App of 2015”. We will continue our efforts in the traditional government and enterprise markets and expect steady growth by providing “WPS+cloud” office solutions. We will further explore the monetization on the traffic from WPS Personal Edition, and also start to explore the monetization opportunities on the traffic from WPS mobile applications.”

Mr. Jun LEI concluded, “The strategic investments and efforts we’ve made over the past years have clearly paid off and set a cornerstone for us to capture tremendous opportunities in mobile Internet, global markets and cloud services. In 2016, we will continue to make proactive investments in our core businesses and key strategic focuses, to further strengthen our foundation, support sustainable growth and drive long-term shareholder value. At the same time, we will start to harvest a moderate improvement on our operating profit margin as a result of tightly adhering to our investment strategies in the past years. We are confident that we will maintain our strong growth momentum to achieve new highs in 2016.”

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 2015, the Group employed approximately 6,616 full-time employees (2014: 5,296) 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. The staff costs of the Group including Directors’ and senior management’s emoluments in 2015 and 2014 were approximately RMB1,927.9 million and RMB1,288.0 million, respectively.

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

During the year ended 31 December 2015, the Company repurchased a total of 349,000 of its own ordinary shares on the Stock Exchange at a total cost of approximately HK\$6.8 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.

Details of the repurchases by the Company on the Stock Exchange during the year ended 31 December 2015 were as follows:

Month of Repurchase in 2015	No. of Shares Repurchased	Repurchase Consideration Per Share		Aggregate Consideration Paid HK\$
		Highest Price Paid HK\$	Lowest Price Paid HK\$	
July	349,000	19.80	19.20	6,776,280

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 2015.

Closure of Register of Members

For the purposes of determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the final dividend, the register of members of the Company will be closed during the following periods:

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

Latest time to lodge transfer documents for registration	4:30 pm on Friday, 13 May 2016
Closure of the register of members of the Company	Saturday, 14 May 2016 to Friday, 20 May 2016 (both dates inclusive)
Record date	Friday, 20 May 2016

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Thursday, 26 May 2016
Closure of the register of members of the Company	Friday, 27 May 2016 to Wednesday, 1 June 2016 (both dates inclusive)
Record date	Wednesday, 1 June 2016

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 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 2015, 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 2015, and is of the opinion that the preparation of such results was in compliance 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 Directors, Mr. Jun LEI and Mr. Chi Ping LAU, did not attend the annual general meeting of the Company held on 20 May 2015 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.

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

The PRC, 22 March 2016

As at the date of this announcement, the Executive Directors are Messrs. HongJiang ZHANG, Yuk Keung NG and Tao ZOU; 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.