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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 2019

The board (“**Board**”) of directors (the “**Directors**”) of Kingsoft Corporation Limited (the “**Company**”) hereby announces the results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2019. The results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2019	2018	Year-on-year
	RMB'000	RMB'000	Change
Revenue	8,218,263	5,906,187	39%
Operating loss	(193,490)	(302,320)	Not Applicable
Operating profit/(loss) before share-based compensation costs	51,330	(90,384)	Not Applicable
Profit/(loss) attributable to owners of the parent*	(1,546,385)	389,214	Not Applicable
	RMB	RMB	
Basic earnings/(loss) per share	(1.13)	0.29	Not Applicable
Diluted earnings/(loss) per share	(1.15)	0.27	Not Applicable

* Profit/(loss) attributable to owners of the parent before the effect of share-based compensation costs is RMB(1,380.7) million and RMB536.8 million for the years ended 31 December 2019 and 31 December 2018, respectively. For the year ended 31 December 2019, we made an impairment loss of RMB1,300.0 million on the carrying value of investments in Cheetah Mobile Inc. (“**Cheetah**”).

DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.10 per share for the year ended 31 December 2019 (2018: Nil). The final dividend, subject to the approval of the shareholders at the forthcoming annual general meeting (the “AGM”) of the Company, is expected to be paid in early July 2020.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

		As at 31 December	
		2019	2018
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		2,913,460	2,036,424
Investment properties		62,504	63,943
Prepaid land lease payments		—	288,401
Goodwill		—	9,559
Other intangible assets		30,938	56,382
Investments in joint ventures		270,303	155,574
Investments in associates		2,437,522	4,349,397
Equity investments designated at fair value through other comprehensive income		746,992	746,718
Financial assets at fair value through profit or loss		49,314	84,044
Right-of-use assets		403,737	—
Deferred tax assets		107,038	96,527
Other non-current assets		47,276	83,220
Total non-current assets		<u>7,069,084</u>	<u>7,970,189</u>
Current assets			
Inventories		16,378	11,679
Trade receivables	10	2,059,031	1,184,650
Prepayments, other receivables and other assets		1,365,093	906,383
Equity investments designated at fair value through other comprehensive income		10,000	10,000
Financial assets at fair value through profit or loss		89,920	—
Restricted cash		—	98,102
Cash and bank deposits		13,792,117	9,868,809
Total current assets		<u>17,332,539</u>	<u>12,079,623</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
AS AT 31 DECEMBER 2019

		As at 31 December	
		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Trade payables	11	1,501,604	947,702
Interest-bearing bank loans	12	623,215	1,053,393
Other payables and accruals		1,690,263	1,100,560
Deferred revenue		879,440	722,781
Income tax payable		93,430	86,601
Liability component of convertible bonds	13	—	40,171
Lease liabilities		18,260	—
Derivative financial instruments		128,236	154,765
		<hr/>	<hr/>
Total current liabilities		4,934,448	4,105,973
		<hr/>	<hr/>
Net current assets		12,398,091	7,973,650
		<hr/>	<hr/>
Total assets less current liabilities		19,467,175	15,943,839
		<hr/>	<hr/>
Non-current liabilities			
Deferred revenue		51,944	29,661
Deferred tax liabilities		50,691	19,584
Interest-bearing bank loans	12	74,351	231,224
Lease liabilities		97,789	—
Liability component of redeemable convertible preferred shares		3,583,019	2,741,771
		<hr/>	<hr/>
Total non-current liabilities		3,857,794	3,022,240
		<hr/>	<hr/>
Net assets		15,609,381	12,921,599
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Equity attributable to owners of the parent			
Issued capital		5,316	5,316
Share premium account		2,995,605	2,972,969
Treasury shares		(14,631)	(18,089)
Equity component of convertible bonds	13	—	1,274
Other reserves		10,810,858	10,076,369
		<hr/>	<hr/>
		13,797,148	13,037,839
Non-controlling interests		1,812,233	(116,240)
		<hr/>	<hr/>
Total equity		15,609,381	12,921,599
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

	<i>Notes</i>	Year ended 31 December	
		2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue			
Online games		2,748,738	2,551,715
Cloud services		3,847,176	2,217,507
Office software and services and others		<u>1,622,349</u>	<u>1,136,965</u>
		8,218,263	5,906,187
Cost of revenue		<u>(4,741,390)</u>	<u>(3,169,429)</u>
Gross profit		3,476,873	2,736,758
Research and development costs, net		(2,084,654)	(1,838,658)
Selling and distribution expenses		(983,756)	(727,381)
Administrative expenses		(529,250)	(449,498)
Share-based compensation costs	6	(244,820)	(211,936)
Other income		250,239	277,891
Other expenses		<u>(78,122)</u>	<u>(89,496)</u>
Operating loss		(193,490)	(302,320)
Other losses, net	5	(1,240,439)	(145,618)
Finance income		299,143	326,156
Finance costs		(388,426)	(326,966)
Share of profits and losses of:			
Joint ventures		14,939	49,898
Associates		<u>(412,972)</u>	<u>373,833</u>
Loss before tax	4	(1,921,245)	(25,017)
Income tax expense	7	<u>(161,454)</u>	<u>(140,225)</u>
Loss for the year		<u>(2,082,699)</u>	<u>(165,242)</u>
Attributable to:			
Owners of the parent		(1,546,385)	389,214
Non-controlling interests		<u>(536,314)</u>	<u>(554,456)</u>
		<u>(2,082,699)</u>	<u>(165,242)</u>
		<i>RMB</i>	<i>RMB</i>
Earnings/(loss) per share attributable to ordinary equity holders of the parent			
Basic		<u>(1.13)</u>	<u>0.29</u>
Diluted		<u>(1.15)</u>	<u>0.27</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the parent												
	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000	Equity component of convertible bonds RMB'000	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Other capital reserve RMB'000	Fair value reserve RMB'000	Foreign currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2018	5,316	2,972,969	(18,089)	1,274	275,986 [*]	471,326 [*]	1,857,341 [*]	(1,044,690) [*]	311,094 [*]	8,205,312 [*]	13,037,839	(116,240)	12,921,599
Effect of adoption of IFRS 16	—	—	—	—	—	—	—	—	—	(8,431)	(8,431)	—	(8,431)
At 1 January 2019 (restated)	5,316	2,972,969	(18,089)	1,274	275,986	471,326	1,857,341	(1,044,690)	311,094	8,196,881	13,029,408	(116,240)	12,913,168
Loss for the year	—	—	—	—	—	—	—	—	—	(1,546,385)	(1,546,385)	(536,314)	(2,082,699)
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	46,415	—	46,415	(14,276)	32,139
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	(14,026)	—	—	(14,026)	—	(14,026)
Share of other comprehensive income/(loss) of associates	—	—	—	—	—	—	—	(14,211)	34,555	—	20,344	—	20,344
Total comprehensive income/(loss) for the year	—	—	—	—	—	—	—	(28,237)	80,970	(1,546,385)	(1,493,652)	(550,590)	(2,044,242)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(13,996)	(13,996)
Share-based compensation costs	—	—	—	—	—	165,791	—	—	—	—	165,791	79,148	244,939
Vested awarded shares transferred to employees	—	22,636	3,458	—	—	(26,460)	366	—	—	—	—	—	—
Share of reserves of associates	—	—	—	—	—	—	(17,710)	—	—	—	(17,710)	—	(17,710)
Redemption of convertible bonds	—	—	—	(1,274)	—	—	1,446	—	(172)	—	—	—	—
Profit appropriation	—	—	—	—	73,001	—	—	—	—	(73,001)	—	—	—
Exercise and vesting of share-based awards issued by subsidiaries	—	—	—	—	—	(54,066)	66,325	—	—	—	12,259	8,640	20,899
Capital raising through equity offerings by a subsidiary	—	—	—	—	—	—	2,478,570	—	—	—	2,478,570	1,996,235	4,474,805
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(377,518)	—	—	—	(377,518)	409,036	31,518
At 31 December 2019	5,316	2,995,605	(14,631)	—	348,987 [*]	556,591 [*]	4,008,820 [*]	(1,072,927) [*]	391,892 [*]	6,577,495 [*]	13,797,148	1,812,233	15,609,381

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

	Attributable to owners of the parent												
	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000	Equity component of convertible bonds RMB'000	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Other capital reserve RMB'000	Fair value reserve RMB'000	Foreign currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	5,127	2,287,958	(22,517)	7,564	228,087	329,588	1,846,459	(455,372)	31,921	7,835,497	12,094,312	464,381	12,558,693
Profit/(loss) for the year	—	—	—	—	—	—	—	—	—	389,214	389,214	(554,456)	(165,242)
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	241,503	—	241,503	22,565	264,068
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	(551,033)	—	—	(551,033)	—	(551,033)
Share of other comprehensive income/(loss) of associates	—	—	—	—	—	—	—	(9,785)	37,670	—	27,885	—	27,885
Total comprehensive income/(loss) for the year	—	—	—	—	—	—	—	(560,818)	279,173	389,214	107,569	(531,891)	(424,322)
Approved and paid final dividend in respect of the previous year	—	(126,608)	—	—	—	—	—	—	—	—	(126,608)	—	(126,608)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(183,527)	(183,527)
Share-based compensation costs	—	—	—	—	—	147,649	—	—	—	—	147,649	64,392	212,041
Vested awarded shares transferred to employees	—	—	4,428	—	—	(5,911)	1,483	—	—	—	—	—	—
Share of reserves of associates	—	—	—	—	—	—	(12,954)	—	—	—	(12,954)	—	(12,954)
Conversion of convertible bonds	192	823,525	—	(6,290)	—	—	—	—	—	—	817,427	—	817,427
Share repurchased	(3)	(11,906)	—	—	—	—	—	—	—	—	(11,909)	—	(11,909)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	—	—	—	—	—	—	—	(28,500)	—	28,500	—	—	—
Profit appropriation	—	—	—	—	47,899	—	—	—	—	(47,899)	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	22,353	—	—	—	22,353	70,405	92,758
At 31 December 2018	5,316	2,972,969	(18,089)	1,274	275,986 [*]	471,326 [*]	1,857,341 [*]	(1,044,690) [*]	311,094 [*]	8,205,312 [*]	13,037,839	(116,240)	12,921,599

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows from operating activities	824,968	769,509
Net cash flows used in investing activities	(2,219,766)	(779,523)
Net cash flows from financing activities	4,169,622	1,509,907
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Net increase in cash and cash equivalents	2,774,824	1,499,893
Cash and cash equivalents at beginning of year	4,544,784	3,036,488
Effect of foreign exchange rate changes, net	10,237	8,403
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Cash and cash equivalents at end of year	7,329,845	4,544,784
Non-pledged time deposits with original maturity of over three months when acquired	264,788	2,811,271
Principal protected structure deposits with original maturity of over three months when acquired	6,197,484	2,512,754
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Cash and bank deposits as stated in the consolidated statement of financial position	13,792,117	9,868,809
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NOTES TO FINANCIAL STATEMENTS

1. Corporate and Group information

The Company was incorporated under the Companies Act of the British Virgin Islands on 20 March 1998. On 15 November 2005, the Company was redomiciled to the Cayman Islands under the Company Law (2004 revision) of Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 9 October 2007.

The Group is principally involved in the following principal activities:

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

2. Basis of preparation and significant accounting policies

Basis of preparation

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

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

Significant accounting policies

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

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

Significant accounting policies (continued)

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IFRS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IFRS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015–2017 Cycle</i>	<i>Amendments to a number of IFRSs</i>

Other than as explained below regarding the impact of IFRS 16, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17. For those lease contracts whose lease terms end within 12 months as of 1 January 2019, the Group used the exemptions allowed by the standard.

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

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

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

3. Operating segment information

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

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

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

3. Operating segment information (continued)

Year ended 31 December 2019	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	<u>2,748,738</u>	<u>3,847,176</u>	<u>1,622,349</u>	<u>8,218,263</u>
Segment results	873,180	(905,438)	439,322	407,064
<i>Reconciliation:</i>				
Administrative expenses				(529,250)
Share-based compensation costs				(244,820)
Other income				250,239
Other expenses				(78,122)
Other losses, net				(1,240,439)
Finance income				299,143
Finance costs (other than interest on lease liabilities)				(387,027)
Share of profits and losses of:				
Joint ventures				14,939
Associates				<u>(412,972)</u>
Loss before tax				<u><u>(1,921,245)</u></u>

3. Operating segment information (continued)

Year ended 31 December 2018	Entertainment software <i>RMB'000</i>	Cloud services <i>RMB'000</i>	Office software and services and others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Sales	2,551,715	2,217,507	1,136,965	5,906,187
Segment results	683,762	(847,008)	333,965	170,719
<i>Reconciliation:</i>				
Administrative expenses				(449,498)
Share-based compensation costs				(211,936)
Other income				277,891
Other expenses				(89,496)
Other losses, net				(145,618)
Finance income				326,156
Finance costs				(326,966)
Share of profits and losses of:				
Joint ventures				49,898
Associates				373,833
Loss before tax				<u>(25,017)</u>

Geographical information

Revenue from external customers:

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

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

4. Loss before tax

The Group's loss before tax is arrived at after charging:

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

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

5. Other losses, net

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

* As at 31 December 2019, the Group held certain ordinary shares in Cheetah which are listed on the New York Stock Exchange in the form of American depositary shares. As Cheetah's share price has been struggled with sluggish performance, the Group performed an impairment assessment and made an impairment loss of approximately RMB1,300.0 million, being the difference of carrying amount in excess of the fair value of the investment in Cheetah.

6. Share-based compensation costs

(a) Share option schemes

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 2019 and 2018:

	2019	2019	2018	2018
	Number of	WAEP HK\$	Number of	WAEP HK\$
	share options	per share	share options	per share
Outstanding at 1 January	4,600,000	20.58	4,600,000	20.58
Granted during the year	—	—	—	—
Exercised during the year	—	—	—	—
	<hr/>		<hr/>	
Outstanding at 31 December	<u>4,600,000</u>	20.58	<u>4,600,000</u>	20.58
Exercisable at 31 December	<u>2,640,000</u>	20.48	<u>1,720,000</u>	20.42

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 2019 and 2018:

	2019	2018
	Number of Awarded Shares	Number of Awarded Shares
Outstanding as at 1 January	4,372,900	5,830,300
Granted during the year	600,000	455,000
Forfeited during the year	(22,900)	(16,600)
Vested and transferred during the year	(1,487,800)	(1,895,800)
	<u>3,462,200</u>	<u>4,372,900</u>
Outstanding as at 31 December	<u>3,462,200</u>	<u>4,372,900</u>
	<u>500</u>	<u>500</u>
Exercisable as at 31 December	<u>500</u>	<u>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% (2018: 16.5%) on estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

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

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

8. Dividends

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

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

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

The calculation of basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,365,661,224 (2018: 1,362,648,887) in issue during the year.

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

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

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent	(1,546,385)	389,214
Increase in earnings adjusted for the convertible bonds of the Company	—	78
Decrease in earnings/increase in loss adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries and associate	<u>(18,759)</u>	<u>(13,121)</u>
Adjusted profit/(loss) attributable to ordinary equity holders of the parent	<u>(1,565,144)</u>	<u>376,171</u>
	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the year	1,365,661,224	1,362,648,887
Effect of dilution — weighted average number of ordinary shares:		
Share options	—	—
Awarded shares	—	2,932,857
Convertible bonds	—	2,496,713
	<u>1,365,661,224</u>	<u>1,368,078,457</u>

10. Trade receivables

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

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

11. Trade payables

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

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

12. Interest-bearing bank loans

	Effective interest rate	Maturity	Principal amount RMB'000
At 31 December 2019			
Current			
Bank loans — unsecured	2.75%-3.52% per annum	2020	523,215
Current portion of long term bank loans-unsecured	4.28% per annum	2020	100,000
			<u>623,215</u>
Non-current			
Bank loans — unsecured	4.28% per annum	2021	74,351
			<u>697,566</u>
At 31 December 2018			
Current			
Bank loans — unsecured	3.30%–3.40% per annum	2019	1,029,480
Current portion of long term bank loans-unsecured	4.28% per annum	2019	23,913
			<u>1,053,393</u>
Non-current			
Bank loans — unsecured	4.28% per annum	2020–2021	231,224
			<u>1,284,617</u>
		2019	2018
		RMB'000	RMB'000
Analysed into:			
Within one year or on demand		623,215	1,053,393
In the second year		74,351	138,623
In the third to fifth year, inclusive		—	92,601
		<u>697,566</u>	<u>1,284,617</u>

- (a) The Group has overdraft facilities amounting to US\$75.0 million and RMB400.0 million, respectively (2018: US\$175.0 million and RMB400.0 million, respectively), of which US\$75.0 million and RMB335.1 million, respectively (2018: US\$150.0 million and RMB335.1 million, respectively) had been utilised as at the end of reporting period.
- (b) As at 31 December 2019, interest-bearing bank loans of the Group amounting to RMB523.2 million and RMB174.4 million were denominated in US\$ and RMB, respectively (2018: RMB1,029.5 million and RMB255.1 million, respectively).

13. Convertible bonds

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 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 convertible 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 2014 Convertible Bonds matured on 11 April 2019. Pursuant to the terms and conditions of the 2014 Convertible Bonds, the Company redeemed the outstanding 2014 Convertible Bonds in full at their principal amount of HK\$46.0 million with accrued interests on the maturity date. Upon completion of the redemption, no 2014 Convertible Bonds were outstanding, and all redeemed 2014 Convertible Bonds were cancelled and delisted from the Singapore Exchange Securities Trading Limited.

14. Events after the reporting period

The novel coronavirus (COVID-19) has spread across mainland China and beyond, causing disruptions to businesses and economic activity. Up to the date of this announcement, the outbreak did not pose any significant impact to the Group’s operations. Due to the increasing demands for remote office work by various enterprises in the short run, there is a substantial increase in the number of monthly active users (“**MAU**”) of Kingsoft Docs product, the online cooperative editing product of office software and services business. As at 2 March 2020, the number of MAU of Kingsoft Docs amounted to 239 million. However, this will not impose direct impact on the operating result of office software and services business.

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

OPERATIONAL HIGHLIGHTS

	For the three months ended				
	31 December 2019	30 September 2019	30 June 2019	31 March 2019	31 December 2018
Online Games					
Daily Average Peak Concurrent Users (“ADPCU”)	611,620	571,992	680,869	570,694	673,413
Monthly Average Paying Accounts (“APA”)	<u>2,532,584</u>	<u>2,021,129</u>	<u>2,542,271</u>	<u>2,369,662</u>	<u>3,036,203</u>
	In December 2019	In September 2019	In June 2019	In March 2019	In December 2018
Office Software*					
MAU (Million)	<u>411</u>	<u>382</u>	<u>348</u>	<u>328</u>	<u>310</u>

* Office Software products include WPS Office and Kingsoft Powerword.

FINANCIAL HIGHLIGHTS

	Three months ended		
	31 December 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Unaudited)	30 September 2019 RMB'000 (Unaudited)
Revenue			
Online games	915,756	659,106	663,491
Cloud services	1,113,328	726,584	976,339
Office software and services and others	565,658	373,269	383,110
	2,594,742	1,758,959	2,022,940
Cost of revenue	(1,312,754)	(1,003,598)	(1,200,072)
Gross profit	1,281,988	755,361	822,868
Research and development costs, net	(569,295)	(513,236)	(533,898)
Selling and distribution expenses	(312,180)	(214,877)	(272,162)
Administrative expenses	(186,392)	(146,059)	(124,995)
Share-based compensation costs	(71,761)	(51,337)	(60,003)
Other income	73,702	72,365	46,428
Other expenses	(52,779)	(58,921)	(10,330)
Operating profit/(loss)	163,283	(156,704)	(132,092)
Other gains/(losses), net	149,128	(8,280)	(87,441)
Finance income	76,928	86,126	71,943
Finance costs	(95,306)	(95,318)	(98,581)
Share of profits and losses of:			
Joint ventures	(4,677)	1,235	8,405
Associates	(404,290)	260,657	127,556
Profit/(loss) before tax	(114,934)	87,716	(110,210)
Income tax expense	(80,116)	(11,147)	(28,539)
Profit/(loss) for the period	(195,050)	76,569	(138,749)
Attributable to:			
Owners of the parent	(99,477)	229,139	36,061
Non-controlling interests	(95,573)	(152,570)	(174,810)
	(195,050)	76,569	(138,749)
	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
Earnings/(loss) per share attributable to ordinary equity holders of the parent			
Basic	(0.07)	0.17	0.03
Diluted	(0.08)	0.16	0.03

FINANCIAL HIGHLIGHTS (continued)

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

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2019 Compared to Fourth Quarter of 2018 and Third Quarter of 2019

Revenue

Revenue for the fourth quarter of 2019 increased 48% year-on-year and 28% quarter-on-quarter to RMB2,594.7 million. Revenue from the online games, cloud services, office software and services and others represented 35%, 43% and 22%, respectively, of the Group's total revenue for the fourth quarter of 2019. Revenue from the three business lines is reported net of intra-group transactions.

Revenue from the online games business for the fourth quarter of 2019 increased 39% year-on-year and 38% quarter-on-quarter to RMB915.8 million. The increases were primarily attributable to the impressive performances of our flagship title JX Online III PC game and revenue contribution from the newly-launched mobile games.

Revenue from the cloud services for the fourth quarter of 2019 increased 53% year-on-year and 14% quarter-on-quarter to RMB1,113.3 million. The increases were largely driven by: i) increased average revenue per major customer as a result of their increasing demands for cloud services' products and solutions; and ii) increase in the number of customers due to cloud services' further penetration in existing verticals and expansion into more verticals.

Revenue from the office software and services and others for the fourth quarter of 2019 increased 52% year-on-year and 48% quarter-on-quarter to RMB565.7 million. The year-on-year increase was primarily due to strong revenue growth from WPS Office subscription services and licensing, driven by the expansion of user base and increased paid conversion rate, reflecting growing demand from personal and enterprise users and enhancement of user stickiness. The sequential increase was mainly due to strong revenue growth from WPS Office licensing and WPS Office online marketing services, resulting from positive seasonality.

Cost of Revenue and Gross Profit

Cost of revenue for the fourth quarter of 2019 increased 31% year-on-year and 9% quarter-on-quarter to RMB1,312.8 million. The year-on-year increase was primarily due to increase in bandwidth and internet data center (“IDC”) cost associating with the significant growth in cloud services business.

Gross profit for the fourth quarter of 2019 increased 70% year-on-year and 56% quarter-on-quarter to RMB1,282.0 million. The Group's gross profit margin increased by six percentage points year-on-year and eight percentage points quarter-on-quarter to 49%. The increases of the gross profit margins were mainly due to economies of scale and enhanced operational efficiency of cloud services business.

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

R&D costs, net for the fourth quarter of 2019 increased 11% year-on-year and 7% quarter-on-quarter to RMB569.3 million. The year-on-year increase was mainly due to increase of R&D personnel and their incentive and remuneration as a result of our efforts to further improve the internal R&D capability. The quarter-on-quarter increase was primarily due to the accrued year-end bonuses.

Selling and Distribution Expenses

Selling and distribution expenses for the fourth quarter of 2019 increased 45% year-on-year and 15% quarter-on-quarter to RMB312.2 million. The increases mainly reflected increased investments of the office software and services and cloud services businesses in exploring enterprise and government markets and the construction of sales channels.

Administrative Expenses

Administrative expenses for the fourth quarter of 2019 increased 28% year-on-year and 49% quarter-on-quarter to RMB186.4 million. The year-on-year increase was largely due to increased staff-related costs and professional service fees. The quarter-on-quarter increase was mainly attributable to increased professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the fourth quarter of 2019 increased 40% year-on-year and 20% quarter-on-quarter to RMB71.8 million. The increases were primarily due to the new grants of awarded shares and options to the selected employees of certain subsidiaries of the Company.

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

Operating profit before share-based compensation costs for the fourth quarter of 2019 was RMB235.0 million, compared to loss of RMB105.4 million in the corresponding period last year, and loss of RMB72.1 million in the third quarter of 2019.

Other Gains/(Losses), net

Net other gains for the fourth quarter of 2019 were RMB149.1 million, compared to net other losses of RMB8.3 million in the corresponding period last year, and net other losses of RMB87.4 million in the third quarter of 2019. The net other gains in the fourth quarter of 2019 were mainly due to the recognition of foreign exchange gain and gain on deemed disposal of partial interests in a subsidiary.

Share of Profits and Losses of Associates

We recorded share of losses of associates of RMB404.3 million for the fourth quarter of 2019, compared to share of profits of RMB260.7 million for the fourth quarter of 2018 and share of profits of RMB127.6 million for the third quarter of 2019. The losses in the fourth quarter of 2019 were mainly due to the losses recognized in Cheetah and its subsidiaries (collectively, “**Cheetah Mobile**”) in the quarter.

Income Tax Expense

Income tax expense for the fourth quarter of 2019 increased 619% year-on-year and 181% quarter-to-quarter to RMB80.1 million. The increases were primarily due to higher operating profit we recognized in this quarter.

Profit/(Loss) Attributable to Owners of the Parent

As a result of the reasons discussed above, loss attributable to owners of the parent for the fourth quarter of 2019 was RMB99.5 million, compared to profit of RMB229.1 million in the corresponding period last year, and profit of RMB36.1 million in the third quarter of 2019.

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

Profit/(loss) attributable to owners of the parent before share-based compensation costs, which is defined as profit/(loss) attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent, is a measure supplementary to the consolidated financial statements presented in accordance with IFRSs.

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

Loss attributable to owners of the parent before share-based compensation costs for the fourth quarter of 2019 was RMB55.9 million, compared to profit of RMB261.9 million in the corresponding period last year, and profit of RMB80.9 million in the third quarter of 2019. The net profit/(loss) margin excluding the effect of share-based compensation costs was (2%), 15% and 4% for the three months ended 31 December 2019, 31 December 2018 and 30 September 2019, respectively.

Year 2019 Compared to Year 2018

Revenue

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

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

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

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

Cost of Revenue and Gross Profit

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

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

R&D Costs, net

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

Selling and Distribution Expenses

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

Administrative Expenses

Administrative expenses for the year of 2019 increased 18% year-on-year to RMB529.3 million. The year-on-year increase was mainly due to increased staff-related costs and professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the year of 2019 increased 16% year-on-year to RMB244.8 million.

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

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

Other Losses, net

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

Share of Profits and Losses of Associates

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

Income Tax Expense

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

Profit/(Loss) attributable to Owners of the Parent

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

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

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

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

Liquidity and Financial Resource

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

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

Foreign Currency Risk Management

As at 31 December 2019, RMB2,204.6 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Net Cash Generated from Operating Activities

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

Net cash generated from operating activities was RMB825.0 million and RMB769.5 million for the years ended 31 December 2019 and 31 December 2018, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fixed assets and intangible assets. Cash used for capital expenditures was RMB1,361.8 million and RMB1,406.2 million for the years ended 31 December 2019 and 31 December 2018, respectively.

BUSINESS REVIEW AND PROSPECTS

Mr. Jun LEI, Chairman of the Company, commented, “Our business sustained positive momentum during the quarter. Our online games business delivered stable growth in both PC and mobile segments, while office software and services and cloud services continued to achieve robust revenue growth with accelerated deployment across industries. Meanwhile, we have completed the listing of our office software and services business, Beijing Kingsoft Office Software Inc. (“**Beijing Office Software**”), on 18 November 2019 on the science and technology innovation board of the Shanghai Stock Exchange (“**SSE STAR Market**”). Overall, we made solid progress in 2019, and we are confident in a robust operating outlook and sustained growth for 2020.”

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

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

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

- Beijing government’s cloud project was recognized as one of the “Outstanding Innovation Case Studies” in “2019 Innovation Case Studies of Government Digital Applications”.
- Kingsoft Cloud was awarded the “Outstanding Contribution Award for Fintech Product Innovation”.

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

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

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

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

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 2019, the Group employed approximately 7,137 full-time employees (2018: 6,185) inclusive of all its staff in Mainland China and overseas offices, most of whom are based at the Company's offices in Beijing and Zhuhai. The staff costs of the Group including Directors' and senior management's emoluments in 2019 and 2018 were approximately RMB2,720.5 million and RMB2,183.7 million, respectively.

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

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

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 2019.

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 2019, our Audit Committee comprised of three independent non-executive Directors, namely Ms. Wenjie WU (chairman of the Audit Committee), Mr. David Yuen Kwan TANG, and Mr. Shun Tak WONG.

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 financial statements for the year ended 31 December 2019, 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.

Scope of Work of the Auditor

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditors, Ernst & Young ("EY"), to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on the preliminary announcement.

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 15 May 2019 due to pre-arranged engagements. Non-executive Directors, Mr. Jun LEI and Mr. Chi Ping LAU, did not attend the extraordinary general meeting of the Company held on 20 December 2019 due to pre-arranged engagements. The code provision C.1.2 of the Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive Directors overseeing the daily operation of the Group and the effective communication between the executive Directors, the management and the non-executive Directors (including the independent non-executive Directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

Forward Looking Statements

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

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

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

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

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 24 March 2020

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.