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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 2016

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 2016. 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
	2016 <i>RMB'000</i>	2016 <i>HK\$'000**</i>	2015 <i>RMB'000</i>	
Revenue	8,282,128	9,258,947	5,676,106	46%
Operating profit	972,891	1,087,637	543,039	79%
Profit/(loss) attributable to owners of the parent*	(270,732)	(302,663)	369,178	Not Applicable
	<i>RMB</i>	<i>HK\$</i>	<i>RMB</i>	
Basic earnings per share	(0.21)	(0.23)	0.29	Not Applicable
Diluted earnings per share	(0.21)	(0.23)	0.29	Not Applicable

* Profit/(loss) attributable to owners of the parent before the effect of share-based compensation costs is RMB(78.4) million and RMB552.3 million for the years ended 31 December 2016 and 31 December 2015, respectively. For the year ended 31 December 2016, we made provisions for impairment of investments RMB1,258.9 million. Profit attributable to owners of the parent excluding the effect of impairment of investments is RMB915.2 million for the year ended 31 December 2016, representing a 137% increase year-over-year.

** The conversion of Renminbi (“**RMB**”) into Hong Kong Dollar (“**HK\$**”) in this announcement is based on RMB0.8945 to HK\$1.00 as published by the Bank of China on 31 December 2016. 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 2016, or at any other rate.

DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.10 per share for the year ended 31 December 2016 (2015: HK\$0.10 per share). The final dividend, subject to the approval of the shareholders at the annual general meeting (the “AGM”) of the Company to be held on 24 May 2017, is expected to be paid on 16 June 2017 to the shareholders whose names appear on the register of members of the Company on 5 June 2017.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		As at 31 December	
		2016	2015
	Notes	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		1,097,766	966,079
Prepaid land lease payments		268,046	272,386
Goodwill		954,656	619,037
Other intangible assets		295,751	246,839
Investments in joint ventures		165,512	74,291
Investments in associates		406,773	250,009
Available-for-sale investments		1,050,654	2,226,302
Other financial assets		71,091	26,294
Deferred tax assets		119,868	55,304
Other non-current assets		43,459	106,289
Total non-current assets		4,473,576	4,842,830
Current assets			
Inventories		11,098	5,371
Trade receivables	11	1,774,156	966,000
Prepayments, deposits and other receivables		1,122,028	837,398
Available-for-sale investments		204,849	50,000
Restricted cash		98,381	130,187
Pledged deposits		69,370	46,657
Cash and bank deposits		9,825,494	8,606,434
Total current assets		13,105,376	10,642,047

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) **AS AT 31 DECEMBER 2016**

		As at 31 December	
		2016	2015
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Trade payables	12	560,488	185,417
Other payables and accruals		2,123,794	1,808,689
Interest-bearing bank loans	13	379,544	147,029
Deferred revenue		547,462	425,964
Income tax payable		119,931	137,416
		<u>3,731,219</u>	<u>2,704,515</u>
Total current liabilities			
		<u>3,731,219</u>	<u>2,704,515</u>
Net current assets		<u>9,374,157</u>	<u>7,937,532</u>
Total assets less current liabilities		<u>13,847,733</u>	<u>12,780,362</u>
Non-current liabilities			
Other liabilities		39,508	72,105
Deferred revenue		37,609	24,141
Deferred tax liabilities		122,201	62,540
Interest-bearing bank loans	13	438,330	10,523
Liability component of convertible bonds	14	2,911,354	2,699,698
Liability component of redeemable convertible preferred shares		297,007	—
		<u>3,846,009</u>	<u>2,869,007</u>
Total non-current liabilities			
		<u>3,846,009</u>	<u>2,869,007</u>
Net assets		<u>10,001,724</u>	<u>9,911,355</u>
Equity			
Equity attributable to owners of the parent			
Issued capital		5,097	5,092
Share premium account		2,369,129	2,474,663
Treasury shares		(25,477)	(34,766)
Equity component of convertible bonds	14	72,295	72,295
Other reserves		5,466,163	5,353,356
		<u>7,887,207</u>	<u>7,870,640</u>
Non-controlling interests		<u>2,114,517</u>	<u>2,040,715</u>
Total equity		<u>10,001,724</u>	<u>9,911,355</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

		Year ended 31 December	
		2016	2015
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue			
Online game		2,545,671	1,368,811
Cheetah Mobile		4,448,591	3,660,048
Cloud service, office software and others		1,287,866	647,247
		8,282,128	5,676,106
Cost of revenue		(2,662,370)	(1,319,399)
Gross profit		5,619,758	4,356,707
Research and development costs, net		(1,839,603)	(1,347,566)
Selling and distribution expenses		(1,958,356)	(1,755,727)
Administrative expenses		(565,368)	(442,577)
Share-based compensation costs	7	(361,019)	(356,012)
Other income		153,843	147,364
Other expenses		(76,364)	(59,150)
Operating profit		972,891	543,039
Other losses, net	6	(1,189,774)	(73,819)
Finance income		173,718	194,511
Finance costs		(114,997)	(78,067)
Share of profits and losses of:			
Joint ventures		100,481	(24,005)
Associates		(66,747)	(19,299)
Profit/(loss) before tax	5	(124,428)	542,360
Income tax expense	8	(167,847)	(200,656)
Profit/(loss) for the year		(292,275)	341,704
Attributable to:			
Owners of the parent		(270,732)	369,178
Non-controlling interests		(21,543)	(27,474)
		(292,275)	341,704
		<i>RMB</i>	<i>RMB</i>
Earnings per share attributable to ordinary equity holders of the parent	10		
Basic		(0.21)	0.29
Diluted		(0.21)	0.29

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
PROFIT/(LOSS) FOR THE YEAR	(292,275)	341,704
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	(853,550)	186,632
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss		
— gain on disposal	(24,338)	(940)
— impairment losses	914,541	25,891
Income tax effects	(9,500)	—
Exchange differences on translation of foreign operations	265,284	278,776
Share of other comprehensive income of an associate	—	559
Disposal of an associate	129	—
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	292,566	490,918
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	292,566	490,918
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	291	832,622
Attributable to:		
Owners of the parent	(42,750)	774,513
Non-controlling interests	43,041	58,109
	291	832,622

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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

These reserve accounts comprise the consolidated other reserves of RMB5,466,163,000 (2015: RMB5,353,356,000) 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	Available-for-sale investment revaluation reserve RMB'000	Foreign currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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 related to 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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Net cash flows from operating activities	1,393,218	1,435,334
Net cash flows used in investing activities	(3,127,785)	(471,910)
Net cash flows from financing activities	<u>600,815</u>	<u>2,233,959</u>
Net (decrease)/increase in cash and cash equivalents	(1,133,752)	3,197,383
Cash and cash equivalents at beginning of year	6,629,275	3,193,934
Effect of foreign exchange rate changes, net	<u>280,813</u>	<u>237,958</u>
Cash and cash equivalents at end of year	5,776,336	6,629,275
Non-pledged time deposits with original maturity of over three months when acquired	1,229,887	356,939
Principle protected structure deposits with original maturity of over three months when acquired	<u>2,819,271</u>	<u>1,620,220</u>
Cash and bank deposits as stated in the consolidated statement of financial position	<u><u>9,825,494</u></u>	<u><u>8,606,434</u></u>

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
- provision of cloud storage, cloud computation services, research, development and distribution of office application software, provision of 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, other financial assets, contingent consideration and certain derivative financial instruments, which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

3. Changes in accounting policy and disclosures

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

Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
IFRS 14	<i>Regulatory Deferral Account</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
Annual Improvements 2012–2014 Cycle	<i>Amendments to a number of IFRSs</i>

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

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 cloud services, office software and others segment engages in provision of cloud storage and cloud computation services, the research, development and distribution of office application software, dictionary services across devices and 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/loss before tax except that administrative expenses, share-based compensation costs, other income, other expenses, net other losses, finance income, finance costs, share of profits and losses of joint ventures and associates are excluded from such measurement.

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

On 19 January 2016, Cheetah Mobile purchased 4.63% equity interest in Kingsoft Japan from third-parties, and thereafter have been holding in aggregate 46.1% equity interest of Kingsoft Japan. On 29 January 2016, Cheetah Mobile entered into an agreement with the Company, pursuant to which, the Company delegated 5% voting rights in Kingsoft Japan to Cheetah Mobile. As a result, Cheetah Mobile controls Kingsoft Japan by virtue of its power to have major voting rights in the shareholders meeting of Kingsoft Japan. Accordingly, the directors of the Company decided to reclassify the results of Kingsoft Japan from cloud services, office software and others segment to information security and internet services segment. Segment information of the comparative period has been restated to conform to the current period's presentation to facilitate comparison in accordance with IFRS 8 Operating Segments.

4. Segment information (continued)

Year ended 31 December 2016	Entertainment software RMB'000	Information security and internet services RMB'000	Cloud services, office software and others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	2,545,671	4,448,591	1,287,866	8,282,128
Intersegments sales	<u>4,616</u>	<u>90</u>	<u>90,813</u>	<u>95,519</u>
	2,550,287	4,448,681	1,378,679	8,377,647
<i>Reconciliation:</i>				
Elimination of intersegments sales				<u>(95,519)</u>
Revenue				<u><u>8,282,128</u></u>
Segment results	1,279,532	627,708	(77,254)	1,829,986
<i>Reconciliation:</i>				
Elimination of intersegments results				(8,187)
Administrative expenses				(565,368)
Share-based compensation costs				(361,019)
Other income				153,843
Other expenses				(76,364)
Other losses, net				(1,189,774)
Finance income				173,718
Finance costs				(114,997)
Share of profits and losses of:				
Joint ventures				100,481
Associates				<u>(66,747)</u>
Loss before tax				<u><u>(124,428)</u></u>

4. Segment information (continued)

Year ended 31 December 2015 (Restated)	Entertainment software RMB'000	Information security and internet services RMB'000	Cloud services, office software and others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	1,368,811	3,660,048	647,247	5,676,106
Intersegments sales	11,207	—	67,864	79,071
	1,380,018	3,660,048	715,111	5,755,177
<i>Reconciliation:</i>				
Elimination of intersegments sales				(79,071)
Revenue				5,676,106
Segment results	514,911	777,456	(36,963)	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				(59,150)
Other losses, net				(73,819)
Finance income				194,511
Finance costs				(78,067)
Share of losses of:				
Joint ventures				(24,005)
Associates				(19,299)
Profit before tax				542,360

4. Segment information (continued)

Geographical information

(a) Revenue from external customers:

	2016 RMB'000	2015 RMB'000
Mainland China	5,484,931	3,671,641
Hong Kong	1,533,757	1,683,637
Singapore	956,145	—
Other countries	307,295	320,828
Total	<u>8,282,128</u>	<u>5,676,106</u>

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

(b) Non-current assets:

	2016 RMB'000	2015 RMB'000
China	2,276,874	1,858,088
France	664,317	—
Other countries	260,153	575,372
Total	<u>3,201,344</u>	<u>2,433,460</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/(loss) before tax

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

	2016 RMB'000	2015 <i>RMB'000</i>
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	1,756,293	1,208,021
Social insurance costs and staff welfare	316,648	246,664
Share-based compensation costs	361,019	356,012
Pension plan contributions	166,147	117,182
	2,600,107	1,927,879
Minimum lease payments under operating leases	986,233	477,209
Cost of inventories sold	7,440	33,256
Cost of services provided	1,247,579	465,120
Depreciation	313,296	187,764
Amortisation of prepaid land lease payments	4,340	4,340
Amortisation of other intangible assets	133,117	134,119
Loss on disposal of items of intangible assets*	829	3,590
Impairment of other intangible assets*	2,889	25,250
Impairment of trade and other receivables*	54,975	10,347
Donations*	160	1,000
Interest income from loans to related parties	(3,282)	(2,482)
Bank interest income	(167,539)	(191,991)

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

6. Other losses, net

	2016 RMB'000	2015 RMB'000
Gain on previously held equity investment remeasured at acquisition date fair value	—	15,030
Gain on deemed disposal of associates	31,669	16,373
Gain on partial disposal of an associate	9,646	13,000
Gain on disposal of associates	46,148	626
Gain on deemed disposal of a joint venture	—	527
Gain on disposal of a subsidiary and a business	13,571	676
Gain on disposal of available-for-sale investments	25,058	5,092
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)
Impairment loss of goodwill	—	(23,746)
Impairment loss of available-for-sale investments	(1,239,160)	(33,565)
Impairment loss of investments in associates	(1,739)	(1,380)
Impairment loss of investments in joint ventures	(18,010)	(1,425)
Impairment loss of property, plant and equipment	(20,750)	—
Loss on disposal of items of property, plant and equipment	(28,179)	(990)
Foreign exchange loss	(30,405)	(26,721)
Fair value gain/(loss) on financial instruments at fair value through profit or loss	22,377	(41,260)
	<u>(1,189,774)</u>	<u>(73,819)</u>

7. Share-based compensation costs

(a) Share option schemes

2004 and 2007 Pre-IPO Share Option Schemes

The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme (collectively, the “**Pre-IPO Share Option Schemes**”) in September 2004 (“**2004 Scheme**”) and January 2007 (“**2007 Scheme**”) respectively. The Pre-IPO Share Option Schemes were terminated on 3 September 2007. No share options have been granted under these two schemes since then.

7. Share-based compensation costs (continued)

(a) Share option schemes (continued)

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

The following shows share options outstanding under the 2004 Scheme and 2007 Scheme during the years ended 31 December 2016 and 2015, and their weighted average exercise prices (“WAEP”):

	2016 Number of share options	2016 WAEP US\$ per share	2015 Number of share options	2015 WAEP US\$ per share
2004 Scheme				
Outstanding at 1 January	—	—	53,240	0.0506
Exercised during the year	—	—	(53,240)	0.0506
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Outstanding at 31 December	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Exercisable at 31 December	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
2007 Scheme				
Outstanding at 1 January	4,622,100	0.2412	5,312,500	0.2412
Forfeited during the year	(26,000)	0.4616	—	—
Exercised during the year	(1,506,400)	0.2400	(690,400)	0.2406
	<u>3,089,700</u>	<u>0.2400</u>	<u>4,622,100</u>	<u>0.2412</u>
Outstanding at 31 December	3,089,700	0.2400	4,622,100	0.2412
	<u>3,089,700</u>	<u>0.2400</u>	<u>4,622,100</u>	<u>0.2412</u>
Exercisable at 31 December	3,089,700	0.2400	4,622,100	0.2412
	<u>3,089,700</u>	<u>0.2400</u>	<u>4,622,100</u>	<u>0.2412</u>

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, 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.

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 2016 and 2015:

	2016	2016	2015	2015
	Number of	WAEP HK\$	Number of	WAEP HK\$
	share options	per share	share options	per share
Outstanding at 1 January	5,900,000	2.99	8,900,000	2.95
Forfeited during the year	<u>—</u>	<u>—</u>	<u>(3,000,000)</u>	2.89
Outstanding at 31 December	<u>5,900,000</u>	<u>2.99</u>	<u>5,900,000</u>	2.99
Exercisable at 31 December	<u>5,300,000</u>	<u>3.02</u>	<u>4,700,000</u>	2.99

(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 was 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.

7. Share-based compensation costs (continued)

(b) Share Award Scheme (continued)

The following awarded shares were outstanding under the Share Award Scheme during the years ended 31 December 2016 and 2015:

	2016	2015
	Number of Awarded Shares	Number of Awarded Shares
Outstanding as at 1 January	6,109,601	11,597,068
Granted during the year	30,000	285,000
Forfeited during the year	(668,300)	(4,052,000)
Exercised and transferred during the year	(3,865,000)	(1,720,467)
	<u>1,606,301</u>	<u>6,109,601</u>
Outstanding as at 31 December	<u>1,606,301</u>	<u>6,109,601</u>
	<u>50,500</u>	<u>31,000</u>
Exercisable as at 31 December	<u>50,500</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% (2015: 16.5%) on estimated assessable profits arising in Hong Kong during the year ended 31 December 2016.

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

	2016	2015
	RMB'000	RMB'000
Current — Mainland China	135,166	149,720
Current — Hong Kong	19,443	20,830
Current — Elsewhere	24,343	16,795
Deferred	(11,105)	13,311
	<u>167,847</u>	<u>200,656</u>
Total tax charge for the year	<u>167,847</u>	<u>200,656</u>

9. Dividends

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Final dividend proposed (notes (a) and (b)):		
HK\$0.10 (2015: HK\$0.10) per share		
based on issued share capital as at year end	116,643	109,122
Less: Dividend for shares held for share award scheme		
as at year end	<u>(967)</u>	<u>(1,227)</u>
	<u>115,676</u>	<u>107,895</u>

Notes:

- (a) The actual amount of the 2015 dividend finally paid was RMB110.1 million, after eliminating the amount of RMB1.2 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 1,290,193,487 (2015: 1,271,480,719) 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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent	(270,732)	369,178
Decrease in earnings adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries	<u>—</u>	<u>(2,524)</u>
	<u>(270,732)</u>	<u>366,654</u>
	Number of shares	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue less shares held for the share award schemes	1,290,193,487	1,271,480,719
Effect of dilution — weighted average number of ordinary shares:		
Share options	—	9,554,323
Awarded shares	<u>—</u>	<u>5,267,400</u>
	<u>1,290,193,487</u>	<u>1,286,302,442</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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0 to 30 days	908,394	618,235
31 to 60 days	191,128	114,974
61 to 90 days	456,060	71,687
91 to 365 days	144,024	116,429
Over one year	<u>74,550</u>	<u>44,675</u>
	<u>1,774,156</u>	<u>966,000</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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0 to 30 days	331,638	138,561
31 to 60 days	60,214	10,806
61 to 90 days	111,861	4,968
91 to 365 days	51,213	22,779
Over one year	5,562	8,303
	<u>560,488</u>	<u>185,417</u>

13. Interest-bearing bank loans

	<i>Notes</i>	Effective interest rate	Maturity	Principal amount <i>RMB'000</i>
At 31 December 2016				
Current				
Bank loan — secured	(b)	2.07%–2.41% per annum	2017	346,850
Current portion of long term bank loans-unsecured		0.00%–3.02% per annum	2017	<u>32,694</u>
				379,544
Non-current				
Bank loans — unsecured		0.00%–4.28% per annum	2018–2021	<u>438,330</u>
				<u>817,874</u>

13. Interest-bearing bank loans (continued)

	<i>Notes</i>	Effective interest rate	Maturity	Principal amount <i>RMB'000</i>
At 31 December 2015				
Current				
Bank loan — secured	(b)	0.94%–2.07% per annum	2016	146,628
Current portion of long term bank loans — unsecured		1.98%–2.92% per annum	2016	401
				<u>147,029</u>
Non-Current				
Bank loans — unsecured		1.98%–2.92% per annum	2017–2021	<u>10,523</u>
				<u>157,552</u>
			2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Analysed into:				
Within one year or on demand			379,544	147,029
In the second year			96,045	2,273
In the third to fifth year, inclusive			342,285	6,558
Beyond five year			<u>—</u>	<u>1,692</u>
			<u>817,874</u>	<u>157,552</u>

- (a) The Group has overdraft facilities amounting to US\$110.0 million, RMB400.0 million and nil, respectively (2015: US\$50.0 million, nil and HK\$100.0 million, respectively), of which US\$69.8 million, RMB319.5 million and nil, respectively (2015: US\$20.0 million, nil and HK\$20.0 million, respectively) had been utilised as at the end of reporting period.
- (b) Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB69.4 million (2015: RMB46.7 million).
- (c) As at 31 December 2016, interest-bearing bank loans of the Group amounting to nil, RMB447.4 million, RMB51.0 million and RMB319.5 million were denominated in HK\$, US\$, Euro and RMB, respectively (2015: RMB16.8 million, RMB129.9 million, RMB10.9 million and nil, respectively).

14. Convertible bonds

- (a) On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HK\$1,356.0 million which bear interest at a rate of 3.00% 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.

In accordance with the respective terms and conditions of the 2013 Convertible Bonds, the distribution in specie of American depositary share (the “**ADS**”) of Cheetah Mobile in May 2014, the payment of a final dividend of HK\$0.12 per share for the financial year of 2013 and the payment of the 2014 final dividend resulted in an adjustment to the conversion prices of each of the 2013 Convertible Bonds. Considering the 2014 final dividend has been approved by the shareholders at the annual general meeting, the adjustment became effective on 2 June 2015, and the conversion price of the 2013 Convertible Bonds was adjusted to HK\$16.70 per share.

In accordance with the respective terms and conditions of the 2013 Convertible Bonds, the issue of 100,000,000 additional shares in June 2015 and the payment of the 2015 final dividend resulted in a further adjustment to the conversion prices of each of the 2013 Convertible Bonds. Considering the 2015 final dividend has been approved by the shareholders at the annual general meeting, the adjustment became effective on 2 June 2016, and the conversion price of the 2013 Convertible Bonds was adjusted to HK\$16.46 per share.

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\$1,000.0 million.

There was no conversion or redemption of the 2013 Convertible Bonds during the year ended 31 December 2016.

14. Convertible bonds (continued)

- (b) On 11 April 2014, the Company issued five-year convertible bonds in the principal amount of HK\$2,327.0 million which bear interest at a rate of 1.25% per annum payable semi-annually (the “**2014 Convertible Bonds**”). The 2014 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 22 May 2014 to the close of business on the date falling 10 days prior to the maturity date, at a price of HK\$43.89 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding 2014 Convertible Bonds at the principal amount together with the interest accrued by giving the bondholders not less than 30 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.

Similar to the 2013 Convertible Bonds, the conversion price of the 2014 Convertible Bonds was adjusted to HK\$43.29 per share on 2 June 2015 and further adjusted to HK\$42.67 on 2 June 2016.

There was no conversion or redemption of the 2014 Convertible Bonds during the years ended 31 December 2016 and 2015.

15. Events after the reporting period

On 12 February 2017, the Company entered into a voting proxy agreement with Mr. Sheng FU, the chief executive officer and director of Cheetah Mobile. Pursuant to this agreement, the Company will delegate the voting rights of Cheetah Mobile attached to not more than 399,445,025 class B ordinary shares of Cheetah Mobile to Mr. Sheng FU (as the representative of the management of Cheetah Mobile), subject to certain conditions.

Upon completion of the transaction, the Group will lose control over Cheetah Mobile and Cheetah Mobile will be accounted as an associate of the Company.

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	31 December 2016	30 September 2016	30 June 2016	31 March 2016	31 December 2015	30 September 2015	30 June 2015	31 March 2015
Online Games								
Daily Average Peak Concurrent Users (“ADPCU”)	1,018,826	982,914	909,591	543,836	542,384	562,354	607,571	672,779
Monthly Average Paying Accounts (“APA”)	<u>4,523,832</u>	<u>4,482,024</u>	<u>4,822,356</u>	<u>2,960,358</u>	<u>2,919,683</u>	<u>3,301,297</u>	<u>3,438,493</u>	<u>3,069,052</u>
	In December 2016	In September 2016	In June 2016	In March 2016	In December 2015	In September 2015	In June 2015	In March 2015
Cheetah Mobile								
Mobile Monthly Active Users (“MAU”) (Million)	623	612	623	651	635	567	494	444
% of Mobile MAU from Overseas Markets	81%	80%	79%	79%	79%	74%	71%	71%
Mobile Users Installations (Million)	3,810	3,464	3,099	2,762	2,341	1,942	1,596	1,341

FINANCIAL HIGHLIGHTS

	Three months ended		
	31 December 2016 RMB'000 (Unaudited)	30 September 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Unaudited)
Revenue			
Online game	820,087	791,920	414,952
Cheetah Mobile	1,245,813	1,103,578	1,118,695
Cloud service, office software and others	472,852	331,303	244,079
	<u>2,538,752</u>	<u>2,226,801</u>	<u>1,777,726</u>
Cost of revenue	<u>(845,884)</u>	<u>(786,294)</u>	<u>(419,519)</u>
Gross profit	1,692,868	1,440,507	1,358,207
Research and development costs, net	(523,484)	(490,608)	(365,237)
Selling and distribution expenses	(512,783)	(472,247)	(592,577)
Administrative expenses	(134,895)	(146,095)	(94,017)
Share-based compensation costs	(60,817)	(83,260)	(112,807)
Other income	48,951	32,523	82,700
Other expenses	<u>(28,992)</u>	<u>(16,037)</u>	<u>(24,795)</u>
Operating profit	480,848	264,783	251,474
Other losses, net	(140,524)	(116,606)	(64,864)
Finance income	46,099	43,636	46,130
Finance costs	(33,111)	(32,949)	(17,735)
Share of profits and losses of:			
Joint ventures	46,554	53,282	(4,821)
Associates	<u>(17,363)</u>	<u>(16,715)</u>	<u>(2,038)</u>
Profit before tax	382,503	195,431	208,146
Income tax expense	<u>(49,404)</u>	<u>(35,331)</u>	<u>(112,934)</u>
Profit for the period	<u>333,099</u>	<u>160,100</u>	<u>95,212</u>
Attributable to:			
Owners of the parent	261,326	141,693	113,116
Non-controlling interests	<u>71,773</u>	<u>18,407</u>	<u>(17,904)</u>
	<u>333,099</u>	<u>160,100</u>	<u>95,212</u>
Earnings per share attributable to ordinary equity holders of the parent	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
Basic	0.20	0.11	0.09
Diluted	<u>0.20</u>	<u>0.11</u>	<u>0.09</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Online game	2,545,671	1,368,811
Cheetah Mobile	4,448,591	3,660,048
Cloud services, office software and others	1,287,866	647,247
	<u>8,282,128</u>	<u>5,676,106</u>
Cost of revenue	<u>(2,662,370)</u>	<u>(1,319,399)</u>
Gross profit	5,619,758	4,356,707
Research and development costs, net	(1,839,603)	(1,347,566)
Selling and distribution expenses	(1,958,356)	(1,755,727)
Administrative expenses	(565,368)	(442,577)
Share-based compensation costs	(361,019)	(356,012)
Other income	153,843	147,364
Other expenses	(76,364)	(59,150)
	<u>972,891</u>	<u>543,039</u>
Operating profit	972,891	543,039
Other losses, net	(1,189,774)	(73,819)
Finance income	173,718	194,511
Finance costs	(114,997)	(78,067)
Share of profits and losses of:		
Joint ventures	100,481	(24,005)
Associates	(66,747)	(19,299)
	<u>(124,428)</u>	<u>542,360</u>
Profit/(loss) before tax	(124,428)	542,360
Income tax expense	(167,847)	(200,656)
	<u>(292,275)</u>	<u>341,704</u>
Profit/(loss) for the year	(292,275)	341,704
Attributable to:		
Owners of the parent	(270,732)	369,178
Non-controlling interests	(21,543)	(27,474)
	<u>(292,275)</u>	<u>341,704</u>
Earnings per share attributable to ordinary equity holders of the parent	<i>RMB</i>	<i>RMB</i>
Basic	(0.21)	0.29
Diluted	(0.21)	0.29

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2016 Compared to Third Quarter of 2016 and Fourth Quarter of 2015

Revenue

Revenue for the fourth quarter of 2016 increased 14% quarter-over-quarter and 43% year-over-year to RMB2,538.8 million. Revenues from the online game, Cheetah Mobile and cloud services, office software and others businesses represented 32%, 49% and 19%, respectively, of the Group's total revenue for the fourth quarter of 2016. Revenues from the three business lines reflect revenue earned by each of the business lines after elimination 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 (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 2016 increased 4% quarter-over-quarter and 98% year-over-year to RMB820.1 million. The steady quarter-over-quarter increase was primarily attributable to the launch and outstanding performance of JX Online I mobile game in Vietnam. The robust year-over-year increase was mainly due to the great contribution from newly released JX Online I mobile game, and the strong and sustainable growth of JX Online III with enhanced user experience.

ADPCU for the Group's online games for the fourth quarter of 2016 increased 4% quarter-over-quarter and 88% year-over-year to 1.0 million. The quarter-over-quarter increase of ADPCU was due to the successful launch of JX Online I mobile game in Vietnam. The year-over-year increase of ADPCU was mainly due to the launch of the first and second JX Online mobile games. APA for the Group's online games for the fourth quarter of 2016 increased 1% quarter-over-quarter and 55% year-over-year to 4.5 million. The year-over-year increase was mainly due to the growing community of players of JX Online III and successful launch of the first and second JX Online mobile games.

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 2016 increased 13% quarter-over-quarter and 11% year-over-year to RMB1,245.8 million. The solid increases were driven by the steady and sustained revenue growth from Cheetah Mobile's utility applications and the contribution from new content-driven applications, namely Live.me and News Republic.

Mobile MAU from Cheetah Mobile increased 2% quarter-over-quarter and decreased 2% year-over-year to 623 million in December 2016. In December 2016, approximately 81% of mobile MAU were from oversea markets, as compared to approximately 79% in December 2015. Our mobile user installations as of 31 December 2016 have reached to 3.8 billion, representing a 10% increase quarter-over-quarter and a 63% increase year-over-year. The increases reflected Cheetah Mobile's mission-critical utility applications and casual games continued to gain favor among users worldwide with better user experience through big data technology.

Revenue from the cloud services, office software and others business consists of revenues from all the other businesses, including cloud storage and computation, office application software, dictionary services, etc. Revenue from the cloud services, office software and others business for the fourth quarter of 2016 increased 43% quarter-over-quarter and 94% year-over-year to RMB472.9 million. The quarter-over-quarter increase was primarily due to: i) the strong growth of WPS online marketing services and sales of WPS Office in peak season; and ii) the rapid growth of cloud storage and computing service by further penetrating into certain vertical industries, including video, mobile game and public government cloud. The year-over-year increase mainly reflected: i) the great progress of Kingsoft Cloud made in expanding the market share in video and mobile game industries; and ii) the improvement of WPS in monetizing traffic from PC and mobile versions.

Cost of Revenue and Gross Profit

Cost of revenue for the fourth quarter of 2016 increased 8% quarter-over-quarter and 102% year-over-year to RMB845.9 million. The quarter-over-quarter increase was largely due to the increased content investment for Cheetah Mobile's content-driven applications, as well as higher bandwidth and internet data center costs associated with increased user usage and traffic of cloud services. The year-over-year increase was mainly due to the greater sharing cost associated with the launch of JX Online I mobile game, increased investments in content for the Cheetah Mobile's content-driven products, and higher bandwidth and internet data center costs associated with increased user usage and traffic of cloud services and Cheetah Mobile.

Gross profit for the fourth quarter of 2016 increased 18% quarter-over-quarter and 25% year-over-year to RMB1,692.9 million. The Group's gross profit margin increased by two percentage points quarter-over-quarter and decreased by nine percentage points year-over-year to 67%.

Research and Development ("R&D") Costs, net

R&D costs, net for the fourth quarter of 2016 increased 7% quarter-over-quarter and 43% year-over-year to RMB523.5 million. The increases were mainly due to higher staff-related costs and research and development investments.

Selling and Distribution Expenses

Selling and distribution expenses for the fourth quarter of 2016 increased 9% quarter-over-quarter and decreased 13% year-over-year to RMB512.8 million. The quarter-over-quarter increase was mainly due to the spending on promotional activities of online games. The year-over-year decrease was primarily due to lower expenses on promotional activities as a result of the Cheetah Mobile's implementation of strict cost control for its utility applications, which was partially offset by increased product promotional activities for its content-driven applications.

Administrative Expenses

Administrative expenses for the fourth quarter of 2016 decreased 8% quarter-over-quarter and increased 43% year-over-year to RMB134.9 million. The quarter-over-quarter decrease was primarily driven by lower professional service fee. The year-over-year increase was mainly due to an increase in staff-related costs.

Share-based Compensation Costs

Share-based compensation costs for the fourth quarter of 2016 decreased 27% quarter-over-quarter and 46% year-over-year to RMB60.8 million.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the fourth quarter of 2016 increased 56% quarter-over-quarter and 49% year-over-year to RMB541.7 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 2016 increased by five percentage points quarter-over-quarter and increased by one percentage point year-over-year to 21%.

Other Income

Other income for the fourth quarter of 2016 increased 51% quarter-over-quarter and decreased 41% year-over-year to RMB49.0 million. The increase primarily reflected the government financial incentives we received in the fourth quarter of 2016.

Other Losses, net

Net other losses of RMB140.5 million recorded for the fourth quarter of 2016, as compared to losses of RMB116.6 million for the third quarter of 2016 and losses of RMB64.9 million for the fourth quarter of 2015. The losses in the fourth quarter of 2016 were mainly due to the additional provision for impairment on the carrying value of investments in XunLei Limited (“**XunLei**”) and 21Vianet, Inc. (“**21Vianet**”), as their further decrease of the market value in the fourth quarter. The losses in the third quarter of 2016 were mainly due to the provisions for impairment on the carrying value of investments in 21Vianet.

Finance Income

Finance income for the fourth quarter of 2016 increased 6% quarter-over-quarter and kept flat year-over-year to RMB46.1 million.

Income Tax Expense

Income tax expense for the fourth quarter of 2016 increased 40% quarter-over-quarter and decreased 56% year-over-year to RMB49.4 million. Excluding share-based compensation costs and the non-tax-deductible provision for the impairment loss of investments, our effective tax rate would have been 8% in the fourth quarter of 2016.

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 2016 increased 84% quarter-over-quarter and 131% year-over-year to RMB261.3 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, being profit 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 attributable to owners of the parent before share-based compensation costs will enable the investor to better understand the Group's overall operating performance. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our profit or any other operating performance measure that is calculated in accordance with IFRSs. In addition, our profit attributable to owners of the parent before share-based compensation costs may not be comparable to similarly titled measures utilized by other companies.

Profit attributable to owners of the parent before share-based compensation costs for the fourth quarter of 2016 increased 57% quarter-over-quarter and 104% year-over-year to RMB291.8 million. The net profit margin excluding the effect of share-based compensation costs was 11%, 8% and 8% for the three months ended 31 December 2016, 30 September 2016 and 31 December 2015, respectively.

Year 2016 Compared to Year 2015

Revenue

Revenue for the year of 2016 increased 46% year-over-year to RMB8,282.1 million. Approximately 31% of the revenue was generated from the online game business, 53% of the revenue was generated from Cheetah Mobile business and 16% of the revenue was generated from the cloud services, office software and others.

— *Online game*

Revenue from the online game business for the year of 2016 increased 86% year-over-year to RMB2,545.7 million. The increase was mainly driven by the remarkable performance of the newly launched JX Online I mobile game and the constant and robust revenue growth of JX Online III, reflecting our commitment to developing high quality games.

— *Cheetah Mobile*

Revenue from Cheetah Mobile business for the year of 2016 increased 22% year-over-year to RMB4,448.6 million. The increase was mainly driven by the robust revenue growth of Cheetah Mobile's mobile advertising business, light casual games as well as the new content-driven applications.

— *Cloud services, office software and others*

Revenue from the cloud services, office software and others for the year of 2016 increased 99% year-over-year to RMB1,287.9 million. The year-over-year increase was primarily attributable to: i) the rapid expansion of cloud service in video and mobile game industries; 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 2016 increased 102% year-over-year to RMB2,662.4 million. The increase in cost of revenue was mainly due to: 1) higher bandwidth and internet data center costs associated with increased user usage and traffic of cloud services and Cheetah Mobile; 2) increased traffic acquisition costs and content costs associated with Cheetah Mobile's utility and content-driven applications; 3) greater sharing cost associated with JX Online I mobile game.

Gross profit for the year of 2016 increased 29% year-over-year to RMB5,619.8 million. The Group's gross profit margin decreased by nine percentage points year-over-year to 68%.

R&D Costs, net

R&D costs, net for the year of 2016 increased 37% year-over-year to RMB1,839.6 million. The year-over-year increase was primarily driven by an increase in personnel-related costs with increased investments in big data analytics and new product development, as well as an increase in the salaries.

Selling and Distribution Expenses

Selling and distribution expenses for the year of 2016 increased 12% year-over-year to RMB1,958.4 million. The year-over-year increase was primarily due to increased promotional activities for Cheetah Mobile's content-driven applications.

Administrative Expenses

Administrative expenses for the year of 2016 increased 28% year-over-year to RMB565.4 million. The year-over-year increase was mainly due to an increase in headcounts and staff-related costs and higher professional service fee.

Share-based Compensation Costs

Share-based compensation costs for the year of 2016 increased 1% year-over-year to RMB361.0 million.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the year of 2016 increased 48% year-over-year to RMB1,333.9 million as a result of the combination of above reasons. The margin of operating profit before share-based compensation costs kept flat year-over-year to 16%.

Other Losses, net

Net other losses of RMB1,189.8 million recorded for the year of 2016, as compared to a loss of RMB73.8 million for the year of 2015. The losses of 2016 were mainly due to the provisions for impairment on the carrying value of investments in XunLei and 21Vianet, respectively, as there was a significant or prolonged decline in the market value of the investments in XunLei and 21Vianet below the costs.

Finance Income

Finance income for the year of 2016 decreased 11% year-over-year to RMB173.7 million.

Income Tax Expense

Income tax expenses for the year of 2016 decreased 16% year-over-year to RMB167.8 million. Excluding share-based compensation costs and the non-tax-deductible provision for the impairment loss of investments, our effective tax rate would have been 11% in the year of 2016.

Profit/(loss) attributable to Owners of the Parent

For the reasons described above, profit/(loss) attributable to owners of the parent was RMB(270.7) million and RMB369.2 million for the year 2016 and 2015, respectively.

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

Profit/(loss) attributable to owners of the parent before share-based compensation costs was RMB(78.4) million and RMB552.3 million for the year 2016 and 2015, respectively.

The net profit/(loss) margin excluding the effect of share-based compensation costs was (1%) and 10% for the year 2016 and 2015, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 December 2016, 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 RMB5,776.3 million and RMB4,049.2 million, respectively, which totally represented 56% of the Group's total assets.

As at 31 December 2016, the Group's gearing ratio, which represents total liabilities divided by total assets, was 43%, as compared to 36% as at 31 December 2015. As at 31 December 2016, the Group had debts of convertible bonds of HK\$3,254.8 million (equivalent to RMB2,911.4 million) and bank loans of RMB319.5 million, US\$64.5 million (equivalent to RMB447.4 million) and EUR7.0 million (equivalent to RMB51.0 million).

Foreign Currency Risk Management

Certain expenses of the Group were denominated in currencies other than 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 2016, RMB4,840.5 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 RMB1,393.2 million and RMB1,435.3 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fixed assets and intangible assets. Cash used for capital expenditures was RMB1,023.4 million and RMB806.1 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Impairment Losses under Other Losses, net

The Company recorded impairment losses for available-for-sale investments of approximately RMB1,239.2 million during the year ended 31 December 2016, the substantial part of which is from the provisions for impairment on the carrying value of the Group's investment in Xunlei and 21Vianet.

Xunlei is a leading cloud-based acceleration technology company in China, whose ordinary shares have been listed on The NASDAQ Global Select Market under the symbol "XNET" by way of ADSs since June 2014. In April 2014, the Group subscribed for 31,939,676 series E preferred shares of Xunlei for a total consideration of US\$90.00 million (the "**Xunlei Investment**"). In September 2014, all the series E preferred shares held by the Group were converted into ordinary shares of Xunlei. As at 30 June 2016, the Company held 37,500,000 ordinary shares (equivalent to 7,500,000 ADSs) in Xunlei and the market price of Xunlei's ADS fell to US\$5.24 per ADS, representing a 56% decline compared with the Group's investment cost of US\$12 per ADS, which is a significant decline in the market value of the Xunlei Investment below the costs. As such, the Group made provision for impairment on the carrying value of the Xunlei Investment as at 30 June 2016. As Xunlei is a listed company, its fair value can be determined by the number of shares held multiplied by the market price as at the reporting date. Taking this into account, there was no independent valuer engaged to determine the fair value in relation to the Xunlei Investment. The impairment loss recognised is the difference between the market value as at 30 June 2016 and the investment cost. As such, the impairment loss in relation to the Xunlei Investment amounted to US\$50.70 million as of 30 June 2016, being the result of US\$39.30 million (the market value of the Xunlei Investment as at 30 June 2016) minus US\$90.00 million (the total investment cost of the Xunlei Investment). As at 30 September 2016, the market price of the ADS of Xunlei was US\$5.39 per ADS, representing a slight increase as compared with its market price of US\$5.24 per ADS as at 30 June 2016. In

accordance with IFRSs, such increase has been recognised in other comprehensive income, and the amount of the provision for the Xunlei Investment as at 30 September 2016 remained the same as that as at 30 June 2016. As at 31 December 2016, the market price of Xunlei's ADS was US\$3.86 per ADS, representing a further decrease as compared with its market price of US\$5.24 per ADS as at 30 June 2016. In accordance with IFRSs, any subsequent losses, including any portion attributable to foreign currency changes, are also recognised in profit or loss until the underlying asset is derecognised. As such, the Company made an additional provision for the Xunlei Investment of approximately US\$10.35 million for the three months ended 31 December 2016. For the year ended 31 December 2016, the Company made provision for the Xunlei Investment of approximately US\$61.05 million in total.

21Vianet is a leading carrier-neutral Internet data center services provider in China, whose ordinary shares had been listed on The NASDAQ Global Select Market under the symbol "VNET" by way of ADSs since April 2011. In November 2014, the Group subscribed for 39,087,125 class A ordinary shares and 18,250,268 class B ordinary shares of 21Vianet for a total consideration of approximately US\$172.01 million (the **"21Vianet Investment"**). As of 30 June 2016, the Company held 39,087,125 class A ordinary shares (equivalent to 6,514,521 ADSs) and 18,250,268 class B ordinary shares (equivalent to 3,041,711 ADS) of 21Vianet. Considering that (1) as at 30 June 2016, the market price of 21Vianet fell to US\$10.21 per ADS, representing a 43% decline compared with the investment cost of US\$18 per ADS, which is a significant decline in the market value of the 21Vianet Investment below the costs; and (2) the proposed privatization of 21Vianet with a proposed privatization price of US\$23 per ADS ceased in the second quarter of year 2016, the Group made provision for impairment on the carrying value of the 21Vianet Investment as at 30 June 2016. Similar to the Xunlei Investment, the impairment loss of the 21Vianet Investment recognised is the difference between the market value as of 30 June 2016 and the investment cost. As such, the impairment loss in relation to the 21Vianet Investment as at 30 June 2016 amounted to approximately US\$74.44 million, being the result of US\$97.57 million (the market value of the 21Vianet Investment as at 30 June 2016) minus US\$172.01 million (the total investment cost of the 21Vianet Investment). As at 30 September 2016, the market price of 21Vianet's ADS was US\$7.95 per ADS, representing a further decrease as compared with its market price of US\$10.21 per ADS as at 30 June 2016. As at 31 December 2016, the market price of 21Vianet's ADS was US\$7.01 per ADS, representing a further decrease as compared with its market price as at 30 September 2016. As such, the Company made additional provision for the 21Vianet Investment of approximately US\$21.60 million and US\$8.98 million for the three months ended 30 September and 31 December 2016, respectively. For the year ended 31 December 2016, the Company made provision for the 21Vianet Investment of approximately US\$105.02 million in total.

For details, please refer to the announcements of the Company dated 3 July, 19 August, 19 September, 10 October and 21 November 2016.

Significant Subsequent Event

On 12 February 2017, the Company entered into a voting proxy agreement with Mr. FU Sheng, the chief executive officer and director of Cheetah Mobile, to delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah Mobile to Mr. FU Sheng (as the representative of the management of Cheetah Mobile), subject to certain conditions. Upon completion of such delegation, Cheetah Mobile will cease to be accounted for as a subsidiary of the Company and its operating results will no longer be consolidated in the financial statements of the Company. As at the date of this announcement, the voting proxy agreement is subject to, among other things, the approval of the shareholders at the general meeting. For details, please refer to the announcements of the Company dated 12 and 13 February 2017.

We believe that such delegation will facilitate the operation and management of Cheetah Mobile, which in turn will, through our shareholding in Cheetah, bring long-term shareholder value to us and our shareholders. As such, we consider that the voting proxy agreement is in the interests of the Company and the Shareholders as a whole.

BUSINESS REVIEW AND PROSPECTS

Mr. Jun LEI, Chairman of Kingsoft, commented, “Kingsoft has achieved an outstanding performance in 2016. We launched JX Online I mobile game which was one of the most successful mobile games in 2016. Its exceptional performance showed the great IP value of JX Online series and signified our breakthrough in the mobile game business. Kingsoft Cloud’s customer base and revenue increased significantly, and its profit margin also improved continuously in 2016; and more importantly, it took the leading position in the rapidly growing video cloud market. The MAU of WPS Office Android exceeded 100 million for the first time in November 2016. The revenue contribution from WPS online marketing services has grown rapidly, especially from its mobile online marketing services. Cheetah Mobile’s content strategy made significant progress, and its revenue and profit resumed sequential growths in the second half of 2016. In the future, we will remain fully committed to these key business sectors and strive to maintain the strong growth momentum.”

Tao ZOU, CEO of Kingsoft, added, “2016 was another year of consistent and strong growth in terms of revenue. We achieved 46% annual revenue growth and our total revenue reached a new record high of RMB8,282.1 million. Though we have made impairment provisions on the carrying value of our investments in Xunlei and 21Vianet in 2016, this one-off factor was not supposed to prevail upon our outstanding business performance. We are glad to report an improved operating profit level, while we kept focused and invested heavily in our core businesses. The operating profit for 2016 increased 79% year-over-year to RMB972.9 million, and the operating profit margin increased by two percentage points year-over-year to 12%.

Driven by the steady and sustained revenue growth generated by its utility applications, total revenue, mobile revenue and overseas revenue of Cheetah Mobile all hit record highs in the fourth quarter 2016. Cheetah Mobile implemented a number of strategic initiatives in 2016, particularly in its content strategy, to counter the headwinds its business faced early in the year. As the Cheetah Mobile’s profit center, its mobile utility applications have continued to expand its profitability, which in turn supported its mobile content strategy. Product-wise, Cheetah Mobile remained the third largest publisher of non-game mobile applications in applications Google Play Worldwide in February 2017, according to App Annie. Two of its content-driven applications, Live.me and News

Republic, demonstrated strong growth, particularly in the U.S. market. According to App Annie, Live.me has become the No.1 grossing social application in the U.S. on Google Play since August 2016, and remains one of the top-5 social applications on Apple App Store. In addition, News Republic has been the No. 1 news application in the U.S on Google Play since December 2016. While its overall utility applications segment enters its mature growth stage, Cheetah Mobile's investments in content-driven products established a solid foundation for another round of strong growth in the coming quarters. Looking ahead, Cheetah Mobile will remain focused on connecting its over 600 million global Mobile MAU with more personalized and richer content by capitalizing on emerging artificial intelligence technologies to establish a sustainable and profitable business model for the long term.

In 2016, the Group achieved brilliant results in both PC games and mobile games. Its flagship PC game JX Online III marched into its seventh year with strong and sustainable growth as its revenue totaled RMB1,392.8 million, representing a year-over-year surge of 56%. JX Online I mobile game was launched in May 2016, delivered an outstanding performance, consistently ranked among the most popular mobile games on Apple App Store. The game was also introduced to Vietnam during the year and achieved great success in terms of both popularity and revenue contribution in the country. In 2017, we are to deeply develop the great IP value of JX Online series, introduce the third mobile game under the JX Online series and commence the pan-entertainment expansion of JX Online series. We will also cooperate with 70yx and NetDragon to launch the Genghis Khan and Eudemons Online mobile games, as well as join forces with iQiYi to initiate the film blockbuster and TV program IP adaption business. We are integrating our rich resources, enhancing the development of both PC and mobile games, and aiming to create more game classics in the future.

All business segments of Kingsoft Cloud reported impressive development in 2016 and sustained strong revenue growth of approximately 171% year-over-year, with improved profit margin level. Revenue from the game cloud business grew steadily in the fourth quarter and succeeded in bringing in key customers with major influence in the industry including Perfect World, Giant and Snail Games. On the customer service front, Kingsoft Cloud hosted the “the Game Ecosystem Annual Conference 2016” and secured the market recognition and trust from customers, enabling it to consolidate the brand awareness and reputation of Kingsoft Cloud and pave the way for future business development. In addition, Kingsoft Cloud continued to lead in the video cloud sector, and introduced a live streaming monitoring and assessment platform during the year, providing the market with a more comprehensive overall live streaming service. Kingsoft Cloud also actively expanded its government cloud and healthcare cloud businesses in the fourth quarter. Looking ahead, Kingsoft Cloud will step up promotion of the hybrid cloud business and position itself as an operation and maintenance solutions specialist in the game industry. Furthermore, it will continue to perfect its live video cloud streaming products, expand the government cloud and healthcare cloud markets, and pursue cooperation to expand the sales network, thereby attaining greater achievements for Kingsoft Cloud's development.

The revenue of Kingsoft WPS office software business recorded steady growth, within which the online market services business expanded rapidly. In November 2016, the global MAU of WPS Office Android exceeded 100 million for the first time in history. During the year, the revenue of enterprise software sales and the software utilization rate increased due to contribution from the new business model which leads to increasing user loyalty and better reputation. Within our software suite, the WPS Office mobile version was continuously recommended by Apple App Store and Google Play. Moving forward, Kingsoft WPS is striving to consolidate its user base to maintain the growth capability of its core products, improve retention rate and strengthen user connectivity to the cloud service to realize revenue growth and create better experiences for users.”

Mr. Jun LEI concluded, “As a first class internet company, continuous innovation and optimization of our resources are the foundation of our development and our business success. In the past, we have seen rapid development in our mobile transformation and cloud business investment and we were able to seize market opportunities and embrace changes, which has enabled us to achieve great success. We believe the new era will bring new opportunities while application of artificial intelligence is set to become a major global development trend. Going forward, while we keep focusing on our mobile and cloud businesses, maintaining strong revenue growth momentum, we shall also start to explore new opportunities in the artificial intelligence field and direct ourselves to open a new chapter of growth for the Group and deliver additional value to all of 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 2016, the Group employed approximately 6,925 full-time employees (2015: 6,616) 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 2016 and 2015 were approximately RMB2,600.1 million and RMB1,927.9 million, respectively.

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities.

Code of Conduct Regarding Directors’ Securities Transaction

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) to govern securities transactions by Directors. Further to the specific enquiries made by the Company to all Directors, they have confirmed their compliance with the Model Code during their terms of services for the year ended 31 December 2016.

Closure of Register of Members

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

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

Latest time to lodge transfer documents for registration	4:30 pm on Wednesday, 17 May 2017
Closure of the register of members of the Company	Thursday, 18 May 2017 to Wednesday, 24 May 2017 (both dates inclusive)
Record date	Wednesday, 24 May 2017

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Monday, 29 May 2017
Closure of the register of members of the Company	Wednesday, 31 May 2017 to Monday, 5 June 2017 (both dates inclusive)
Record date	Monday, 5 June 2017

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 2016, 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 2016, and is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

Code on Corporate Governance Practices

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

The code provision A.6.7 of the Code is regarding the non-executive directors' attendance to general meetings. Non-executive Directors, Mr. Jun LEI and Mr. Chi Ping LAU, did not attend the annual general meeting of the Company held on 20 May 2016 due to pre-arranged engagements. Non-executive Directors, Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Chi Ping LAU, did not attend the extraordinary general meeting of the Company held on 26 December 2016 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 Report and Corporate Governance Report

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

APPRECIATION

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

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 21 March 2017

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.