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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 THREE MONTHS ENDED 31 MARCH 2016

The board (“**Board**”) of directors (the “**Directors**”) of Kingsoft Corporation Limited (the “**Company**”) announces the unaudited results of the Company and its subsidiaries (the “**Group**” or “**Kingsoft**”) for the three months ended 31 March 2016. These interim results have been reviewed by the auditors of the Company, and the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

	For the three months ended				
	31 March 2016	31 December 2015	31 March 2015	QoQ* Change	YoY* Change
	RMB’000	RMB’000	RMB’000	%	%
	(Unaudited)	(Unaudited)	(Unaudited)		
Revenue	1,751,539	1,777,726	1,109,360	(1)	58
Profit attributable to owners of the parent**	133,803	113,116	114,536	18	17
	RMB	RMB	RMB		
	(Unaudited)	(Unaudited)	(Unaudited)		
Basic earnings per share	0.13	0.09	0.10	44	30
Diluted earnings per share	0.13	0.09	0.10	44	30

* QoQ change % represents a comparison between the current reporting period and the previous period. YoY change % represents the comparison between the current reporting period and the same period last year.

** Profit attributable to owners of the parent before the effect of share-based compensation cost is RMB198.7 million, RMB142.9 million and RMB155.4 million for the three months ended at 31 March 2016, 31 December 2015 and 31 March 2015, respectively. This represents a QoQ increase of 39% and a YoY increase of 28%.

OPERATIONAL HIGHLIGHTS

For the three months ended

	31 March 2016	31 December 2015	31 March 2015	QoQ Change %	YoY Change %
Online Games					
Daily Average Peak Concurrent Users ("ADPCU")	543,836	542,384	672,779	0	(19)
Monthly Average Paying Accounts ("APA")	2,960,358	2,919,683	3,069,052	1	(4)
Monthly Average Revenue per Paying User ("ARPU") (RMB)	47	44	33	7	42
	In March 2016	In December 2015	In March 2015	QoQ Change %	YoY Change %
Cheetah Mobile Inc. ("Cheetah Mobile")					
Mobile Monthly Active Users (Mobile "MAU") (Million)	651	635	444	3	47
% of Mobile MAU from Overseas Markets	79%	79%	71%	/	/
Mobile Users Installations (Million)	2,762	2,341	1,341	18	106

The Board announces the unaudited results of the Group for the three months ended 31 March 2016.

The unaudited condensed consolidated statement of profit or loss, unaudited condensed consolidated statement of comprehensive income, unaudited condensed consolidated statement of financial position and unaudited condensed consolidated statement of cash flows of the Group are listed below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	For the three months ended		
	31 March 2016 <i>RMB'000</i> (Unaudited)	31 December 2015 <i>RMB'000</i> (Unaudited)	31 March 2015 <i>RMB'000</i> (Unaudited)
Revenue			
Online game	456,870	414,952	324,892
Cheetah Mobile	1,085,128	1,118,695	691,724
Cloud services, office software and others	209,541	244,079	92,744
	<u>1,751,539</u>	<u>1,777,726</u>	<u>1,109,360</u>
Cost of revenue	<u>(470,233)</u>	<u>(419,519)</u>	<u>(223,724)</u>
Gross profit	1,281,306	1,358,207	885,636
Research and development costs, net of government grants	(405,862)	(365,237)	(294,322)
Selling and distribution expenses	(492,788)	(592,577)	(289,972)
Administrative expenses	(136,829)	(94,017)	(101,161)
Share-based compensation costs	(114,023)	(112,807)	(57,883)
Other income	18,307	82,700	3,163
Other expenses	(8,604)	(25,785)	(9,130)
Operating profit	141,507	250,484	136,331
Other gains/(losses), net	26,995	(63,874)	(15,757)
Finance income	46,173	46,130	52,376
Finance costs	(21,767)	(17,735)	(20,262)
Share of losses of:			
Joint ventures	(3,296)	(4,821)	(5,972)
Associates	(12,878)	(2,038)	(2,666)
Profit before tax	176,734	208,146	144,050
Income tax expense	(48,797)	(112,934)	(27,619)
Profit for the period	127,937	95,212	116,431
Attributable to:			
Owners of the parent	133,803	113,116	114,536
Non-controlling interests	(5,866)	(17,904)	1,895
	<u>127,937</u>	<u>95,212</u>	<u>116,431</u>
	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)
Earnings per share attributable to ordinary equity holders of the parent			
Basic	0.13	0.09	0.10
Diluted	0.13	0.09	0.10

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	31 March 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Unaudited)	31 March 2015 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	127,937	95,212	116,431
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Change in fair value	(98,050)	191,632	(95,514)
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss			
— gain on disposal	—	(940)	—
— impairment losses	—	—	25,891
Income tax effect	(9,500)	—	—
Exchange differences on translation of foreign operations	(26,127)	104,124	10,059
Share of other comprehensive loss of associates	—	(8,736)	—
Disposal of an associate	129	—	—
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD, NET OF TAX	(133,548)	286,080	(59,564)
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD	(5,611)	381,292	56,867
Attributable to:			
Owners of the parent	4,499	365,676	54,903
Non-controlling interests	(10,110)	15,616	1,964
	(5,611)	381,292	56,867

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2016 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2015 <i>RMB'000</i> <i>(Audited)</i>
Non-current assets		
Property, plant and equipment	1,075,718	966,079
Prepaid land lease payments	271,301	272,386
Goodwill	625,590	619,037
Other intangible assets	221,355	246,839
Investments in joint ventures	70,995	74,291
Investments in associates	270,741	250,009
Available-for-sale investments	2,090,407	2,226,302
Other financial assets	13,122	26,294
Deferred tax assets	58,413	55,304
Loan receivables	12,131	12,971
Long term prepayments	4,422	4,819
Other long-term receivables	21,562	88,499
Total non-current assets	4,735,757	4,842,830
Current assets		
Inventories	7,955	5,371
Trade receivables	1,071,044	966,000
Prepayments, deposits and other receivables	1,217,138	837,398
Available-for-sale investment	88,000	50,000
Other financial assets	14,766	—
Restricted cash	129,649	130,187
Pledged deposits	25,845	46,657
Cash and bank deposits	8,459,908	8,606,434
Total current assets	11,014,305	10,642,047
Current liabilities		
Trade payables	218,189	185,417
Interest-bearing bank loans	130,145	147,029
Other payables and accruals	1,767,316	1,808,689
Deferred revenue	486,067	425,964
Income tax payable	135,919	137,416
Total current liabilities	2,737,636	2,704,515
Net current assets	8,276,669	7,937,532
Total assets less current liabilities	13,012,426	12,780,362

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31 March 2016 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2015 <i>RMB'000</i> <i>(Audited)</i>
Non-current liabilities		
Other liabilities	38,992	72,105
Deferred revenue	22,256	24,141
Deferred tax liabilities	75,706	62,540
Interest-bearing bank loans	9,914	10,523
Liability component of convertible bonds	2,691,861	2,699,698
Redeemable convertible preferred shares	161,408	—
Total non-current liabilities	3,000,137	2,869,007
Net assets	<u>10,012,289</u>	<u>9,911,355</u>
Equity		
Equity attributable to owners of the parent		
Issued capital	5,092	5,092
Share premium account	2,474,827	2,474,663
Treasury shares	(34,068)	(34,766)
Equity component of convertible bonds	72,295	72,295
Other reserves	5,447,302	5,353,356
	7,965,448	7,870,640
Non-controlling interests	2,046,841	2,040,715
Total equity	<u>10,012,289</u>	<u>9,911,355</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	31 March 2016 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2015 <i>RMB'000</i> <i>(Unaudited)</i>	31 March 2015 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash flows from operating activities	100,057	859,551	13,793
Net cash flows (used in)/from investing activities	(939,780)	427,862	(1,069,794)
Net cash flows (used in)/from financing activities	<u>(81,121)</u>	<u>(8,835)</u>	<u>124,546</u>
Net (decrease)/increase in cash and cash equivalents	(920,844)	1,278,578	(931,455)
Cash and cash equivalents at beginning of the period	6,629,275	5,281,144	3,193,934
Effect of foreign exchange rate changes, net	<u>(20,840)</u>	<u>69,553</u>	<u>5,395</u>
Cash and cash equivalents at end of the period	5,687,591	6,629,275	2,267,874
Time deposits with original maturity of over three months when acquired	1,068,342	403,596	1,718,648
Principle protected structure deposits with original maturity of over three months when acquired	1,729,820	1,620,220	2,360,952
Less: pledged time deposit for a bank loan	<u>(25,845)</u>	<u>(46,657)</u>	<u>(19,978)</u>
Cash and bank deposits as stated in the consolidated statement of financial position	<u>8,459,908</u>	<u>8,606,434</u>	<u>6,327,496</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED 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, it 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 activities:

- research and development of games, and provision of online games, mobile games and casual game services;
- research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices; and
- research, development and distribution of office application software, provision of cloud storage, cloud computation and dictionary services across devices, and provision of online marketing services.

The interim condensed consolidated financial statements for the three months ended 31 March 2016 were approved and authorized for issue in accordance with a resolution of the Board on 19 May 2016.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, issued by International Accounting Standards Board ("**IASB**").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), except for the adoption of new standards and interpretations effective as at 1 January 2016. The following amendments to IFRSs did not have any significant impact on the accounting policies, financial position or performance of the Group:

IFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to IFRS 11	<i>Joint Arrangements: Accounting for Acquisition of Interests</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>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Annual Improvements 2012–2014 Cycle	

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

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended 31 March 2016

Revenue

Revenue for the first quarter of 2016 decreased 1% quarter-over-quarter and increased 58% year-over-year to RMB1,751.5 million. Revenue from the online game, Cheetah Mobile and cloud services, office software and others businesses represented 26%, 62% and 12%, respectively, of the Group's total revenue for the first quarter of 2016. Revenue from the three business lines are reported net of intra-group transactions.

Revenue from the online game business mainly consists of revenues from operations of proprietary PC-based online games, mobile games, and game licensing services, which are generated from the Group's companies, other than Cheetah Mobile and its subsidiaries, through research, development and provision of online games across devices. Revenue from the online game business for the first quarter of 2016 increased 10% quarter-over-quarter and 41% year-over-year to RMB456.9 million. The solid quarter-over-quarter increase was mainly due to healthy growth of our flagship game, JX Online III, driven by growing popularity and higher monetization ability, supported by a series of promotional activities. The year-over-year increase was due to our continued efforts on improving the quality and user experience of JX Online III.

ADPCU for the Group's online games for the first quarter of 2016 kept flat quarter-over-quarter and decreased 19% year-over-year to 0.5 million. The year-over-year decrease of ADPCU was mainly due to the natural decline life cycles of old licensed games in overseas market. APA for the Group's online games for the first quarter of 2016 increased 1% quarter-over-quarter and decreased 4% year-over-year to 3.0 million. The year-over-year decrease was due to natural decrease of existing games. The monthly ARPU for the Group's online games for the first quarter of 2016 increased 7% quarter-over-quarter and 42% year-over-year to RMB47. The increases were mainly driven by the improved monetization ability of JX Online III.

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 first quarter of 2016 decreased 3% quarter-over-quarter and increased 57% year-over-year to RMB1,085.1 million. The quarter-over-quarter decrease was primarily due to seasonality and lower than expected revenue from Cheetah Mobile's third-party advertising platform partners in the international markets. The year-over-year increase was mainly driven by Cheetah Mobile's organic business growth, which was attributable to its growing global mobile user base and substantial improvements in mobile monetization, especially in overseas markets.

Mobile MAU from Cheetah Mobile increased 3% quarter-over-quarter and 47% year-over-year to 651 million in March 2016. In March 2016, approximately 79% of mobile MAU were from oversea markets, compared to approximately 71% in March 2015. Its mobile user installations as of 31 March 2016 have reached to 2.8 billion as compared with 1.3 billion of the same day in 2015. The solid user growth mainly reflected that our mission critical applications continued to gain popularity globally through our efforts in market exploration, market expansion and continuous improvements of user experience.

Revenue from the cloud services, office software and others business consists of revenues from all the other businesses, including cloud storage and computing services, office application software, dictionary services, etc. Revenue from the cloud services, office software and others business for the first quarter of 2016 decreased 14% quarter-over-quarter and increased 126% year-over-year to RMB209.5 million. The quarter-over-quarter decrease primarily reflected a seasonal adverse impact on sales of WPS Office in the first quarter, though partially offset by the rapid revenue growth of cloud services driven by the fast growing usage demand, especially from the mobile video industry. The year-over-year increase mainly reflected: 1) the exceptional progress of Kingsoft Cloud by extending the cloud services to new customers, especially mobile video and game industries; 2) the improvements in monetization capabilities of WPS free user traffic.

Cost of Revenue and Gross Profit

Cost of revenue for the first quarter of 2016 increased 12% quarter-over-quarter and 110% year-over-year to RMB470.2 million. The increases were primarily due to: i) higher traffic acquisition costs associated with Cheeath Mobile's third-party advertising publishing business on the Cheetah advertising platform, and higher bandwidth and internet data center costs along with increased user traffic worldwide and data analytics; ii) an increase in bandwidth and equipment depreciation expenses of Kingsoft Cloud as the rapid usage growth and continued investments in data center.

Gross profit for the first quarter of 2016 decreased 6% quarter-over-quarter and increased 45% year-over-year to RMB1,281.3 million. The Group's gross profit margin decreased by three percentage points quarter-over-quarter and seven percentage points year-over-year to 73%.

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

R&D costs, net of government grants, for the first quarter of 2016 increased 11% quarter-over-quarter and 38% year-over-year to RMB405.9 million. The quarter-over-quarter increase was mainly due to increased staff costs. The year-over-year increase was mainly due to the expansion of the Group's mobile application and cloud development team, as well as an increase in salaries.

Selling and Distribution Expenses

Selling and distribution expenses for the first quarter of 2016 decreased 17% quarter-over-quarter and increased 70% year-over-year to RMB492.8 million. The quarter-over-quarter decrease mainly reflected reduced promotional activities for core mobile products of Cheetah Mobile, and decreased marketing expense of online game business. The year-over-year increase was primarily due to the increase in expenses on promotional activities for Cheetah Mobile's mobile business.

Administrative Expenses

Administrative expenses for the first quarter of 2016 increased 46% quarter-over-quarter and 35% year-over-year to RMB136.8 million. The increases were mainly due to the increase in expenses associated with increased headcount and staff costs.

Share-based Compensation Costs

Share-based compensation costs for the first quarter of 2016 increased 1% quarter-over-quarter and 97% year-over-year to RMB114.0 million. The year-over-year increase mainly reflected the grants of Cheetah Mobile's awarded shares to selected employees in the third quarter of 2015.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first quarter of 2016 decreased 30% quarter-over-quarter and increased 32% year-over-year to RMB255.5 million as a result of the combination of the above reasons. The operating profit margin before share-based compensation costs for the first quarter of 2016 decreased by five percentage points quarter-over-quarter and three percentage points year-over-year to 15%.

Other Gains/(Losses), net

Other gains/(losses), net for the first quarter of 2016 recorded a gain of RMB27.0 million, which mainly represented the disposal gain of the shares of Zhigu Holdings Limited owned by the Company.

Finance Income

Finance income for the first quarter of 2016 kept flat quarter-over-quarter and decreased 12% year-over-year to RMB46.2 million.

Income Tax Expense

Income tax expense for the first quarter of 2016 decreased 57% quarter-over-quarter and increased 77% year-over-year to RMB48.8 million. The Group's effective tax rate decreased by twenty-six percentage points quarter-over-quarter and increased nine percentage points year-over-year to 28%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent for the first quarter of 2016 increased 18% quarter-over-quarter and 17% year-over-year to RMB133.8 million.

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

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

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

Profit attributable to owners of the parent before share-based compensation costs for the first quarter of 2016 increased 39% quarter-over-quarter and 28% year-over-year to RMB198.7 million. The net profit margin excluding the effect of share-based compensation costs was 11%, 8% and 14% for the three months ended 31 March 2016, 31 December 2015 and 31 March 2015, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 March 2016, the Group had major financial resources in the forms of cash and cash equivalent and non-pledged deposits with initial term of over three months amounting to RMB5,687.6 million and RMB2,772.3 million, respectively, which totally represented 54% of the Group's total assets.

As at 31 March 2016, the Group's gearing ratio, which represents total liabilities divided by total assets, was 36%, same as the gearing ratios as at 31 December 2015. As at 31 March 2016, the Group had HK\$3,230.4 million (equivalent of RMB2,691.9 million) debt of convertible bonds, US\$20.0 million (equivalent of RMB129.2 million) and EUR1.5 million (equivalent to RMB10.9 million) bank loans.

Foreign Currency Risk Management

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

As at 31 March 2016, RMB4,499.7 million of the Group’s financials 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 three-month period mentioned above, as the case maybe, as adjusted for non-cash items, such as depreciation, amortization 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 RMB100.1 million, RMB859.6 million and RMB13.8 million for the three months ended 31 March 2016, and 31 December 2015 and 31 March 2015, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, property, land use right, fixed assets and intangible assets. Cash used for capital expenditures was RMB177.0 million, RMB217.6 million and RMB178.2 million for the three months ended 31 March 2016, 31 December 2015 and 31 March 2015, respectively.

Management comments

Mr. Jun LEI, Chairman of Kingsoft, commented, “We have started 2016 with a sound quarter, and remained firmly committed to our mobile, global and cloud businesses. In March 2016, our mobile MAU reached a new high record of 767 million. Cheetah Mobile is dedicated to expand its global sales growth by investing in new content products and expanding its direct sales operations, and its mobile and overseas revenues accounted for 75% and 58% of its total revenue, respectively, in the first quarter. We are glad to see the strong growth of Kingsoft Cloud, which continued to solidify its leading position in game cloud and mobile video cloud services. Looking ahead, we are well positioned to continue strengthening our mobile internet and cloud businesses in the coming quarters.”

Dr. Hong Jiang ZHANG, Chief Executive Officer of Kingsoft, added, “We achieved a total revenue of RMB1,751.5 million in the first quarter at a 58% annual growth rate, but experienced a slight quarter-over-quarter decrease due to seasonality factors. Despite the 30% quarter-over-quarter decrease as a result of seasonal impact, the operating profit before the share-based compensation costs increased 32% year-over-year to RMB255.5 million.

Cheetah Mobile has begun 2016 on a solid note, with revenue increased 57% year-over-year to RMB1,085.1 million in the first quarter. Mobile revenue contribution up from 56% of total revenue in the prior year period to 75% in the first quarter of 2016. Overseas revenue contribution climbed from 42% of total revenue in the prior year period to 58% in the first quarter of 2016. Mobile MAU from Cheetah Mobile increased 47% year-over-year to 651 million in March 2016, among which approximately 79% were from overseas markets.

Cheetah Mobile is facing some headwinds from advertising sales on some of its third-party advertising platform partners in the international markets. To address these headwinds, it has begun introducing new content products which will increase user engagement, as well as strengthening its direct sales operations globally. These will help in reaccelerating growth for Cheetah Mobile’s mobile advertising revenue going forward. While Cheetah Mobile’s content product and direct sales initiatives are beginning to take hold, it will take more time for these initiatives to show meaningful results. However, Cheetah Mobile’s operational direction and history have changed several times in today’s rapidly evolving mobile world, and Cheetah Mobile has successfully evolved with it. With that in mind, we remain confident that Cheetah Mobile’s business strategy is on the right track and it will continue to aggressively execute on that strategy, managing user acquisition, user engagement, revenue growth and profitability for the long-term sustainable growth.

We are pleased with the solid financial results for the online game business in the first quarter of 2016, supported by the continued success of our flagship game JX Online III. With four updated versions released in the first quarter, JX Online III posted a revenue of RMB331.0 million with a 19% quarter-over-quarter increase, far exceeding our expectations. We will continue to cultivate the game’s broad and engaged user base, and expect to further enhance its popularity following the launch of its expansion packs in the coming quarters. In the first quarter, we entered into an agreement with Tencent Shenzhen in regarding to its mobile game operation, in which we will license Tencent Shenzhen to operate two of our JX series mobile games. The first JX mobile game is currently under testing and expected to be launched commercially in the second quarter of 2016.

Kingsoft Cloud saw a solid start in providing game cloud, mobile video cloud, and enterprise cloud services. Mobile live video cloud service has experienced an exceptional growth in the first quarter, supported by the technology advantages in its comprehensive live video cloud solutions. Kingsoft Cloud introduced more than sixty new games in the first quarter, continuing to solidify its leading position in the game cloud market. The healthcare cloud service also made a significant progress, when Kingsoft Cloud started to form a healthcare cloud ecosystem to continue expanding the cooperation with hospitals and the mobile healthcare businesses.

With the efforts on delivering increasing value-added services, the monetization capabilities of WPS free user traffic have steadily improved. Despite the typical seasonality impact for the first quarter, WPS achieved a 65% year-over-year revenue growth. The global MAU of the WPS family reached 205 million in March 2016, with mobile MAU for WPS Office reached nearly 89 million, a 26% increase year-over-year. Kingsoft WPS will further explore the great growth potential of enterprise markets, improve its user' experience through products innovation and enhance "WPS+" as a one-stop cloud office solution service. In January 2016, Kingsoft Ciba initiated a strategic cooperation with Systran, a South Korean company, seeking collaboration in providing translation services."

Mr. Jun LEI concluded, "Given the strong performance of our key business initiatives, we are confident in our revenue growth prospects for the year of 2016 and beyond. At the same time, our investment in implementing the mobilization, globalization, and "All-in Cloud" strategies will continue. We expect operating profit may be under pressure in the coming quarters and the operating profit margin for the year 2016 may be similar to that for the year 2015."

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 19 May 2016

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