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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 30 SEPTEMBER 2017

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 30 September 2017.

FINANCIAL HIGHLIGHTS

	For the three months ended				
	30 September 2017	30 September 2016	30 June 2017	YoY** Change	QoQ** Change
	RMB'000	RMB'000	RMB'000	%	%
	(Unaudited)	(Unaudited)	(Unaudited)		
		(Restated)*			
Revenue	1,303,014	1,123,223	1,284,412	16	1
Profit attributable to owners of the parent***	238,461	141,693	250,044	68	(5)
	RMB	RMB	RMB		
	(Unaudited)	(Unaudited)	(Unaudited)		
		(Restated)*			
Basic earnings per share					
— For profit for the period	0.18	0.11	0.19	64	(5)
— For profit from continuing operations	0.12	0.10	0.16	20	(25)
Diluted earnings per share					
— For profit for the period	0.18	0.11	0.19	64	(5)
— For profit from continuing operations	0.12	0.10	0.16	20	(25)

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

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

*** Profit attributable to owners of the parent before the effect of share-based compensation costs (including that from continuing operations and a discontinued operation) is RMB306.7 million, RMB185.5 million and RMB305.9 million for the three months ended 30 September 2017, 30 September 2016 and 30 June 2017, respectively. This represents a YoY increase of 65% and keeps flat QoQ.

OPERATIONAL HIGHLIGHTS

	For the three months ended				
	30 September 2017	30 September 2016	30 June 2017	YoY Change %	QoQ Change %
Online Games					
Daily Average Peak Concurrent Users ("ADPCU")	871,792	982,914	934,115	(11)	(7)
Monthly Average Paying Accounts ("APA")	4,073,300	4,482,024	4,321,447	(9)	(6)

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	For the three months ended		
	30 September 2017 <i>RMB'000</i> <i>(Unaudited)</i>	30 September 2016 <i>RMB'000</i> <i>(Unaudited)</i> <i>(Restated)</i>	30 June 2017 <i>RMB'000</i> <i>(Unaudited)</i>
CONTINUING OPERATIONS			
Revenue			
Online games	746,656	791,920	805,000
Cloud services	358,101	198,793	304,027
Office software and services and others	198,257	132,510	175,385
	<u>1,303,014</u>	<u>1,123,223</u>	<u>1,284,412</u>
Cost of revenue	<u>(558,717)</u>	<u>(421,044)</u>	<u>(488,898)</u>
Gross profit	744,297	702,179	795,514
Research and development costs, net	(355,047)	(291,915)	(368,273)
Selling and distribution expenses	(154,082)	(87,139)	(135,262)
Administrative expenses	(63,044)	(52,399)	(58,645)
Share-based compensation costs	(74,314)	(11,316)	(61,063)
Other income	55,460	18,922	92,778
Other expenses	<u>(2,851)</u>	<u>1,020</u>	<u>(4,250)</u>
Operating profit	150,419	279,352	260,799
Other gains/(losses), net	4,995	(148,018)	(42,332)
Finance income	47,533	40,389	44,115
Finance costs	(23,718)	(30,427)	(21,155)
Share of profits and losses of:			
Joint ventures	11,096	53,283	32,646
Associates	<u>(3,415)</u>	<u>(1,747)</u>	<u>(3,085)</u>
Profit before tax from continuing operations	186,910	192,832	270,988
Income tax expense	<u>(45,048)</u>	<u>(39,411)</u>	<u>(48,174)</u>
Profit for the period from continuing operations	141,862	153,421	222,814
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	130,345	6,679	61,840
PROFIT FOR THE PERIOD	272,207	160,100	284,654
Attributable to:			
Owners of the parent	238,461	141,693	250,044
Non-controlling interests	33,746	18,407	34,610
	<u>272,207</u>	<u>160,100</u>	<u>284,654</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

	30 September 2017 <i>RMB</i> (<i>Unaudited</i>)	30 September 2016 <i>RMB</i> (<i>Unaudited</i>) (<i>Restated</i>)	30 June 2017 <i>RMB</i> (<i>Unaudited</i>)
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the period	0.18	0.11	0.19
— For profit from continuing operations	0.12	0.10	0.16
Diluted			
— For profit for the period	0.18	0.11	0.19
— For profit from continuing operations	0.12	0.10	0.16

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	30 September 2017 RMB'000 (Unaudited)	30 September 2016 RMB'000 (Unaudited) (Restated)	30 June 2017 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	272,207	160,100	284,654
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	93,133	10,095	(10,250)
Reclassification adjustments for gains included in the condensed consolidated statement of profit or loss			
— Gain on disposal	—	(24,338)	—
Exchange differences on translation of foreign operations	(90,590)	23,841	(96,520)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	2,543	9,598	(106,770)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	2,543	9,598	(106,770)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	274,750	169,698	177,884
Attributable to:			
Owners of the parent	265,679	154,360	169,483
Non-controlling interests	9,071	15,338	8,401
	274,750	169,698	177,884

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	1,204,220	1,097,766
Prepaid land lease payments	264,790	268,046
Goodwill	9,559	954,656
Other intangible assets	59,278	295,751
Investments in joint ventures	189,744	165,512
Investments in associates	30,635	406,773
Available-for-sale investments	599,337	1,050,654
Other financial assets	49,563	71,091
Deferred tax assets	26,573	119,868
Other non-current assets	8,910	43,459
Total non-current assets	2,442,609	4,473,576
CURRENT ASSETS		
Inventories	9,853	11,098
Trade receivables	1,069,519	1,774,156
Prepayments, deposits and other receivables	594,131	1,122,028
Available-for-sale investments	88,000	204,849
Restricted cash	94,868	98,381
Pledged deposit	—	69,370
Cash and bank deposits	7,474,890	9,825,494
Assets of a disposal group classified as held for sale	9,331,261 5,821,421	13,105,376 —
Total current assets	15,152,682	13,105,376
CURRENT LIABILITIES		
Trade payables	164,875	560,488
Interest-bearing bank loans	—	379,544
Other payables and accruals	1,333,767	2,123,794
Deferred revenue	580,701	547,462
Income tax payable	111,214	119,931
Liability component of convertible bonds	845,364	—
Liabilities of a disposal group classified as held for sale	3,035,921 2,328,655	3,731,219 —
Total current liabilities	5,364,576	3,731,219
NET CURRENT ASSETS	9,788,106	9,374,157
TOTAL ASSETS LESS CURRENT LIABILITIES	12,230,715	13,847,733

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 30 September 2017 RMB'000 (Unaudited)	As at 31 December 2016 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Other liabilities	—	19,681
Deferred revenue	22,524	37,609
Deferred tax liabilities	37,303	122,201
Interest-bearing bank loans	335,138	438,330
Liability component of convertible bonds	38,413	2,911,354
Liability component of redeemable convertible preferred shares	586,899	316,834
Total non-current liabilities	1,020,277	3,846,009
NET ASSETS	11,210,438	10,001,724
EQUITY		
Equity attributable to owners of the parent		
Issued capital	5,119	5,097
Share premium account	2,278,657	2,369,129
Treasury shares	(23,161)	(25,477)
Equity component of convertible bonds	7,564	72,295
Other reserves	6,732,668	5,466,163
	9,000,847	7,887,207
Non-controlling interests	2,209,591	2,114,517
TOTAL EQUITY	11,210,438	10,001,724

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	30 September 2017 <i>RMB'000</i> <i>(Unaudited)</i>	30 September 2016 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2017 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash flows from operating activities	623,483	187,768	504,875
Net cash flows used in investing activities	(889,886)	(934,381)	(368,292)
Net cash flows from/(used in) financing activities	306,826	331,977	(1,574,979)
Net increase/(decrease) in cash and cash equivalents	40,423	(414,636)	(1,438,396)
Cash and cash equivalents at beginning of the period	4,972,714	5,365,439	6,520,898
Effect of foreign exchange rate changes, net	(70,352)	36,649	(109,788)
Cash and cash equivalents at end of the period	4,942,785	4,987,452	4,972,714
Non-pledged time deposits with original maturity of over three months when acquired	1,128,043	1,194,060	391,684
Principal protected structure deposits with original maturity of over three months when acquired	3,056,930	2,757,382	3,492,000
Less: Cash and cash equivalents attributable to a discontinued operation	(1,652,868)	—	(1,848,638)
Cash and bank deposits as stated in the condensed consolidated statement of financial position	7,474,890	8,938,894	7,007,760

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 continuing operations of the Group were principally involved in the following principal activities:

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

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

The interim condensed consolidated financial statements for the three months ended 30 September 2017 were approved and authorised for issue in accordance with a resolution of the Board on 21 November 2017.

2. Basis of preparation and significant accounting policies

Discontinued operation

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Discontinued operation (continued)

Cheetah Mobile carries out the “information security and internet services segment” of the Group. As at 29 September 2017, the aforementioned voting proxy agreement was approved by the Shareholders of the Company, with effect on 1 October 2017. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the assets and liabilities of Cheetah Mobile have been classified as a disposal group held for sale, and the operating results of Cheetah Mobile have been presented as a discontinued operation in the interim condensed consolidated statement of profit or loss for the three months ended 30 September 2017. The comparative figures for the interim condensed consolidated statement of profit or loss are restated to reflect the reclassification between continuing operations and a discontinued operation of the Group accordingly.

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 2016.

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 2016, 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 2017. The following amendments to IFRSs did not have any significant impact on the accounting policies, financial position or performance of the Group:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended 30 September 2017

Revenue

Revenue for the third quarter of 2017 increased 16% year-over-year and 1% quarter-over-quarter to RMB1,303.0 million. Revenue from the online games, cloud services, office software and services and others represented 57%, 28% and 15%, respectively, of the Group's total revenue for the third quarter of 2017. Revenue from these business lines is reported net of intra-group transactions.

Revenue from the online games business for the third quarter of 2017 decreased 6% year-over-year and 7% quarter-over-quarter to RMB746.7 million. The slight year-over-year decrease reflected the natural declining life cycle of JX Online I mobile game launched in May 2016, which was partially offset by the revenue growth of JX Online III. The quarter-over-quarter decrease was largely due to the decline in revenue from JX Online III, as no large-scale expansion pack of it being launched during the third quarter and the natural declining life cycle of JX Online I mobile game.

ADPCU for the Group's online games for the third quarter of 2017 decreased 11% year-over-year and 7% quarter-over-quarter to 0.9 million. APA for the Group's online games for the third quarter of 2017 decreased 9% year-over-year and 6% quarter-over-quarter to 4.1 million. The year-over-year and quarter-over-quarter decreases reflected the natural declining life cycles of the Group's existing games.

Revenue from the cloud services for the third quarter of 2017 increased 80% year-over-year and 18% quarter-over-quarter to RMB358.1 million. The strong year-over-year increase was mainly driven by robust customer usage, reflecting the effort of Kingsoft Cloud Holdings Limited and its subsidiaries (collectively, "**Kingsoft Cloud**") in solidifying the leading position in providing cloud services in video, mobile game and internet industries. The solid quarter-over-quarter increase was primarily attributable to increased customer usage of our cloud services from video and mobile game sectors.

Revenue from the office software and services and others for the third quarter of 2017 increased 50% year-over-year and 13% quarter-over-quarter to RMB198.3 million. The robust year-over-year and quarter-over-quarter increases were due to strong revenue growth from WPS online marketing services and value-added services of WPS Office personal edition, driven by increased user engagement and user stickiness and higher demand from advertisers.

Cost of Revenue and Gross Profit

Cost of revenue for the third quarter of 2017 increased 33% year-over-year and 14% quarter-over-quarter to RMB558.7 million. The year-over-year and quarter-over-quarter increases were primarily due to higher bandwidth and internet data center (“IDC”) cost associated with increased customer usage of cloud services and our continuous investment in cloud business.

Gross profit for the third quarter of 2017 increased 6% year-over-year and decreased 6% quarter-over-quarter to RMB744.3 million. The Group’s gross profit margin decreased by six percentage points year-over-year and five percentage points quarter-over-quarter to 57%. The decline trend of gross profit margin was mainly due to increased revenue contribution from cloud business, which has relatively lower gross profit margin.

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

R&D costs, net, for the third quarter of 2017 increased 22% year-over-year and decreased 4% quarter-over-quarter to RMB355.0 million. The year-over-year increase was mainly due to an increase in staff-related costs with increased headcount and higher salaries and benefits.

Selling and Distribution Expenses

Selling and distribution expenses for the third quarter of 2017 increased 77% year-over-year and 14% quarter-over-quarter to RMB154.1 million. The year-over-year and quarter-over-quarter increases were primarily due to increased marketing and advertising activities for online games.

Administrative Expenses

Administrative expenses for the third quarter of 2017 increased 20% year-over-year and 8% quarter-over-quarter to RMB63.0 million. The year-over-year and quarter-over-quarter increases were mainly due to an increase in headcounts and staff-related costs.

Share-based Compensation Costs

Share-based compensation costs for the third quarter of 2017 increased 557% year-over-year and 22% quarter-over-quarter to RMB74.3 million. The increases were primarily due to the new grants of awarded shares and options to selected employees as well as an increase in the fair value of awarded shares and options of certain subsidiaries.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the third quarter of 2017 decreased 23% year-over-year and 30% quarter-over-quarter to RMB224.7 million as a result of the combination of the above reasons. The operating profit margin before share-based compensation costs for the third quarter of 2017 decreased by nine percentage points year-over-year and eight percentage points quarter-over-quarter to 17%.

Other Gains/(Losses), net

Net other gains for the third quarter of 2017 were RMB5.0 million, compared to losses of RMB148.0 million for the third quarter of 2016 and losses of RMB42.3 million for the second quarter of 2017. The losses in the third quarter of 2016 were mainly due to the additional provision for impairment on the carrying value of investments in 21Vianet Group, Inc. (“**21Vianet**”), as its further decrease of the market value. The losses in the second quarter of 2017 were mainly due to the additional provision for impairment on the investments in XunLei Limited (“**XunLei**”) and 21Vianet.

Income Tax Expense

Income tax expense for the third quarter of 2017 increased 14% year-over-year and decreased 6% quarter-over-quarter to RMB45.0 million.

Profit for the Period from a Discontinued Operation

Profit for the period from a discontinued operation reflected profit from Cheetah Mobile, which was RMB130.3 million in the third quarter of 2017 as compared to RMB6.7 million the same period last year and RMB61.8 million last quarter. The increases were mainly due to its continuous efforts in the optimization of costs and expenses structure.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent (including that from continuing operations and a discontinued operation) for the third quarter of 2017 increased 68% year-over-year and decreased 5% quarter-over-quarter to RMB238.5 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 IFRS.

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 third quarter of 2017 (including that from continuing operations and a discontinued operation) increased 65% year-over-year and kept flat quarter-over-quarter to RMB306.7 million. The net profit margin excluding the effect of share-based compensation costs was 12%, 8% and 12% for the three months ended 30 September 2017, 30 September 2016 and 30 June 2017, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 30 September 2017, the Group had major financial resources in the forms of restricted cash, cash and bank deposits amounting to RMB94.9 million and RMB7,474.9 million, respectively, which totally represented 43% of the Group's total assets.

As at 30 September 2017, the Group's gearing ratio, which represents total liabilities divided by total assets, was 36%, compared to 43% as at 31 December 2016. As at 30 September 2017, the Group had HK\$1,040.1 million (equivalent of RMB883.8 million) debt of convertible bonds and RMB335.1 million bank loans.

Foreign Currency Risk Management

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

As at 30 September 2017, RMB2,856.3 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 three-month period mentioned above, as the case maybe, as adjusted for non-cash items, such as depreciation and share-based compensation costs, as well as the effect of changes in certain items of statement of financial position, such as deferred revenue, other payables and accruals.

Net cash generated from operating activities (including that from continuing operations and a discontinued operation) was RMB623.5 million, RMB187.8 million and RMB504.9 million for the three months ended 30 September 2017, 30 September 2016 and 30 June 2017, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fixed assets and intangible assets. Cash used for capital expenditures (including that from continuing operations and a discontinued operation) was RMB177.0 million, RMB227.7 million and RMB152.2 million for the three months ended 30 September 2017, 30 September 2016 and 30 June 2017, respectively.

Significant Subsequent Event

Information relating to Cheetah Mobile

On 12 February 2017, the Company entered into a voting proxy agreement with Mr. Sheng Fu, the chief executive officer and director of Cheetah Mobile Inc. to delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah Mobile Inc. to Mr. Sheng Fu (as the representative of the management of Cheetah Mobile Inc.), subject to the shareholders' approval and signing of the definitive agreement in relation to the possible investment in robotics business between Cheetah Mobile and Mr. Sheng Fu.

On 29 September 2017, the aforementioned voting proxy agreement was approved by the Shareholders of the Company. Accordingly, Cheetah Mobile ceased to be a subsidiary of the Company and its operating results are no longer consolidated in the consolidated financial statements of the Group with effect on 1 October 2017. Upon the effectiveness of the delegation on 1 October 2017, the Group lost control over Cheetah Mobile and Cheetah Mobile was accounted for as an associate of the Company. The Group de-recognised the assets and liabilities of Cheetah Mobile from the consolidated statement of financial position as well as the carrying amount of non-controlling interests in Cheetah Mobile amounting to RMB2 billion, and accounted for its investment in Cheetah Mobile an associate at its fair value of RMB4 billion upon disposal of Cheetah Mobile, with reference to the market value of Cheetah Mobile and unaudited management accounts of Cheetah Mobile as at 30 September 2017. The deemed disposal gain to be recognized in the Group's consolidated statement of profit or loss is expected to be approximately RMB2 billion based on aforesaid basis, subject to any audited adjustments.

A federal securities class action was filed against Cheetah Mobile Inc. on 8 November 2017 with allegations based on a short report issued on 26 October 2017. Cheetah Mobile Inc. believes the allegations in the short report and the claims in the class action are without merit and intends to defend itself vigorously.

Information relating to Kingsoft Cloud

On 12 September and 11 October 2017, Kingsoft Cloud agreed to issue and the Company, LIYUE JINSHI INVESTMENT L.P. and New Cloud Ltd. agreed to subscribe for certain series D preferred shares of Kingsoft Cloud (the "**Series D Preferred Shares**") with an aggregate consideration of US\$300 million. Kingsoft Cloud is currently negotiating with other potential financial investors for the series D financing. If the potential financial investors agree to subscribe for the Series D Preferred Shares, the Company will subscribe for the corresponding amount. The major terms of subsequent share purchase agreements are expected to be substantially the same as most of the commercial terms set out in the previous ones. The detailed amount of such new series D financing transactions is still subject to the further negotiation between Kingsoft Cloud and the potential financial investors. Upon completion of the series D financing transactions, the Company is expected to remain as the largest shareholder of Kingsoft Cloud and continue to consolidate its financial results into the financial statements of the Group. The Company will make further announcement(s) when appropriate pursuant to the Rules Governing the Listing of Securities on the Stock Exchange.

Management comments

Mr. Jun LEI, Chairman of Kingsoft, commented, "The third quarter of 2017 has witnessed stable progress in all segments of our business. Our flagship PC game JX Online III has achieved another robust growth of 27% year-over-year. Kingsoft Cloud has further advanced in every vertical business segment at a strong pace. In addition, WPS Office PC version achieved a new record that its global MAU has exceeded 100 million in September. In the fourth quarter of 2017, we are fully committed to continue our healthy ascent in online games, cloud services, and office software and services businesses."

Mr. Tao ZOU, Chief Executive Officer of Kingsoft, added, “During the third quarter, Kingsoft has achieved a steady growth, attaining a total revenue of RMB1,303.0 million at an annual growth rate of 16%. The operating profit before the share-based compensation costs was RMB224.7 million, appearing a year-over-year decrease, which was primarily due to the temporary margin pressure from the online games business. The upcoming roll out of the JX Online III revamped version in this December and a strong mobile games pipeline are envisaged to give a substantial boost in the game’s future performance in the coming years.

Kingsoft’s flagship PC game, JX Online III, registered a steady performance in the third quarter, with revenue increased 27% year-over-year. The upcoming launch of its revamped version this December is one of the most eagerly anticipated events in the fourth quarter. In *The Game Awards* which is honored as the *Oscar Awards* in the game industry to be held in December 2017, JX Online III revamped version stood out from world-famous game manufacturers and 102 grand games, and was nominated for the *Best Chinese Game Award*. Kingsoft is fully confident that the superior game quality of the revamped version should facilitate the game’s future revenue growth while substantially extending its life cycle.

JX Online I mobile game performed steadily in the third quarter. In order to update its graphics and bring new gaming experience to the gamers, its revamped version, New JX Online I mobile game, has already been launched on 3 November. Kingsoft’s licensed mobile game Eudemons Online has been launched on all platforms on 18 October 2017. As of 6 November 2017, its gross billing exceeded the RMB100 million mark in just 19 days. Moreover, Kingsoft’s self-developed mobile game XiaoMiQiangZhan has started “public internal testing” on 30 October, which has drawn great attention and gained in high popularity among gamers soon afterwards.

In addition to maintaining the leading position in live streaming and short video markets, Kingsoft Cloud has extended to provide video cloud services for long videos, broadcast and television, and OTT (Over The Top) markets, and was able to secure various licensed customers in the broadcast and television communications industry. Kingsoft Cloud also accessed several platforms like Bilibili and Panda TV, while promoting the download services for smartphone companies and ensuring the smooth running of key events’ live streaming. Kingsoft Cloud has strived to establish its game ecosystem and enhanced its customers’ loyalty through offering bundled packages with multiple products.

As for the healthcare cloud business, Kingsoft Cloud has continued to provide quality cloud services to leading medical institutions and enterprises in the healthcare industry including PKUCare Rehabilitation Hospital, The University of Hong Kong-Shenzhen Hospital, Peking University People’s Hospital and PKU Healthcare IT Co., Ltd. At the same time, it has also promoted to provide healthcare cloud services in several important provinces and build healthcare cloud infrastructure for small and medium-sized cities. In addition, Kingsoft Cloud has achieved strategic cooperation with HNA Tianhai Group and will continue to expand its customer base across various government committees, offices and departments.

In September, the global MAU of the WPS Office mobile version reached a new record of 135 million, while the global MAU of the WPS Office PC version exceeded 100 million for the first time in history, enabling us to achieve the distinctive milestone that the global MAU of both PC and mobile versions have exceeded the 100 million mark. With the stable development of personal cloud services, the revenue contribution from WPS Office Android users and the number of cloud users logged in through Android devices have improved steadily in the third quarter. WPS Office iOS ranked first in the App Store productivity category in September, and its global MAU exceeded 13 million.

Two other important businesses, WPS mail and iCiba also completed update of the latest 5.0 and 9.0 editions, respectively. At the same time, we participated as a core member in the inauguration ceremony of the Software Working Commission of Copyright Society of China in September. Following the implementation of China's "Belt and Road Initiative", we signed an MOU (Memorandum of Understanding) with the Thai Government for future cooperation in Thailand's education sector, which has huge development potential, and marked a major step forward in the internalization strategy of WPS."

Mr. Jun LEI concluded, "We are pleased to see that the results of third quarter manifesting the impressive execution of our overall strategies. The temporary pressure on operating profit in the third and fourth quarters this year will translate into a brighter outlook, as the proactive investments made in the game segment will boost the overall performance in the future. We continue to strive to secure a larger user base and stronger market competitiveness, through a focus on product innovation, inter-segment synergies and potential cooperation opportunities in order to achieve higher goals. With our dedicated pursuit of excellence, we are fully confident that we can deliver substantial and sustainable business growth, bring solid returns to our shareholders and partners, and keep advancing towards to our next milestone."

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 21 November 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.