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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 2015

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 2015. These interim results have been reviewed by Ernst & Young, the auditors of the Company, and the audit committee of the Company (the “**Audit Committee**”).

#### FINANCIAL HIGHLIGHTS

	For the three months ended			QoQ* Change %	YoY* Change %
	31 March 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Unaudited)	31 March 2014 RMB'000 (Unaudited)		
Revenue	1,109,360	1,071,821	675,625	4	64
Profit attributable to owners of the parents**	114,536	173,887	246,237	(34)	(53)
	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)		
Basic earnings per share	0.10	0.15	0.21	(33)	(52)
Diluted earnings per share	0.10	0.14	0.20	(29)	(50)

\* 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.

\*\* Our proactive investment strategies in mobile transformation, globalization and cloud businesses are necessary for us to trade off short term profits to capture the vast growth opportunities in the long term, and this would further adversely impact our profitability in the coming quarters this year. Please refer to “Management Comments” for more information. Profit attributable to owners of the parent before the effect of share-based compensation cost is RMB155.4 million, RMB201.7 million and RMB258.4 million for the three months ended at 31 March 2015, 31 December 2014 and 31 March 2014, respectively. This represents a QoQ decrease of 23% and a YoY decrease of 40%. The significant YoY decrease was primarily due to the one-off gain from disposing the shares of Sky Profit Limited in the prior year period.

## OPERATIONAL HIGHLIGHTS

	For the three months ended			QoQ Change %	YoY Change %
	31 March 2015	31 December 2014	31 March 2014		
<b>Online Games</b>					
Daily Average Peak Concurrent Users ("ADPCU")	672,779	661,002	599,384	2	12
Monthly Average Paying Accounts ("APA")	3,069,052	2,717,443	1,972,027	13	56
Monthly Average Revenue per Paying User ("ARPU") (RMB)*	33	39	48	(15)	(31)
	In March 2015	In December 2014	In March 2014	QoQ Change %	YoY Change %
<b>Cheetah Mobile</b>					
Mobile Monthly Active Users ("MAU") (Million)	443.6	395.4	222.5	12	99
% of Mobile MAU from Overseas Markets	71%	69%	63%	/	/
Mobile Users Installations (Million)	1,340.5	1,089.1	502.1	23	167

\* The quarter-over-quarter and year-over-year declines in ARPU were mainly attributable to the increased proportion of JX Online III, which has much lower ARPU, in total game revenue.

The Board announces the unaudited results of the Group for the three months ended 31 March 2015.

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 2015 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2014 <i>RMB'000</i> <i>(Unaudited)</i>	31 March 2014 <i>RMB'000</i> <i>(Unaudited)</i>
<b>Revenue</b>			
Online game	324,892	346,133	294,911
Cheetah Mobile	646,554	581,637	292,847
Office software and others	137,914	144,051	87,867
	<u>1,109,360</u>	<u>1,071,821</u>	<u>675,625</u>
Cost of revenue	<u>(223,724)</u>	<u>(226,413)</u>	<u>(106,613)</u>
<b>Gross profit</b>	<b>885,636</b>	<b>845,408</b>	<b>569,012</b>
Research and development costs, net of government grants	(294,322)	(264,396)	(196,337)
Selling and distribution expenses	(289,972)	(244,300)	(157,337)
Administrative expenses	(101,161)	(89,701)	(66,317)
Share-based compensation costs	(57,883)	(58,779)	(20,637)
Other income	4,830	15,417	1,900
Other expenses	(9,130)	(15,198)	(217)
<b>Operating profit</b>	<b>137,998</b>	<b>188,451</b>	<b>130,067</b>
Other (losses)/gains, net	(17,424)	(12,733)	116,740
Finance income	52,376	64,951	45,841
Finance costs	(20,262)	(18,936)	(11,685)
Share of losses of:			
Joint ventures	(5,972)	(5,066)	—
Associates	(2,666)	(540)	(3,139)
<b>Profit before tax</b>	<b>144,050</b>	<b>216,127</b>	<b>277,824</b>
Income tax expense	(27,619)	(15,511)	(23,338)
<b>Profit for the period</b>	<b><u>116,431</u></b>	<b><u>200,616</u></b>	<b><u>254,486</u></b>
<b>Attributable to:</b>			
Owners of the parent	114,536	173,887	246,237
Non-controlling interests	1,895	26,729	8,249
	<u>116,431</u>	<u>200,616</u>	<u>254,486</u>
	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>
<b>Earnings per share attributable to ordinary equity holders of the parent</b>			
Basic	<b>0.10</b>	0.15	0.21
Diluted	<b>0.10</b>	0.14	0.20

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	31 March 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Unaudited)	31 March 2014 RMB'000 (Unaudited)
<b>PROFIT FOR THE PERIOD</b>	<b>116,431</b>	200,616	254,486
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Change in fair value, net of tax	(95,514)	(160,014)	969
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss			
— gain on disposal	—	(14)	—
— impairment losses	25,891	5	—
Exchange differences on translation of foreign operations	10,059	(28,951)	10,503
Share of other comprehensive loss of associates	—	(688)	—
<b>OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD, NET OF TAX</b>	<b>(59,564)</b>	(189,662)	11,472
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>56,867</b>	10,954	265,958
<b>Attributable to:</b>			
Owners of the parent	54,903	(9,505)	251,509
Non-controlling interests	1,964	20,459	14,449
	<b>56,867</b>	10,954	265,958

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
<b>Non-current assets</b>		
Property, plant and equipment	683,771	583,637
Prepaid land lease payments	279,981	281,066
Goodwill	268,131	267,288
Other intangible assets	214,203	197,425
Investments in joint ventures	118,181	118,153
Investments in associates	33,012	30,718
Available-for-sale investments	1,840,595	566,672
Other financial assets	9,961	10,063
Loan receivables	12,796	13,555
Deferred tax assets	83,970	77,988
Long term prepayments	31,517	40,246
Other long-term receivables	116,464	122,524
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Total non-current assets	3,692,582	2,309,335
<b>Current assets</b>		
Inventories	6,381	6,945
Trade receivables	626,146	411,137
Prepayments, deposits and other receivables	552,577	397,808
Due from related parties	125,291	117,411
Available-for-sale investments	55,257	56,913
Other financial assets	79,302	78,378
Pledged deposit	19,978	19,978
Cash and bank deposits	6,327,496	6,983,699
	<hr/>	<hr/>
Total current assets	7,792,428	8,072,269
<b>Current liabilities</b>		
Trade payables	132,158	79,324
Other payables and accruals	1,685,986	931,437
Interest-bearing bank loan	95,052	15,778
Deferred revenue	326,106	310,983
Due to related parties	—	1,020
Income tax payable	63,109	56,806
	<hr/>	<hr/>
Total current liabilities	2,302,411	1,395,348
<b>Net current assets</b>	<hr/>	<hr/>
	5,490,017	6,676,921
<b>Total assets less current liabilities</b>	<hr/>	<hr/>
	9,182,599	8,986,256

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31 March 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
<b>Non-current liabilities</b>		
Other liabilities	24,850	22,272
Deferred revenue	14,403	13,535
Deferred tax liabilities	44,143	41,583
Liability component of convertible bonds	<u>2,810,101</u>	<u>2,792,322</u>
<b>Total non-current liabilities</b>	<u>2,893,497</u>	<u>2,869,712</u>
<b>Net assets</b>	<u><u>6,289,102</u></u>	<u><u>6,116,544</u></u>
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Issued capital	4,719	4,730
Share premium account	55,306	99,769
Treasury shares	(38,555)	(83,964)
Statutory reserves	185,513	185,513
Share-based compensation reserve	252,484	231,360
Other capital reserve	1,241,665	1,192,967
Available-for-sale investment revaluation reserve	(278,036)	(211,898)
Equity component of convertible bonds	74,505	74,505
Foreign currency translation reserve	(88,289)	(94,797)
Retained earnings	3,158,288	3,043,752
Proposed final dividend	<u>119,438</u>	<u>119,438</u>
	<u>4,687,038</u>	<u>4,561,375</u>
<b>Non-controlling interests</b>	<u>1,602,064</u>	<u>1,555,169</u>
<b>Total equity</b>	<u><u>6,289,102</u></u>	<u><u>6,116,544</u></u>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	31 March 2015 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2014 <i>RMB'000</i> <i>(Unaudited)</i>	31 March 2014 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash flows from operating activities	13,793	522,159	78,236
Net cash flows (used in)/from investing activities	(1,069,794)	(110,642)	214,179
Net cash flows from/(used in) financing activities	124,546	(130,373)	74,587
	<hr/>	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(931,455)	281,144	367,002
Cash and cash equivalents at beginning of the period	3,193,934	2,957,196	2,677,248
Effect of foreign exchange rate changes, net	5,395	(44,406)	17,854
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of the period	2,267,874	3,193,934	3,062,104
Time deposits with original maturity of over three months when acquired	1,718,648	1,726,451	314,348
Principle protected structure deposits with original maturity of over three months when acquired	2,360,952	2,083,292	1,282,140
Less: pledged time deposit for a bank loan	(19,978)	(19,978)	(19,643)
	<hr/>	<hr/>	<hr/>
Cash and bank deposits as stated in the consolidated statement of financial position	<u>6,327,496</u>	<u>6,983,699</u>	<u>4,638,949</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 since 9 October 2007.

The Group is principally involved in the following principal activities:

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

The interim condensed consolidated financial statements for the three months ended 31 March 2015 were approved and authorised for issue in accordance with a resolution of the Board on 19 May 2015.

## 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 2014.



## 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 2014, 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 2015. 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 19

*Defined Benefit Plans: Employee Contributions*

Amendments included in *Annual Improvements 2010–2012 Cycle*:

IFRS 2	<i>Share-based Payment</i>
IFRS 3	<i>Business Combinations</i>
IFRS 8	<i>Operating Segments</i>
IAS 16	<i>Property, Plant and Equipment</i>
IAS 38	<i>Intangible Assets</i>
IAS 24	<i>Related Party Disclosures</i>

Amendments included in *Annual Improvements 2011–2013 Cycle*:

IFRS 3	<i>Business Combinations</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 40	<i>Investment Property</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 31 March 2015

### Revenue

Revenue for the first quarter of 2015 increased 4% quarter-over-quarter and 64% year-over-year to RMB1,109.4 million. Revenue from the online game, Cheetah Mobile and office software and others businesses represented 29%, 58% and 13%, respectively, of the Group's total revenue for the first quarter of 2015. Revenues from the three business lines are reported net of intra-group transactions.

Revenue from the online game business mainly consists of revenues from operations of proprietary PC-based online games, mobile games, and game licensing services, which are generated from the Group's companies, other than Cheetah Mobile and its subsidiaries, through research, development and provision of online games across devices. Revenue from the online game business for the first quarter of 2015 decreased 6% quarter-over-quarter and increased 10% year-over-year to RMB324.9 million. The quarter-over-quarter decrease was largely due to the decline in revenue from the existing games, though partially offset by the continuous revenue growth from JX Online III. The year-over-year increase was primarily attributable to the notable and sustainable growth of JX Online III with continuous improvements in game experiences.

ADPCU for the Group's online games for the first quarter of 2015 increased 2% quarter-over-quarter and 12% year-over-year to 0.67 million. The quarter-over-quarter increase was mainly due to the sustained popularity of JX Online III. The year-over-year increase was primarily driven by the launch of new version of JX Online I in Vietnam. APA for the Group's online games for the first quarter of 2015 increased 13% quarter-over-quarter and 56% year-over-year to 3.07 million. APA for JX Online III for the first quarter of 2015 reached 2.73 million, a 75% increase year-over-year. The solid quarter-over-quarter and year-over-year increases in APA primarily reflected an ongoing increase in paying users JX Online III. The monthly ARPU for the Group's online games for the first quarter of 2015 decreased 15% quarter-over-quarter and 31% year-over-year to RMB33. The quarter-over-quarter and year-over-year declines were mainly attributable to the increased proportion of JX Online III, which has much lower ARPU, in total game revenue.

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 2015 increased 11% quarter-over-quarter and 121% year-over-year to RMB646.6 million. The quarter-over-quarter and year-over-year increases were primarily due to the increase in revenue from mobile advertising business, driven by the strong demand for the Cheetah Mobile's mobile advertising business in both the domestic and overseas markets as well as the rapid growth of the worldwide mobile advertising market.

Mobile MAU from Cheetah Mobile reached 443.6 million in March 2015, a 12% increase quarter-over-quarter and a 99% increase year-over-year. In March 2015, approximately 71% of mobile MAU were from overseas markets, mostly from the United States, Asia (excluding China) and Europe, compared to approximately 69% in December 2014. Our mobile user installations reached a new record of 1,340.5 million as of 31 March 2015, a 23% increase quarter-over-quarter and a 167% increase year-over-year. The robust mobile user growth mainly reflected that our mission critical applications, particularly Clean Master and CM security, continued to gain traffic share and were expanding rapidly in the global market through our efforts in market exploration, market expansion and continuous improvement of user experiences. The growing number of users, in turn, attracts additional users on our mobile advertising platform, which once again attracts advertisers which results in a virtuous cycle.

Revenue from the office software and others business consists of revenues from all the other businesses, including office application software, cloud storage, dictionary services, etc. Revenue from the office software and others businesses for the first quarter of 2015 decreased 4% quarter-over-quarter and increased 57% year-over-year to RMB137.9 million. The quarter-over-quarter decrease was primarily due to a seasonal adverse impact on revenue from WPS Office in the first quarter. The year-over-year increase was primarily attributable to the significant ramp-up of revenue contribution from Kingsoft Cloud, driven by rapidly growing demand for cloud storage and cloud computing services from increasing user base.

### **Cost of Revenue and Gross Profit**

Cost of revenue for the first quarter of 2015 decreased 1% quarter-over-quarter and increased 110% year-over-year to RMB223.7 million. The year-over-year increase was largely attributable to higher costs associated with the Cheetah Mobile's game business, higher bandwidth, the server hosting costs and depreciation along with increasing user traffic and activities of Cheetah Mobile and the rapid development of our cloud services, as well as higher amortization costs from intangible assets resulting from Cheetah Mobile's acquisitions.

Gross profit for the first quarter of 2015 increased 5% quarter-over-quarter and 56% year-over-year to RMB885.6 million. The Group's gross profit margin increased by one percentage point quarter-over-quarter and decreased four percentage points year-over-year to 80%.

### **Research and Development (“R&D”) Costs**

R&D costs, net of government grants, for the first quarter of 2015 increased 11% quarter-over-quarter and 50% year-over-year to RMB294.3 million. The quarter-over-quarter and year-over-year increases were largely due to increased staff costs as a result of the Group's increasing investment in mobile application development and increased salaries and benefits.

### **Selling and Distribution Expenses**

Selling and distribution expenses for the first quarter of 2015 increased 19% quarter-over-quarter and 84% year-over-year to RMB290.0 million. The quarter-over-quarter and year-over-year increases primarily reflected higher marketing spending to expand the mobile user base of Cheetah Mobile in the global market.

## **Administrative Expenses**

Administrative expenses for the first quarter of 2015 increased 13% quarter-over-quarter and 53% year-over-year to RMB101.2 million. The quarter-over-quarter increase was primarily due to an increase in professional fees. The year-over-year increase was mainly due to higher professional fees and an increase in staff costs.

## **Share-based Compensation Costs**

Share-based compensation costs for the first quarter of 2015 decreased 2% quarter-over-quarter and increased 180% year-over-year to RMB57.9 million. The year-over-year increase was primarily driven by the new grants of Cheetah Mobile's options and awarded shares to selected employees.

## **Operating Profit before Share-based Compensation Costs**

Operating profit before share-based compensation costs for the first quarter of 2015 decreased 21% quarter-over-quarter and increased 30% year-over-year to RMB195.9 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 2015 decreased by five percentage points quarter-over-quarter and four percentage points year-over-year to 18%.

## **Other (Losses)/Gains, net**

Other (losses)/gains, net for the first quarter of 2015 recorded a loss of RMB17.4 million, which mainly represented impairment loss of available-for-sale investments and the partially disposal gain of an associate, compared to a gain of RMB116.7 million in the first quarter of 2014. The other gains, net in the first quarter of 2014 primarily represented the disposal gain of the shares of Sky Profit Limited owned by the Company.

## **Finance Income**

Finance income for the first quarter of 2015 decreased 19% quarter-over-quarter and increased 14% year-over-year to RMB52.4 million.

## **Income Tax Expense**

Income tax expense for the first quarter of 2015 increased 78% quarter-over-quarter and 18% year-over-year to RMB27.6 million. The Group's effective tax rate increased by twelve percentage points quarter-over-quarter and eleven percentage points year-over-year to 19%.

## **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 2015 decreased 34% quarter-over-quarter and 53% year-over-year to RMB114.5 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 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 2015 decreased 23% quarter-over-quarter and 40% year-over-year to RMB155.4 million. The net profit margin excluding the effect of share-based compensation costs was 14%, 19% and 38% for the three months ended 31 March 2015, 31 December 2014 and 31 March 2014, respectively.

## **Liquidity and Financial Resource**

The Group had a strong cash position towards the end of the reporting period. As at 31 March 2015, the Group had major financial resources in the forms of cash and cash equivalent and time deposits with initial term of over three months amounting to RMB2,267.9 million and RMB4,079.6 million, respectively, which totally represented 55% of the Group's total assets.

As at 31 March 2015, the Group's gearing ratio, which represents total liabilities divided by total assets, was 45%, compared to 41% as at 31 December 2014. As at 31 March 2015, the Group had HKD3,547.7 million (equivalent of RMB2,810.1 million) debt of convertible bonds and HKD120.0 million (equivalent of RMB95.1 million) bank loan.

## **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 USD, HKD, 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 2015, RMB2,820.7 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.

## **Deferred Revenue**

Deferred revenue (including current and non-current portion) as at 31 March 2015 was RMB340.5 million compared to RMB324.5 million as at 31 December 2014.

## **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 RMB13.8 million, RMB522.2 million and RMB78.2 million for the three months ended 31 March 2015, and 31 December 2014 and 31 March 2014, respectively.

## **Capital Expenditures**

Capital expenditures represent cash payments for acquisition of business, property, land use right, fixed assets and intangible assets. Cash used for capital expenditures was RMB178.2 million, RMB266.5 million and RMB23.5 million for the three months ended 31 March 2015, 31 December 2014 and 31 March 2014, respectively.

## Management comments

Reference is made to the announcement of the Company with respect to its annual results for the year 2014 which was published on 20 March 2015 (the “2014 Annual Results Announcement”). As indicated in the “Business Review and Prospectus” section of the 2014 Annual Results Announcement, the Group will continue executing its investment strategies which primarily include (1) aggressive investments by Cheetah Mobile in mobile application innovation, big data analytic research and global market expansion as well as global mobile monetization and (2) the “ALL IN CLOUD” strategy the Group unveiled in December 2014 which entails making huge investments into cloud technology development, talent recruitments, market expansion and cloud service infrastructure building, with an aim to build the Company into a leading cloud service provider in China in the coming years.

As a result of the implementation of the aforementioned investment strategies, as disclosed in the 2014 Annual Results Announcement, the profit attributable to owners of the parent before share-based compensation costs for the fourth quarter of 2014 decreased 24% quarter-over-quarter. Such trend continues to have impact on the Group’s performance for the year 2015.

Mr. Jun Lei, Chairman of Kingsoft, commented, “The achievements of our business lines in the first quarter demonstrated a good start of the effective execution of our mobile transformation, globalization and “ALL IN CLOUD” strategies in 2015. Our total mobile MAU reached a new record of 535.7 million compared with 276.0 million a year ago, and over 66% of our mobile MAU were from the overseas markets in March 2015. In the first quarter of 2015, 55% of Cheetah Mobile’s revenue was generated from the mobile services. As a result, for the first time in Cheetah Mobile’s operating history, mobile revenues accounted for a majority of total revenues, a major milestone towards achieving our mobile and global transformation goals. We are most encouraged to see the daily average upload data onto our storage services soared to approximately 296 terabyte in March 2015, compared to 122 terabyte a year ago. As the user traffic is migrating fast to mobile internet worldwide and cloud services are becoming mainstream and experiencing explosive growth in China, I believe that Kingsoft will manifest successful mobile transformation and establish new milestones in cloud services in 2015.”

Mr. Jun Lei continued, “We are pleased to have delivered another quarter of solid revenue growth. In the first quarter, our revenue reached RMB1,109.4 million, a 4% increase quarter-over-quarter and a 64% increase year-over-year. Excluding the impact of share-based compensation costs, the operating profit for the first quarter declined 21% quarter-over-quarter and increased 30% year-over-year to RMB195.9 million and operating profit margin decreased by five percentage points quarter-over-quarter and four percentage points year-over-year to 18%. Our proactive investment strategies in mobile transformation, globalization and cloud businesses are necessary for us to trade off short term profits to capture the vast growth opportunities in the long term, this would further adversely impact our profitability and we expect the operating profit margin might decline to single digit percentages in the coming quarters this year. We are glad with the progresses we have made thus far, particularly the outstanding performance of Cheetah Mobile and Kingsoft Cloud businesses.”

Dr. Hongjiang Zhang, Chief Executive Officer of Kingsoft added, “Total revenue from Cheetah Mobile this quarter reached RMB646.6 million, representing a 121% increase year-over-year, driven mainly by the continued ramp-up of mobile advertising business, especially in the overseas market. Cheetah Mobile’s mobile business continued to enjoy tremendous momentum during the first quarter of 2015. Mobile revenue increased 584% year-over-year and now accounts for 55% of total revenue, with overseas contributing 38% of total revenue and 70% of mobile revenue in the quarter. Mobile MAU of Cheetah Mobile grew nearly 100% year-over-year to 443.6 million in March 2015. Five of Cheetah Mobile’s apps were among the top-40 non-game apps on Google Play in March 2015 and Cheetah Mobile remained the top publisher in tools category on Google Play. During the quarter, Cheetah Mobile has further expanded its partnerships with leading mobile advertising networks worldwide and made strategic investments and acquisitions of key mobile advertising assets. As Cheetah Mobile continues towards its strategic goal to be among the top three global mobile advertising platforms, it will remain relentlessly focus on its users, product innovation and operational excellence. In order to capture the vast global mobile advertising opportunities ahead, Cheetah Mobile will continue to execute on its strategy to attract more mobile users, further strengthen its capabilities in big data analytics and improve its mobile advertising technology and platform.

In the past year, we have established competitive capabilities in providing cloud services to meet the needs of rapidly growing mobile internet companies, with phenomenal successes in mobile user data storage service and mobile game platform service. In the first quarter of 2015, we continued to provide efficient cloud storage services to Xiaomi and extended our storage service capabilities into healthcare and financial service businesses as well. Meanwhile, for cloud computing services, we continued to expand our share in mobile game platform market and extended to other non-game industries, such as intelligent hardware and mobile internet.

Benefiting from the expansion pack “Cang Xue Long Cheng”(“蒼雪龍城”) launched in November 2014, the revenue for JX Online III for the first quarter of 2015 reached RMB210.4 million, a growth of 6% quarter-over-quarter and 33% year-over-year. We have several mobile game projects currently under development and some of them are to be launched in the year. In April 2015, we acquired the exclusive authority to use the intellectual property (“IP”) and content of a popular movie “Journey to the West: Conquering the Demons” (“西游降魔篇”) in our mobile game, which will be launched in the coming June.

Due to seasonality factors, the first quarter is usually a weak season for Kingsoft WPS. Revenue from WPS office, net of advertising revenue derived from cooperation with Cheetah Mobile, decreased 36% quarter-over-quarter and 18% year-over-year to RMB54.6 million. The global mobile MAU of WPS family reached 92.1 million, a 75% increase year-over-year, among which MAU of Mobile WPS Office reached 70.6 million. In the first quarter of 2015, Kingsoft WPS established strategic cooperation with Kingdee. In May 2015, WPS Enterprise Mail was launched, adding a key function to our enterprise WPS productivity suite, which enhanced the email experience for our WPS users.”



Mr. Jun Lei concluded, “We had an impressive and promising start to 2015 and focused our investment in mobile internet business and enterprise cloud services. With the robust mobile monetization growth momentum of Cheetah Mobile, continued steady growth of JX Online III, a number of flagship mobile games in pipeline, consistent expansion of mobile WPS user base, and solid growth momentum of cloud services, we are in a great position to continue making strong progress in all our priorities in mobile internet and cloud strategies.”

By order of the Board  
**Kingsoft Corporation Limited**  
**Jun LEI**  
*Chairman*

The PRC, 19 May 2015

*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.*