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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 2014

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 2014. 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 %
	30 September 2014 RMB'000 (Unaudited)	30 June 2014 RMB'000 (Unaudited)	30 September 2013 RMB'000 (Unaudited)		
Revenue	852,181	750,506	551,130	14	55
Profit attributable to owners of the parents**	230,538	118,121	163,276	95	41
	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)		
Basic earnings per share	0.20	0.10	0.14	100	43
Diluted earnings per share	0.18	0.10	0.14	80	29

* 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 costs is RMB265.2 million, RMB150.1 million and RMB175.3 million for the three months ended at 30 September 2014, 30 June 2014 and 30 September 2013, respectively. This represents a QoQ increase of 77% and a YoY increase of 51%.

OPERATIONAL HIGHLIGHTS

	For the three months ended				YoY Change %
	30 September 2014	30 June 2014	30 September 2013	QoQ Change %	
Online Games					
Daily Average Peak Concurrent Users (“ADPCU”)	617,717	572,374	614,263	8	1
Monthly Average Paying Accounts (“APA”)	2,374,699	2,255,404	1,791,194	5	33
Monthly Average Revenue per Paying User (“ARPU”) (RMB)	41	43	48	(5)	(15)

	In September 2014		In September 2013	
	In June 2014	In March 2014	In December 2013	In September 2013
Cheetah Mobile Inc. (“Cheetah Mobile”)				
Mobile Monthly Active Users (“MAU”) (Million)	284.3	222.5	166.2	120.3
% of Mobile MAU from Overseas Markets	67%	63%	53%	Not Available
Mobile Users Installations (Million)	662.2	502.1	346.6	Not Available
MAU of Duba.com Personal Start Page* (Million)	67.6	54.3	46.8	39.9

* MAU of Duba.com Personal Start Page data is from iResearch.

The Board announces the unaudited results of the Group for the three months ended 30 September 2014.

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		
	30 September 2014 RMB'000 (Unaudited)	30 June 2014 RMB'000 (Unaudited)	30 September 2013 RMB'000 (Unaudited)
Revenue			
Online game	304,172	307,537	270,984
Cheetah Mobile	445,981	353,595	174,692
Office software and others	102,028	89,374	105,454
	<u>852,181</u>	<u>750,506</u>	<u>551,130</u>
Cost of revenue	(140,344)	(116,285)	(79,799)
Gross profit	711,837	634,221	471,331
Research and development costs, net of government grants	(272,622)	(222,742)	(169,645)
Selling and distribution expenses	(229,501)	(166,278)	(78,446)
Administrative expenses	(74,526)	(66,868)	(50,594)
Share-based compensation costs	(65,388)	(57,118)	(15,202)
Other income and gains	17,400	1,101	19,048
Other expenses	(15,997)	1,539	(48)
Operating profit	71,203	123,855	176,444
Impairment loss of an available-for-sale investment	(6,540)	—	—
Gain on extinguishing redeemable convertible preferred shares	9,892	—	—
Gain on disposal of a business	193,632	—	—
Gain on disposal of an available-for-sale investment	1,968	—	—
Fair value loss on financial instruments at fair value through profit or loss	(3,099)	(112)	(1,959)
Finance income	66,659	61,449	34,754
Finance costs	(22,945)	(22,378)	(9,774)
Share of losses of:			
Joint ventures	(1,638)	(953)	(751)
Associates	(2,559)	(630)	(415)
Profit before tax	306,573	161,231	198,299
Income tax expense	(20,309)	(36,030)	(20,648)
Profit for the period	286,264	125,201	177,651
Attributable to:			
Owners of the parent	230,538	118,121	163,276
Non-controlling interests	55,726	7,080	14,375
	<u>286,264</u>	<u>125,201</u>	<u>177,651</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	0.20	0.10	0.14
Diluted	0.18	0.10	0.14

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	30 September 2014 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2014 <i>RMB'000</i> <i>(Unaudited)</i>	30 September 2013 <i>RMB'000</i> <i>(Unaudited)</i>
PROFIT FOR THE PERIOD	286,264	125,201	177,651
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value, net of tax	(197,126)	121,732	—
Reclassification adjustments for (losses)/gains included in the consolidated statement of profit or loss			
— Gain on disposal	(3,451)	—	—
— Impairment losses	6,540	—	—
	(194,037)	121,732	—
Exchange differences on translation of foreign operations	5,468	5,881	(4,022)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(188,569)	127,613	(4,022)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	97,695	252,814	173,629
Attributable to:			
Owners of the parent	43,746	253,019	160,009
Non-controlling interests	53,949	(205)	13,620
	97,695	252,814	173,629

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2014 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2013 <i>RMB'000</i> <i>(Audited)</i>
Non-current assets		
Property, plant and equipment	482,905	385,067
Lease prepayments	282,151	42,260
Goodwill	269,641	53,994
Other intangible assets	231,977	60,104
Investments in joint ventures	77,808	—
Investments in associates	31,956	34,852
Available-for-sale investments	585,811	56,723
Other financial assets	20,483	27,699
Loan receivables	13,631	15,976
Deferred tax assets	47,928	52,406
Long-term prepayment	10,859	—
Other long-term receivables	124,015	—
	<u>2,179,165</u>	<u>729,081</u>
Current assets		
Inventories	4,874	3,528
Trade receivables	305,920	185,161
Prepayments, deposits and other receivables	373,193	144,966
Due from related parties	117,700	142,285
Available-for-sale investment	64,898	55,780
Other financial assets	68,577	—
Pledged deposit	19,847	19,588
Cash and cash equivalents	7,145,794	4,481,188
	<u>8,100,803</u>	<u>5,032,496</u>
Investment in a joint venture classified as held for sale	—	42,756
Total current assets	<u>8,100,803</u>	<u>5,075,252</u>
Current liabilities		
Trade payables	81,829	32,463
Interest-bearing bank loans	15,850	15,724
Other payables and accruals	827,340	498,964
Deferred revenue	267,713	202,105
Income tax payable	48,383	39,338
	<u>1,241,115</u>	<u>788,594</u>
Net current assets	<u>6,859,688</u>	<u>4,286,658</u>
Total assets less current liabilities	<u>9,038,853</u>	<u>5,015,739</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 30 September 2014 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2013 <i>RMB'000</i> <i>(Audited)</i>
Non-current liabilities		
Deferred revenue	25,713	31,533
Deferred tax liabilities	40,785	30,545
Liability component of convertible bonds	2,798,341	1,037,587
Liability component of redeemable convertible preferred shares	—	77,982
Other liabilities	17,558	7,401
	<u>2,882,397</u>	<u>1,185,048</u>
Net assets	<u>6,156,456</u>	<u>3,830,691</u>
Equity		
Equity attributable to owners of the parent		
Issued capital	4,729	4,718
Share premium account	222,021	259,665
Shares held for share award scheme	(42,454)	(53,890)
Statutory reserves	173,229	173,228
Employee share-based reserve	230,034	166,756
Warrant reserve	11,076	—
Capital reserve	1,211,500	512,651
Equity component of convertible bonds	74,505	8,500
Equity component of redeemable convertible preferred shares	—	10,015
Foreign currency translation reserve	(71,332)	(89,277)
Retained earnings	2,883,899	2,278,468
Proposed final dividend	—	109,387
	<u>4,697,207</u>	<u>3,380,221</u>
Non-controlling interests	<u>1,459,249</u>	<u>450,470</u>
Total equity	<u><u>6,156,456</u></u>	<u><u>3,830,691</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	30 September 2014 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2014 <i>RMB'000</i> <i>(Unaudited)</i>	30 September 2013 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash flows from operating activities	105,215	246,654	190,950
Net cash flows used in investing activities	(234,522)	(3,236,604)	(58,829)
Net cash flows (used in)/from financing activities	<u>(16,350)</u>	<u>3,022,313</u>	<u>585,668</u>
Net (decrease)/increase in cash and cash equivalents	(145,657)	32,363	717,789
Cash and cash equivalents at beginning of the period	3,104,960	3,062,104	1,242,361
Effect of foreign exchange rate changes, net	<u>(2,107)</u>	<u>10,493</u>	<u>(3,337)</u>
Cash and cash equivalents at end of the period	2,957,196	3,104,960	1,956,813
Time deposits with original maturity of over three months when acquired	4,208,445	4,092,972	2,030,562
Less: pledged time deposit for a bank loan	<u>(19,847)</u>	<u>(19,739)</u>	<u>(19,000)</u>
Cash and cash equivalents as stated in the consolidated statement of financial position	<u>7,145,794</u>	<u>7,178,193</u>	<u>3,968,375</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 30 September 2014 were approved and authorised for issue in accordance with a resolution of the Board on 9 November 2014.

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 2013.

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 2013, 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 2014. The Group has applied the following new standards and amendments for the first time in 2014. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39

Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36

IFRIC 21 Levies

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 2014

Revenue

Revenue for the third quarter of 2014 increased 14% quarter-over-quarter and 55% year-over-year to RMB852.2 million. Revenue from the online game, Cheetah Mobile and office software and others businesses represented 36%, 52% and 12%, respectively, of the Group's total revenue for the third quarter of 2014. 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 third quarter of 2014 decreased 1% quarter-over-quarter and increased 12% year-over-year to RMB304.2 million. This quarter-over-quarter slight decrease was primarily due to that JX Online III achieved a quarter-over-quarter growth of 10% to RMB182.6 million driven by the release of refined version of the game in July and the in-game celebration for the fifth anniversary of the game in August, which was offset by the adverse impact of summer holidays on JX Online World. The year-over-year increase was primarily attributable to the sustained and notable growth of JX Online III driven by continued improvements in game experiences and introduction of new excitements to gamers through various expansion packs during the year.

ADPCU for the Group's online games for the third quarter of 2014 increased 8% quarter-over-quarter and 1% year-over-year to 0.6 million. The quarter-over-quarter and year-over-year increases were primarily driven by the open beta testing of CTC version of JX Online (“劍俠情緣攻城戰版”) in Vietnam. APA for the Group's online games for the third quarter of 2014 increased 5% quarter-over-quarter and 33% year-over-year to 2.4 million. The solid quarter-over-quarter and year-over-year increases in APA primarily reflected the ramping popularity of JX Online III. The monthly ARPU for the Group's online games for the third quarter of 2014 decreased 5% quarter-over-quarter and 15% year-over-year to RMB41 which were primarily due to the increased proportion of the paying players from low-ARPU 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 third quarter of 2014 increased 26% quarter-over-quarter and 155% year-over-year to RMB446.0 million. The strong quarter-over-quarter and year-over-year increases were primarily due to the outstanding performances of online marketing services and internet value-added services driven by increased monetization capability of PC-based user traffic as well as significant ramp of global mobile monetization, with global mobile monetization at a faster pace.

Mobile MAU from Cheetah Mobile increased 20% quarter-over-quarter and 183% year-over-year to 340.7 million in September 2014. In September 2014, approximately 65% of mobile MAU were from overseas markets, mostly the United States, Asia (excluding China) and Europe, compared to approximately 53% in December 2013. Our mobile user installations as of 30 September 2014 has reached to 862.2 million. The robust mobile user growth mainly reflected that our mission critical applications, particularly Clean Master, continued to gain traffic share and were expanding rapidly in global market through our efforts in market exploration, market expansion and continuous improvement of user experiences. Duba.com aggregates a large collection of popular online resources and provides users quick access to most of their online destinations such as online shopping, video, online game, travel and local information. MAU of Duba.com Personal Start Page increased 54% year-over-year to 61.6 million in September 2014.

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 third quarter of 2014 increased 14% quarter-over-quarter and decreased 3% year-over-year to RMB102.0 million. The quarter-over-quarter increase mainly reflected that: i) the robust increase in revenue contribution from Kingsoft Cloud; ii) the ramping revenue from online marketing services driven by monetization of WPS free user traffic; and iii) the steady contribution from the sales of WPS Office. The year-over-year decrease was primarily due to the decline in revenue from the sales of WPS Office to government agencies.

Cost of Revenue and Gross Profit

Cost of revenue for the third quarter of 2014 increased 21% quarter-over-quarter and 76% year-over-year to RMB140.3 million. The quarter-over-quarter and year-over-year increases were primarily due to a significant increase in channel and content costs associated with the ramp-up of revenue from mobile game operation of Cheetah Mobile as well as higher bandwidth and server hosting costs along with increasing user base and user activities of Cheetah Mobile.

Gross profit for third quarter of 2014 increased 12% quarter-over-quarter and 51% year-over-year to RMB711.8 million. The Group's gross profit margin decreased by one percentage point quarter-over-quarter and two percentage points year-over-year to 84%.

Research and Development (“R&D”) Costs

R&D costs, net of government grants, for the third quarter of 2014 increased 22% quarter-over-quarter and 61% year-over-year to RMB272.6 million. The quarter-over-quarter and year-over-year increases were mainly due to the increased staff costs driven by the expansion of the Group's mobile application development teams and increased salary and benefits.

The following table sets forth a breakdown of our R&D costs for the three months ended 30 September 2014, 30 June 2014 and 30 September 2013:

	For the three months ended		
	30 September 2014 RMB'000 (Unaudited)	30 June 2014 RMB'000 (Unaudited)	30 September 2013 RMB'000 (Unaudited)
Staff costs	207,061	170,228	132,104
Depreciation & Amortisation	14,748	10,795	7,872
Others	48,330	39,907	26,823
	270,139	220,930	166,799
Less: Capitalised software costs (excluding share-based compensation costs)	—	—	(247)
Add: Amortisation of capitalised software costs	3,404	3,404	4,147
Less: Government grants for research and development activities	(921)	(1,592)	(1,054)
Total	272,622	222,742	169,645

Selling and Distribution Expenses

Selling and distribution expenses for the third quarter of 2014 increased 38% quarter-over-quarter and 193% year-over-year to RMB229.5 million. The quarter-over-quarter and year-over-year increases were mainly due to an increase in advertising and marketing expenses as the Group continued the efforts to expand its mobile internet penetration in the global market as well as an increase in marketing expenses for launching mobile games.

Administrative Expenses

Administrative expenses for the third quarter of 2014 increased 11% quarter-over-quarter and 47% year-over-year to RMB74.5 million. The quarter-over-quarter and year-over-year increases were largely due to the increases in staff costs and professional fees.

Share-based Compensation Costs

Share-based compensation costs for the third quarter of 2014 increased 14% quarter-over-quarter and 330% year-over-year to RMB65.4 million. The quarter-over-quarter and year-over-year increases primarily reflected 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 third quarter of 2014 decreased 25% quarter-over-quarter and 29% year-over-year to RMB136.6 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the third quarter of 2014 decreased eight percentage points quarter-over-quarter and nineteen percentage points year-over-year to 16%.

Gain on Disposal of a Business

Gain on disposal of a business, which represented the gain on disposal of Kuaipan Personal Version, recorded RMB193.6 million for the third quarter of 2014.

Finance Income

Finance income for the third quarter of 2014 increased 8% quarter-over-quarter and 92% year-over-year to RMB66.7 million.

Income Tax Expense

Income tax expense for the third quarter of 2014 decreased 44% quarter-over-quarter and 2% year-over-year to RMB20.3 million. The Group's effective tax rate decreased fifteen percentage points quarter-over-quarter and three percentage points year-over-year to 7%. The decreases were primarily due to that the gain on disposal of Kuaipan Personal Version was attributable to a subsidiary of the Group, which was in its income tax holiday period.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent for the third quarter of 2014 increased 95% quarter-over-quarter and 41% year-over-year to RMB230.5 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 Group'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 2014 increased 77% quarter-over-quarter and 51% year-over-year to RMB265.2 million. The net profit margin excluding the effect of share-based compensation costs was 31%, 20% and 32% for the three months ended 30 September 2014, 30 June 2014 and 30 September 2013, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 30 September 2014, the group had major financial resources in the forms of cash and cash equivalents, time deposits with original maturity of over three months amounting to RMB2,957.2 million, RMB4,208.4 million, respectively, which totally represented 70% of the Group's total assets.

As at 30 September 2014, the Group's gearing ratio, which represents total liabilities divided by total assets, was 40%, compared to 34% as at 31 December 2013. As at 30 September 2014, the Group had HKD3,531.0 million (equivalent of RMB2,798.3 million) debt of convertible bonds and HKD20.0 million (equivalent of RMB15.9 million) bank loan.

Foreign Currency Risk Management

Certain expenses of the Group were denominated in currencies other than the RMB. The Group generated foreign currency revenue either from license sales made in other Asia 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 30 September 2014, RMB3,313.2 million of the Group's financial assets were held in deposits and investments 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 30 September 2014 was RMB293.4 million compared to RMB233.6 million as at 31 December 2013.

Net Cash Generated from Operating Activities

Cash generated from our operating activities reflects our profit for the three months period, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalised 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 RMB105.2 million, RMB246.7 million and RMB191.0 million for the three months ended 30 September 2014, and 30 June 2014 and 30 September 2013, respectively. The decreases in net cash generated from operating activities were mainly due to the payment of marketing expenses and research and development costs in the third quarter of 2014.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, property, land use rights, fixed assets and intangible assets. Cash used for capital expenditures was RMB372.6 million, RMB171.5 million and RMB21.4 million for the three months ended 30 September 2014, 30 June 2014 and 30 September 2013, respectively.

Management Comments

Mr. Jun LEI, Chairman of Kingsoft, commented, “We continue to execute well on our priorities in capitalizing on the mobile transformation, reinforcing R&D competence, and accelerating the global expansion of mission critical mobile applications as well as strengthening the global mobile monetization capabilities. We are particularly pleased with the rapid growth of our global mobile MAU, which skyrocketed over 180% year-over-year to a new record of 410 million in September 2014. As the mobile internet market is growing explosively, we continue to invest aggressively in mobile application development and global market penetration, I believe that we will continue to expand our traffic share and make 2014 a milestone in our mobile transformation.”

Dr. Hongjiang ZHANG, Chief Executive Officer of Kingsoft added, “We are pleased to report another quarter of strong topline growth with revenue posted a growth of 14% quarter-over-quarter and 55% year-over-year to a new record of RMB852.2 million. As we continue to accelerate the global expansion of mission critical mobile applications and reinforce R&D capabilities, our operating profit, excluding the impact of share-based compensation costs, declined 25% quarter-over-quarter and 29% year-over-year, which is in line with our proactive investment strategy and to lay a sound foundation for our future growth. I believe that it is right time for us to trade off short term profit for long term greater gains in our capabilities and market share in the future. I am pleased with the outstanding performances and excellent execution of our strategy and priorities, particularly the strong growth momentum of the mobile user base, the progress of mobile monetization and the rapid growth of our cloud services.

We are excited to see that Cheetah Mobile delivered another impressive quarter in terms of revenue and operating metrics. The revenue for Cheetah Mobile for the third quarter recorded RMB446.0 million, a growth of 26% quarter-over-quarter and 155% year-over-year. The strong growth momentum was supported by the significant progress we have made in exploration of global mobile monetization, mobile traffic expansion and strengthened monetization capabilities of PC-based user traffic. For the third quarter, Cheetah Mobile generated approximately 24% of its revenue from mobile services, compared with approximately 8% a year ago. Mobile MAU of Cheetah Mobile soared at an impressive rate of over 183% year-over-year to 340.7 million in September 2014, approximately 65% of which were from overseas markets. The mobile application Clean Master continues to rank #1 in the Tools category on Google Play. As we are expanding the geographic coverage, I believe our mobile user base will continue to grow with strong momentum.

In the third quarter, our flagship 3D MMO game, JX Online III continued to show great growth potential with revenue posted a growth of 10% quarter-over-quarter and 48% year-over-year to RMB182.6 million. The largest expansion pack of the year “Cang Xue Long Cheng” for JX Online III will be launched on 24 November, and we expect the revenue and user population of JX Online III would hit a new record high. We have thirteen mobile games under development and two of which will be commercially launched in the fourth quarter.

Revenue from WPS Office for the third quarter increased 11% quarter-over-quarter and decreased 6% year-over-year to RMB73.5 million. The MAU of WPS Personal Edition continued to rise to over 76 million in September 2014, compared to 55 million the same period last year. In the third quarter, we strengthened our efforts in the global market expansion of WPS Mobile Office and achieved encouraging results. The global mobile MAU of WPS Office continued to grow 127% year-over-year to 59 million in September 2014, compared to 26 million in September 2013. In July, WPS Mail was launched to add another key function to our mobile WPS productivity tools and to improve the email experiences of Android users.

We are excited to see material progresses in the development of our cloud computing and cloud storage businesses in the third quarter. We have set up the game cloud service alliance and gradually started to build the game ecological circle. Now more than 50 games are operated on our platform and some of which are very popular. The growth of our enterprise data storage services has been accelerated, driven by the rapid increase in users’ data from Xiaomi, WPS and Xunlei. The daily average upload data into our storage services was approximately 230 Tbytes in September 2014, which catalyzed the growth of our cloud storage revenue. Leveraging the explosive growth of smart devices, mobile user data and cloud computing, we believe that our cloud services will continue a strong growth momentum.”

“We will continue to execute our mobile and cloud strategy. With the continuous proactive investment in future opportunities, increasing capability of mobile monetization, upcoming major expansion pack for JX Online III and two mobile game releases, as well as the steady growth of WPS Office market share and the fast growing cloud services, we are well on our way to achieve our goal in 2014.” concluded Dr. Zhang.

UPDATE ON CONVERTIBLE BONDS ISSUED IN 2013

Reference is made to page 39 of the 2013 annual report of the Company with respect to the issue of convertible bonds (“**Bonds**”) in the principal amount of HKD1,356,000,000 by the Company, which was completed on 23 July 2013. Assuming full conversion of the Bonds at the initial conversion price of HKD16.9363 per share and no further issue of shares, the Bonds will be convertible into approximately 80,064,713 shares of the Company (with an aggregate nominal value of approximately USD40,032). The net price for each conversion share was approximately HKD16.5741, and the initial conversion price was HKD16.9363, which represented a premium of approximately 25.27% over the closing price of HKD13.52 per share as quoted on the Stock Exchange on 2 July 2013, being the last trading day prior to the announcement of the issue of the Bonds. The Bonds were offered and sold to no less than six independent placees (who were independent individual, corporate and/or institutional investors). The Company intended to use the net proceeds from the Bonds issue primarily to repay existing short-term bank loans, for general corporate purposes and to supplement working capital. As of 30 September 2014, the net proceeds

raised from the issue of the Bonds (being approximately HKD1,327 million) had been used as follows: (1) approximately HKD591 million had been used to repay existing short-term bank loans; and (2) approximately HKD736 million had been used for general corporate purposes and to supplement the working capital.

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 9 November 2014

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. Guangming George LU, David Yuen Kwan TANG, and Ms. Wenjie WU.