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 2018

The board ("**Board**") of directors (the "**Directors**") of the 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 2018.

FINANCIAL HIGHLIGHTS

	For the three months ended				
	31 March 2018	31 March 2017	31 December 2017	Year-on-year Change	Quarter-on-quarter Change
	RMB'000	*RMB'000*	*RMB'000*	%	%
	(Unaudited)	*(Unaudited)*	*(Unaudited)*		
Revenue	**1,263,727**	1,213,366	1,380,498	4	(8)
Profit attributable to owners of the parent*	**118,388**	238,469	2,474,863	(50)	(95)
	RMB	*RMB*	*RMB*		
	(Unaudited)	*(Unaudited)*	*(Unaudited)*		
Basic earnings per share					
— For profit for the period	**0.09**	0.18	1.90	(50)	(95)
— For profit from continuing operations	**0.09**	0.14	0.19	(36)	(53)
Diluted earnings per share					
— For profit for the period	**0.09**	0.18	1.82	(50)	(95)
— For profit from continuing operations	**0.09**	0.14	0.19	(36)	(53)

* 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 RMB157.6 million, RMB285.9 million and RMB2,508.2 million for the three months ended at 31 March 2018, 31 March 2017 and 31 December 2017, respectively. This represents a year-on-year decrease of 45% and a quarter-on-quarter decrease of 94%. For the three months ended 31 December 2017, we recognized a gain on deemed disposal of Cheetah Mobile Inc. and its subsidiaries (collectively, "**Cheetah Mobile**") of RMB2,224.3 million.

OPERATIONAL HIGHLIGHTS

	For the three months ended				
	31 March 2018	31 March 2017	31 December 2017	Year-on-year Change %	Quarter-on-quarter Change %
Online Games					
Daily Average Peak Concurrent Users ("**ADPCU**")	**698,480**	937,438	874,693	(25)	(20)
Monthly Average Paying Accounts ("**APA**")	**3,297,038**	4,200,840	3,978,222	(22)	(17)

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		
	31 March 2018	31 March 2017	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
CONTINUING OPERATIONS			
Revenue			
Online games	**632,378**	817,151	751,379
Cloud services	**418,920**	268,446	401,948
Office software and services and others	**212,429**	127,769	227,171
	1,263,727	1,213,366	1,380,498
Cost of revenue	**(648,084)**	(509,447)	(611,845)
Gross profit	**615,643**	703,919	768,653
Research and development costs, net	**(380,314)**	(321,439)	(401,285)
Selling and distribution expenses	**(126,632)**	(81,173)	(174,440)
Administrative expenses	**(82,885)**	(56,063)	(79,095)
Share-based compensation costs	**(58,060)**	(48,737)	(51,080)
Other income	**58,852**	70,777	75,021
Other expenses	**(646)**	(2,082)	(282)
Operating profit	**25,958**	265,202	137,492
Other gains/(losses), net	**19,175**	(92,254)	(26,898)
Finance income	**65,741**	47,777	55,542
Finance costs	**(51,533)**	(32,677)	(34,841)
Share of profits and losses of:			
Joint ventures	**17,363**	38,826	38,471
Associates	**19,762**	(2,395)	59,971
Profit before tax from continuing operations	**96,466**	224,479	229,737
Income tax (expense)/credit	**(43,081)**	(46,087)	5,475
Profit for the period from continuing operations	**53,385**	178,392	235,212
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	**—**	101,873	—
Gain on deemed disposal of a subsidiary	**—**	—	2,224,291
	—	101,873	2,224,291
PROFIT FOR THE PERIOD	**53,385**	280,265	2,459,503
Attributable to:			
Owners of the parent	**118,388**	238,469	2,474,863
Non-controlling interests	**(65,003)**	41,796	(15,360)
	53,385	280,265	2,459,503

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

	For the three months ended		
	31 March 2018	31 March 2017	31 December 2017
	RMB	*RMB*	*RMB*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the period	**0.09**	0.18	1.90
— For profit from continuing operations	**0.09**	0.14	0.19
Diluted			
— For profit for the period	**0.09**	0.18	1.82
— For profit from continuing operations	**0.09**	0.14	0.19

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	31 March 2018	31 March 2017	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
PROFIT FOR THE PERIOD	**53,385**	280,265	2,459,503
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	**—**	10,250	689,331
Exchange differences:			
Exchange differences on translation of foreign operations	**(143,856)**	(10,668)	(51,293)
Reclassification adjustments for deemed disposal of a subsidiary	**—**	—	(57,355)
Share of other comprehensive loss of associates	**(42,309)**	**—**	(19,724)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**(186,165)**	(418)	560,959
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Financial assets changes in fair value	**(308,287)**	—	—
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	**(308,287)**	—	—
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(494,452)**	(418)	560,959
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(441,067)**	279,847	3,020,462
Attributable to:			
Owners of the parent	**(364,791)**	242,788	3,040,483
Non-controlling interests	**(76,276)**	37,059	(20,021)
	(441,067)	279,847	3,020,462

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	**1,457,562**	1,329,203
Prepaid land lease payments	**297,610**	289,561
Goodwill	**9,559**	9,559
Other intangible assets	**54,585**	56,375
Investments in joint ventures	**112,471**	177,110
Investments in associates	**3,872,214**	3,878,421
Available-for-sale investments	**—**	1,269,216
Financial assets at fair value through other comprehensive income	**901,384**	—
Other financial assets	**62,541**	63,430
Deferred tax assets	**98,003**	101,807
Other non-current assets	**39,784**	42,640
Total non-current assets	**6,905,713**	7,217,322
CURRENT ASSETS		
Inventories	**17,128**	10,327
Trade receivables	**1,255,559**	1,167,745
Prepayments, deposits and other receivables	**1,473,591**	679,612
Available-for-sale investments	**—**	88,000
Financial assets at fair value through other comprehensive income	**10,000**	—
Other financial asset	**1,630**	—
Restricted cash	**89,882**	93,400
Cash and bank deposits	**9,553,188**	8,505,984
Total current assets	**12,400,978**	10,545,068
CURRENT LIABILITIES		
Trade payables	**229,722**	179,301
Other payables and accruals	**1,680,232**	1,612,667
Interest-bearing bank loans	**990,670**	374,165
Deferred revenue	**635,627**	608,557
Income tax payable	**147,368**	125,465
Liability component of convertible bonds	**—**	832,876
Derivative financial instruments	**179,797**	121,076
Total current liabilities	**3,863,416**	3,854,107
NET CURRENT ASSETS	**8,537,562**	6,690,961
TOTAL ASSETS LESS CURRENT LIABILITIES	**15,443,275**	13,908,283

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31 March 2018	As at 31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
NON-CURRENT LIABILITIES		
Deferred revenue	**20,934**	20,788
Deferred tax liabilities	**28,287**	58,707
Interest-bearing bank loans	**287,682**	287,682
Liability component of convertible bonds	**36,406**	37,864
Liability component of redeemable convertible preferred shares	**2,106,621**	950,271
Total non-current liabilities	**2,479,930**	1,355,312
NET ASSETS	**12,963,345**	12,552,971
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**5,319**	5,127
Share premium account	**3,111,483**	2,287,958
Treasury shares	**(20,282)**	(22,517)
Equity component of convertible bonds	**1,274**	7,564
Other reserves	**9,516,526**	9,810,458
	12,614,320	12,088,590
Non-controlling interests	**349,025**	464,381
TOTAL EQUITY	**12,963,345**	12,552,971

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	31 March 2018	31 March 2017	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
Net cash flows from operating activities	**97,599**	612,953	149,074
Net cash flows (used in)/from investing activities	**(1,338,466)**	129,484	(2,979,419)
Net cash flows from financing activities	**1,315,932**	17,881	983,884
Net increase/(decrease) in cash and cash equivalents	**75,065**	760,318	(1,846,461)
Cash and cash equivalents at beginning of the period	**3,036,488**	5,776,336	4,942,785
Effect of foreign exchange rate changes, net	**(137,415)**	(15,756)	(59,836)
Cash and cash equivalents at end of the period	**2,974,138**	6,520,898	3,036,488
Non-pledged time deposits with original maturity of over three months when acquired	**3,204,190**	667,960	1,912,156
Principal protected structure deposits with original maturity of over three months when acquired	**3,374,860**	2,749,300	3,557,340
Less: Cash and cash equivalents attributable to a discontinued operation	**—**	(1,327,176)	—
Cash and bank deposits as stated in the condensed consolidated statement of financial position	**9,553,188**	8,610,982	8,505,984

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

The Company was incorporated under the Companies Act of the British Virgin Islands on 20 March 1998. On 15 November 2005, it was redomiciled to the Cayman Islands under the Company Law (2004 revision) of Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 9 October 2007.

The Group was principally involved in the following 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 interim condensed consolidated financial statements for the three months ended 31 March 2018 were approved and authorised for issue in accordance with a resolution of the Board on 22 May 2018.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim 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 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 2017.

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 2017, 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 2018.

The Group adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on 1 January 2018, using a modified retrospective method. The Group didn't restate comparative information and recognised the transition adjustments against the opening balance of retained earnings at 1 January 2018. The effect of adopting IFRS 9 and IFRS 15 is as follows:

The adoption of IFRS 9 has a significant impact on the classification and measurement of the Group's financial assets. The balance of available-for-sale investments as at 31 December 2017 was reclassified to financial assets at fair value through other comprehensive income of RMB1,355.5 million and financial assets at fair value through profit or loss of RMB1.7 million, respectively.

The adoption of IFRS 15 has no material impact on the Group's financial statements, except for one associate, and the Group's retained earnings at 1 January 2018 was increased accordingly.

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

IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Considerations*
Amendments to IAS 40	*Transfers of Investment Property*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Annual Improvements to 2014–2016 Cycle	*Amendments to a number of IFRSs*

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 2018

Revenue

Revenue for the first quarter of 2018 increased 4% year-on-year and decreased 8% quarter-on-quarter to RMB1,263.7 million. Revenue from the online games, cloud services and office software and services and others represented 50%, 33% and 17%, respectively, of the Group's total revenue for the first quarter of 2018. Revenue from these business lines are reported net of intra-group transactions.

Revenue from the online games business for the first quarter of 2018 decreased 23% year-on-year and 16% quarter-on-quarter to RMB632.4 million. The decreases mainly reflected decreased revenue from our flagship PC game JX Online III as some of the users were temporarily occupied by PlayerUnknown's Battlegrounds ("**PUBG**") games, and the natural decline in revenue of JX Online I mobile game which was launched in May 2016.

ADPCU for the Group's online games for the first quarter of 2018 decreased 25% year-on-year and 20% quarter-on-quarter to 0.7 million. APA for the Group's online games for the first quarter of 2018 decreased 22% year-on-year and 17% quarter-on-quarter to 3.3 million. The decreases reflected some players of JX Online III were temporarily occupied by PUBG games and the natural declining life cycles of the Group's existing mobile games.

Revenue from the cloud services for the first quarter of 2018 increased 56% year-on-year and 4% quarter-on-quarter to RMB418.9 million. The year-on-year increase was mainly driven by strong customer usage of cloud services from mobile video and internet sectors.

Revenue from the office software and services and others for the first quarter of 2018 increased 66% year-on-year and decreased 6% quarter-on-quarter to RMB212.4 million. The year-on-year increase was largely due to the rapid growth from WPS online marketing services and value-added services of WPS Office personal edition, reflected strengthened commercialization capabilities, increased user engagement and stickiness driven by continuous product utilization and content enrichment. The quarter-on-quarter decrease was mainly attributable to a seasonal decline in sales of WPS Office, which was partially offset by revenue growth from WPS online marketing services and value-added services of WPS Office personal edition.

Cost of Revenue and Gross Profit

Cost of revenue for the first quarter of 2018 increased 27% year-on-year and 6% quarter-on-quarter to RMB648.1 million. The increases were primarily due to higher bandwidth and internet data center ("**IDC**") cost with increased customer usage of cloud services.

Gross profit for the first quarter of 2018 decreased 13% year-on-year and 20% quarter-on-quarter to RMB615.6 million. The Group's gross profit margin decreased by nine percentage points year-on-year and seven percentage points quarter-on-quarter to 49%. The change in the Group's gross profit margin is a result of our change in sales mix, reflecting fast growth in cloud services. The cloud services business has relatively lower gross profit margin, but the growth of its revenue contribution is much faster than our other businesses, relying on the massive addressable market prospect and long term revenue growth potential in the cloud market.

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

R&D costs, net, for the first quarter of 2018 increased 18% year-on-year and decreased 5% quarter-on-quarter to RMB380.3 million. The year-on-year increase was primarily due to greater staff-related cost as a result of an increase in R&D investments.

Selling and Distribution Expenses

Selling and distribution expenses for the first quarter of 2018 increased 56% year-on-year and decreased 27% quarter-on-quarter to RMB126.6 million. The year-on-year increase and quarter-on-quarter decrease reflected changes in advertising and promotional spending for online games business in each of the corresponding quarters.

Administrative Expenses

Administrative expenses for the first quarter of 2018 increased 48% year-on-year and 5% quarter-on-quarter to RMB82.9 million. The year-on-year increase was primarily due to increased staff-related costs.

Share-based Compensation Costs

Share-based compensation costs for the first quarter of 2018 increased 19% year-on-year and 14% quarter-on-quarter to RMB58.1 million. The year-on-year increase was largely 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 first quarter of 2018 decreased 73% year-on-year and 55% quarter-on-quarter to RMB84.0 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 2018 decreased by nineteen percentage points year-on-year and seven percentage points quarter-on-quarter to 7%.

Other Gains/(Losses), net

Net other gains of RMB19.2 million were recorded for the first quarter of 2018, compared to net other losses of RMB92.3 million for the first quarter of 2017 and net other losses of RMB26.9 million for the fourth quarter of 2017. The losses in the first quarter of 2017 were mainly due to the additional provision for impairment on the carrying value of investments in XunLei Limited and 21Vianet, Inc., as their further decreases of the market value in the first quarter of 2017.

Share of Profits and Losses of Associates

Share of profits of associates of RMB19.8 million were recorded for the first quarter of 2018, compared to share of losses of RMB2.4 million for the first quarter of 2017 and share of profits of RMB60.0 million for the fourth quarter of 2017. Cheetah Mobile has been accounted as our associate since 1 October 2017. The quarter-on-quarter decrease was mainly due to a decrease in operating profit of Cheetah Mobile as: (i) the low seasonality for advertising activity in the first quarter; and (ii) a decline in revenue from its mobile utility products and related services business in the overseas markets as certain ads formats, i.e., ads on mobile phone lock screens, have been discontinued by its overseas third-party advertising partners.

Income Tax (Expense)/Credit

Income tax expense for the first quarter of 2018 decreased 7% year-on-year to RMB43.1 million, compared to income tax credit of RMB5.5 million for the fourth quarter of 2017.

Gain on Deemed Disposal of a Subsidiary

Gain on deemed disposal of a subsidiary of RMB2,224.3 million for the fourth quarter of 2017 represented the deemed disposal gain as a result of the delegation of voting rights in Cheetah Mobile Inc.

Profit for the Period from a Discontinued Operation

Profit for the period from a discontinued operation reflected profit from Cheetah Mobile, which was RMB101.9 million for the three months ended 31 March 2017.

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 first quarter of 2018 decreased 50% year-on-year and 95% quarter-on-quarter to RMB118.4 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 is profit attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent.

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

Profit attributable to owners of the parent before share-based compensation costs for the first quarter of 2018 decreased 45% year-on-year and decreased 94% quarter-on-quarter to RMB157.6 million. The net profit margin excluding the effect of share-based compensation costs was 12%, 12% and 182% for the three months ended 31 March 2018, 31 March 2017 and 31 December 2017, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 March 2018, the Group had major financial resources in the forms of restricted cash, cash and bank deposits amounting to RMB89.9 million and RMB9,553.2 million, respectively, which totally represented 50% of the Group's total assets.

As at 31 March 2018, the Group's gearing ratio, which represents total liabilities divided by total assets, was 33%, compared to 29% as at 31 December 2017. As at 31 March 2018, the Group had debts of convertible bonds of HK$45.4 million (equivalent to RMB36.4 million) and bank loans of RMB335.1 million, US$150.0 million (equivalent to RMB943.3 million).

Foreign Currency Risk Management

Certain expenses of the Group were denominated in currencies other than the 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 31 March 2018, RMB4,681.5 million of the Group's financials assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Net Cash Generated from Operating Activities

Net cash generated from the operating activities reflects the Group's profit for the three-month period mentioned above, as the case maybe, as adjusted for non-cash items, such as depreciation 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 RMB97.6 million, RMB613.0 million and RMB149.1 million for the three months ended 31 March 2018, and 31 March 2017 and 31 December 2017, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, property, fixed assets and intangible assets. Cash used for capital expenditures (including that from continuing operations and a discontinued operation) was RMB245.1 million, RMB101.8 million and RMB291.2 million for the three months ended 31 March 2018, 31 March 2017 and 31 December 2017, respectively.

MANAGEMENT COMMENTS

Mr. Jun LEI, Chairman of Kingsoft, commented, "The first quarter marks a good start to 2018. All of our businesses are well on their way to achieve the strategic goals of the Company. Kingsoft Cloud strengthened its leading position in video cloud sector. The performance of WPS Office remained robust and the content value-added services saw a good momentum by providing a smarter resources-sharing platform for our users. As for the online games business, we managed to continue to expand the brand influence of our flagship game, JX Online III, and also released the first promotion video for one of our key mobile games of the year, YSYY (雲裳羽衣)."

Mr. Tao ZOU, Chief Executive Officer of Kingsoft, added, "In the first quarter, our total revenue increased 4% year-on-year to RMB1,263.7 million, indicating a steady start to the year. Kingsoft Cloud recorded a year-on-year growth of 56% and office software and services and others grew 66% year-on-year in the first quarter. Our operating profit would be under pressure in the first half of the year as we expect our online games business to pick up its growth momentum in the second half of the year.

In the first quarter, due to the explosion in popularity of the PUBG genre, some of the users of our flagship PC game JX Online III were temporarily occupied, which led to year-on-year and quarter-on-quarter decreases in revenue. As a result, the online games business was under pressure in the first quarter. We hosted the third JX Online III expert player competition on 16 March 2018. The number of participants and viewers reached a new record high this year, which helped strengthen the engagement of the core players.

With the increasingly fierce competition in the mobile game market, we saw the opportunity of the new game genres and meticulously developed a 3D costume-changing mobile game, YSYY. The first promotion video of the game was released during the 2018 Tencent NEO-Culture Creativity Eco-Conference and received great commentaries across the market. It laid the solid foundation for our new game genres development. We are looking forward to the official launch of the game and expect it to be the new driving force of the online games business.

Kingsoft Cloud maintained a steady growth in the quarter, and the development trend of each business segment is in line with our strategic planning. Video cloud business saw continuous improvement with high-quality services provided for our customers. Through the promotion of High-resolution Content Delivery Network ("**CDN**"), Kingsoft Cloud managed to strengthen its leading position in the CDN sector and is striving to establish a diversified business structure over time. Game cloud achieved remarkable results in attracting and retaining strategic clientele and it continued to explore the artificial intelligence ("**AI**") technology and block chain solutions. Kingsoft Cloud also kept on expanding its businesses in government cloud and private cloud sectors and made breakthroughs in finance and automobile cloud services. Looking forward, Kingsoft Cloud will continue to provide customers with quality, tailor-made services and solutions, enhance the business penetration across the market and seek new breakthroughs.

WPS Office continued to maintain strong growth for the first quarter of 2018. With continuous efforts in cloud office services, both consumer and enterprise cloud businesses sustained decent growth. WPS Government Office Cloud made its debut in the quarter as an office solution targeting government and public institutions. Meanwhile, content value-added services have enjoyed good growth momentum, providing users and designers with a smarter platform to share resources. Our flagship products, WPS Office and Kingsoft PowerWord, were both ranked among *Top 10 Best Customer Experience APP* in the *Top 100 APP/Accounts in WeChat, Weibo and mobile OS* in 2017. WPS Office's content ecosystem strategy was announced in the Content Players + convention in Zhuhai. More than a hundred content creators participated in the event. The content platform, Docer (稻殼兒), was officially upgraded to a strategic content brand at the convention. With the leading office technology and a proven business development model, WPS Office will continue to build an easier office style for global users."

Mr. Jun LEI concluded, "We are glad to see the sound overall performance in our businesses in the first quarter. Kingsoft Cloud and WPS Office sustained stable growth in the first three months, and with the market expansion in increasing sectors and customers of different areas. As the commercial launch of YSYY and JX Online II mobile game were later than the scheduled timetable and the performance of JX Online III is affected by the market competition in the short term, the Company assessed that the operating results for the second quarter are expected to be still under pressure and the operating profit would possibly be similar to that of the first quarter of 2018. The accrued interest expenses (non-cash items) of liability component of redeemable convertible preferred shares of around RMB80.0 million would be recorded in the second quarter of 2018. If the exchange rate of the US$ against the RMB rises in the second quarter, we will incur exchange loss. We expect the performance will improve in the second half of the year after the debut of our new mobile games, YSYY and JX Online mobile games. We look forward to bringing more satisfactory results to both our customers and the market with our unceasing effort in product innovation and service optimization."

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 22 May 2018

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.