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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 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 30 September 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 %
	30 September 2015 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2015 <i>RMB'000</i> <i>(Unaudited)</i>	30 September 2014 <i>RMB'000</i> <i>(Unaudited)</i>		
Revenue	1,506,780	1,282,240	852,181	18	77
Profit attributable to owners of the parents**	47,554	93,972	230,538	(49)	(79)
	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>		
Basic earnings per share	0.04	0.07	0.20	(43)	(80)
Diluted earnings per share	0.04	0.06	0.18	(33)	(78)

* 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 these strategies would continue to have an impact on our performance and the operating profit margin for the year 2015. Please refer to "Management Comments" for more information. Profit attributable to owners of the parent before the effect of share-based compensation cost is RMB118.5 million, RMB135.5 million and RMB265.2 million for the three months ended at 30 September 2015, 30 June 2015 and 30 September 2014, respectively. This represents a QoQ decrease of 13% and a YoY decrease of 55%. The significant YoY decrease was primarily due to the one-off gain from disposal of Kuaipan Personal Version business in the prior year period.

OPERATIONAL HIGHLIGHTS

For the three months ended

	30 September 2015	30 June 2015	30 September 2014	QoQ Change %	YoY Change %
Online Games					
Daily Average Peak Concurrent Users ("ADPCU")	562,354	607,571	617,717	(7)	(9)
Monthly Average Paying Accounts ("APA")	3,301,297	3,438,493	2,374,699	(4)	39
Monthly Average Revenue per Paying User ("ARPU") (RMB)	32	27	41	19	(22)
	30 September 2015	30 June 2015	30 September 2014	QoQ Change %	YoY Change %
Cheetah Mobile					
Mobile Monthly Active Users ("Mobile MAU") (Million)	567	494	341	15	66
% of Mobile MAU from Overseas Markets	74%	71%	65%	/	/
Mobile Users Installations (Million)	1,942	1,596	862	22	125

The Board announces the unaudited results of the Group for the three months ended 30 September 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		
	30 September 2015 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2015 <i>RMB'000</i> <i>(Unaudited)</i>	30 September 2014 <i>RMB'000</i> <i>(Unaudited)</i>
Revenue			
Online game	330,902	298,065	304,172
Cheetah Mobile	971,727	843,809	445,981
Office software and others	204,151	140,366	102,028
	<u>1,506,780</u>	<u>1,282,240</u>	<u>852,181</u>
Cost of revenue	<u>(369,264)</u>	<u>(306,892)</u>	<u>(140,344)</u>
Gross profit	1,137,516	975,348	711,837
Research and development costs, net of government grants	(362,796)	(325,211)	(272,622)
Selling and distribution expenses	(476,911)	(396,267)	(229,501)
Administrative expenses	(130,873)	(116,526)	(74,526)
Share-based compensation costs	(125,226)	(60,096)	(65,388)
Other income	36,035	25,466	17,292
Other expenses	(13,227)	(11,998)	(15,997)
Operating profit	64,518	90,716	71,095
Other (losses)/gains, net	(14,794)	21,596	195,961
Finance income	50,290	45,715	66,659
Finance costs	(21,674)	(18,396)	(22,945)
Share of losses of:			
Joint ventures	(10,274)	(8,297)	(1,638)
Associates	(4,955)	(4,281)	(2,559)
Profit before tax	63,111	127,053	306,573
Income tax expense	(26,435)	(33,668)	(20,309)
Profit for the period	<u>36,676</u>	<u>93,385</u>	<u>286,264</u>
Attributable to:			
Owners of the parent	47,554	93,972	230,538
Non-controlling interests	(10,878)	(587)	55,726
	<u>36,676</u>	<u>93,385</u>	<u>286,264</u>
	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>
Earnings per share attributable to ordinary equity holders of the parent			
Basic	0.04	0.07	0.20
Diluted	0.04	0.06	0.18

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	30 September	30 June	30 September
	2015	2015	2014
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
PROFIT FOR THE PERIOD	36,676	93,385	286,264
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	(358,451)	448,965	(197,126)
Reclassification adjustments for gains or losses included in the consolidated statement of profit or loss			
— Gain on disposal	—	—	(3,451)
— Impairment losses	—	—	6,540
Exchange differences on translation of foreign operations	176,796	(12,203)	5,468
Share of other comprehensive income of associates	5,891	3,404	—
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(175,764)	440,166	(188,569)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(139,088)	533,551	97,695
Attributable to:			
Owners of the parent	(174,452)	528,386	43,746
Non-controlling interests	35,364	5,165	53,949
	(139,088)	533,551	97,695

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2015 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2014 <i>RMB'000</i> <i>(Audited)</i>
Non-current assets		
Property, plant and equipment	810,890	583,637
Prepaid land lease payments	277,811	281,066
Goodwill	619,304	267,288
Other intangible assets	260,255	197,425
Investments in joint ventures	101,053	118,153
Investments in associates	233,595	30,718
Available-for-sale investments	1,965,028	566,672
Other financial assets	66,452	10,063
Loan receivables	11,610	13,555
Deferred tax assets	106,167	77,988
Long term prepayments	5,943	40,246
Other long-term receivables	100,147	122,524
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Total non-current assets	4,558,255	2,309,335
Current assets		
Inventories	11,300	6,945
Trade receivables	943,713	411,137
Prepayments, deposits and other receivables	762,785	397,808
Due from related parties	116,244	117,411
Available-for-sale investments	56,424	56,913
Other financial assets	—	78,378
Restricted Cash	127,398	—
Pledged deposits	70,266	19,978
Cash and bank deposits	7,803,112	6,983,699
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Total current assets	9,891,242	8,072,269
Current liabilities		
Trade payables	160,970	80,344
Other payables and accruals	1,393,820	931,437
Interest-bearing bank loans	98,496	15,778
Deferred revenue	397,295	310,983
Income tax payable	117,173	56,806
	<hr/>	<hr/>
Total current liabilities	2,167,754	1,395,348
Net current assets	<hr/>	<hr/>
	7,723,488	6,676,921
Total assets less current liabilities	<hr/>	<hr/>
	12,281,743	8,986,256

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 30 September 2015 RMB'000 (Unaudited)	As at 31 December 2014 RMB'000 (Audited)
Non-current liabilities		
Other liabilities	95,209	22,272
Deferred revenue	24,998	13,535
Deferred tax liabilities	74,980	41,583
Interest-bearing bank loans	10,736	—
Liability component of convertible bonds	2,638,318	2,792,322
	<hr/>	<hr/>
Total non-current liabilities	2,844,241	2,869,712
	<hr/>	<hr/>
Net assets	9,437,502	6,116,544
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Equity		
Equity attributable to owners of the parent		
Issued capital	5,091	4,730
Share premium account	2,474,422	99,769
Treasury shares	(35,189)	(83,964)
Statutory reserves	185,513	185,513
Share-based compensation reserve	325,928	231,360
Other capital reserve	1,268,122	1,192,967
Available-for-sale investment revaluation reserve	(192,849)	(211,898)
Equity component of convertible bonds	71,385	74,505
Foreign currency translation reserve	29,634	(94,797)
Retained earnings	3,299,814	3,043,752
Proposed final dividend	—	119,438
	<hr/>	<hr/>
	7,431,871	4,561,375
Non-controlling interests	2,005,631	1,555,169
	<hr/>	<hr/>
Total equity	9,437,502	6,116,544
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	30 September 2015 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2015 <i>RMB'000</i> <i>(Unaudited)</i>	30 September 2014 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash flows from operating activities	213,523	348,467	105,215
Net cash flows from/(used in) investing activities	544,779	(374,757)	(234,522)
Net cash flows (used in)/from financing activities	<u>(57,618)</u>	<u>2,175,866</u>	<u>(16,350)</u>
Net increase/(decrease) in cash and cash equivalents	700,684	2,149,576	(145,657)
Cash and cash equivalents at beginning of the period	4,419,770	2,267,874	3,104,960
Effect of foreign exchange rate changes, net	<u>160,690</u>	<u>2,320</u>	<u>(2,107)</u>
Cash and cash equivalents at end of the period	5,281,144	4,419,770	2,957,196
Time deposits with original maturity of over three months when acquired	764,234	1,098,170	2,660,882
Principle protected structure deposits with original maturity of over three months when acquired	1,828,000	2,258,951	1,547,563
Less: pledged deposits	<u>(70,266)</u>	<u>(70,158)</u>	<u>(19,847)</u>
Cash and bank deposits as stated in the consolidated statement of financial position	<u><u>7,803,112</u></u>	<u><u>7,706,733</u></u>	<u><u>7,145,794</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

The Group is principally involved in the following 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 2015 were approved and authorised for issue in accordance with a resolution of the Board on 17 November 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 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 30 September 2015

Revenue

Revenue for the third quarter of 2015 increased 18% quarter-over-quarter and 77% year-over-year to RMB1,506.8 million. Revenue from the online game, Cheetah Mobile and office software and others businesses represented 22%, 64% and 14%, respectively, of the Group's total revenue for the third 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 third quarter of 2015 increased 11% quarter-over-quarter and 9% year-over-year to RMB330.9 million. The quarter-over-quarter increase was mainly due to the strong growth of JX Online III, benefiting from the activities for the 6th anniversary of commercial launch of JX Online III. The year-over-year increase was primarily attributable to the healthy growth of JX Online III with continuous improvements in game experiences, and to a lesser extent, the revenue contribution from mobile game business.

ADPCU for the Group's online games for the third quarter of 2015 decreased 7% quarter-over-quarter and 9% year-over-year to 0.6 million. The quarter-over-quarter decrease was largely due to a decline in the user engagement of JX Online III as a result of no expansion pack released in the third quarter. The year-over-year decrease was mainly due to the decline in the ADPCU of games in Vietnam. APA for the Group's online games for the third quarter of 2015 decreased 4% quarter-over-quarter and increased 39% year-over-year to 3.3 million. The quarter-over-quarter decrease was primarily due to natural progression of JX Online III after the expansion pack launched in the second quarter. The year-over-year increase was due to the expanded user base of JX Online III. The monthly ARPU for the Group's online games for the third quarter of 2015 increased 19% quarter-over-quarter and decreased 22% year-over-year to RMB32.

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 2015 increased 15% quarter-over-quarter and 118% year-over-year to RMB971.7 million. The quarter-over-quarter and year-over-year increases were primarily due to the revenue growth from mobile advertising business, especially in overseas markets, driven by the growing global mobile user base and substantial improvements in mobile monetization.

Mobile MAU from Cheetah Mobile reached 567 million in September 2015, a 15% increase quarter-over-quarter and a 66% increase year-over-year. In September 2015, approximately 74% 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 1.9 billion as of 30 September 2015, a 22% increase quarter-over-quarter and a 125% 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.

Revenue from the office software and others business consists of revenues from all the other businesses, including office application software, cloud storage and computation, dictionary services, etc. Revenue from the office software and others businesses for the third quarter of 2015 increased 45% quarter-over-quarter and 100% year-over-year to RMB204.2 million. The quarter-over-quarter and year-over-year increases were primarily due to the combination of: i) rapidly growing revenue from cloud services as a result of strong increase in the user base; ii) the steady contribution from the sales of WPS Office.

Cost of Revenue and Gross Profit

Cost of revenue for the third quarter of 2015 increased 20% quarter-over-quarter and 163% year-over-year to RMB369.3 million. The quarter-over-quarter and year-over-year increases were largely attributable to higher traffic acquisition costs associated with Cheetah Mobile advertising platform and higher oversea bandwidth and internet data center (“IDC”) costs associated with Cheetah Mobile’s increased user traffic and big data analytics, as well as an increase in bandwidth and equipment depreciation expenses of Kingsoft Cloud as a result of rapid usage growth and investments in Cloud computation and data platform.

Gross profit for the third quarter of 2015 increased 17% quarter-over-quarter and 60% year-over-year to RMB1,137.5 million. The Group’s gross profit margin decreased by one percentage point quarter-over-quarter and decreased by nine percentage points year-over-year to 75%.

Research and Development (“R&D”) Costs

R&D costs, net of government grants, for the third quarter of 2015 increased 12% quarter-over-quarter and 33% year-over-year to RMB362.8 million. The quarter-over-quarter and year-over-year increases were mainly due to headcount expansion of our mobile and cloud businesses and increased salaries and benefits as well.

Selling and Distribution Expenses

Selling and distribution expenses for the third quarter of 2015 increased 20% quarter-over-quarter and 108% year-over-year to RMB476.9 million. The quarter-over-quarter increase was mainly due to marketing and advertising expenses for mobile games of online game business. The year-over-year increase was primarily due to promotional activities for core mobile products of Cheetah Mobile.

Administrative Expenses

Administrative expenses for the third quarter of 2015 increased 12% quarter-over-quarter and 76% year-over-year to RMB130.9 million. The quarter-over-quarter and year-over-year increases were mainly due to an increase in staff costs as well as professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the third quarter of 2015 increased 108% quarter-over-quarter and 92% year-over-year to RMB125.2 million. This primary reflected the new grants of Cheetah Mobile's awarded shares to selected employees.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the third quarter of 2015 increased 26% quarter-over-quarter and 39% year-over-year to RMB189.7 million as a result of the combination of the above reasons. The operating profit margin before share-based compensation costs for the third quarter of 2015 increased by one percentage point quarter-over-quarter and decreased by three percentage points year-over-year to 13%.

Other (losses)/Gains, net

Other (losses)/gains, net recorded losses of RMB14.8 million for the third quarter of 2015, compared of gains of RMB21.6 million for the second quarter of 2015 and gains of RMB196.0 million for the third quarter of 2014. The other gains, net in the third quarter of 2014 primarily represented the gain on disposal of KuaiPan Personal Version business.

Finance Income

Finance income for the third quarter of 2015 increased 10% quarter-over-quarter and decreased 25% year-over-year to RMB50.3 million.

Income Tax Expense

Income tax expense for the third quarter of 2015 decreased 21% quarter-over-quarter and increased 30% year-over-year to RMB26.4 million. The Group's effective tax rate increased by sixteen percentage points quarter-over-quarter and thirty-five percentage points year-over-year to 42%. The increases in the Group's effective tax rate were mainly due to losses in certain subsidiaries without deferred tax assets recognised.

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 2015 decreased 49% quarter-over-quarter and 79% year-over-year to RMB47.6 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 third quarter of 2015 decreased 13% quarter-over-quarter and 55% year-over-year to RMB118.5 million. The net profit margin excluding the effect of share-based compensation costs was 8%, 11% and 31% for the three months ended 30 September 2015, 30 June 2015 and 30 September 2014, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 30 September 2015, the Group had major financial resources in the forms of restricted cash, pledged deposits and cash and bank deposits amounting to RMB127.4 million, RMB70.3 million and RMB7,803.1 million, respectively, which totally represented 55% of the Group's total assets.

As at 30 September 2015, the Group's gearing ratio, which represents total liabilities divided by total assets, was 35%, compared to 41% as at 31 December 2014. As at 30 September 2015, the Group had HK\$3,214.3 million (equivalent of RMB2,638.3 million) debt of convertible bonds and HK\$120.0 million and EUR1.5 million (equivalent of RMB109.2 million) bank loans.

Foreign Currency Risk Management

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

As at 30 September 2015, RMB4,337.1 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.

Deferred Revenue

Deferred revenue (including current and non-current portion) as at 30 September 2015 was RMB422.3 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 three-month period mentioned above, 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 RMB213.5 million, RMB348.5 million and RMB105.2 million for the three months ended 30 September 2015, and 30 June 2015 and 30 September 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 RMB282.7 million, RMB127.6 million and RMB372.6 million for the three months ended 30 September 2015, and 30 June 2015 and 30 September 2014, respectively.

Management comments

Mr. Jun LEI, Chairman of Kingsoft, commented, “We continued to execute our proactive investment strategies in the third quarter and made further progress in mobilization, globalization and “ALL-IN CLOUD” strategies. Our mobile MAU achieved a new high of 661.3 million in September compared with 409.6 million a year ago. Cheetah Mobile accelerated its mobile and global transformation in the third quarter, with overseas revenue improving to 54% of its total revenue and mobile revenue increasing to 70% of its total revenue. Our Kingsoft Cloud sustained its rapid growth, and solidified its leading position in game cloud, mobile video and storage services.”

Mr. Jun LEI continued, “We are pleased to report another quarter of solid topline growth with total revenue reaching RMB1,506.8 million, an 18% increase quarter-over-quarter and a 77% increase year-over-year. The operating profit margin before share-based compensation costs for the third quarter was 13%, which increased by one percentage point quarter-over-quarter and decreased by three percentage points year-over-year. Such results are in line with the Group’s expectation and execution of the proactive investment strategies. The operating profit margin of the Group after taking into account the share-based compensation costs was 4%, representing a decrease of three percentage points quarter-over-quarter, which was primarily due to the increase of share-based compensation costs from the new grant of Cheetah Mobile’s awarded shares to selected employees during the third quarter. The Group aims to attract more talents by such grant of awarded shares to further implement the proactive investment strategies. Given the implementation of such strategies, the Group expects that the operating profit margin for the year of 2015 continues to be affected. We believe that these investments are necessary to lay a solid foundation for our future growth and have already seen exciting progresses.”

Dr. HongJiang ZHANG, Chief Executive Officer of Kingsoft added, “This was another solid quarter for Cheetah Mobile. Mobile MAU reached 567 million in September. Its revenue reached RMB971.7 million in the quarter, growing 15% quarter-over-quarter and 118% year-over-year. The strong results were driven by rising demand for Cheetah Mobile’s mobile advertising services. In addition to expanding its direct sales team globally, Cheetah Mobile continues to work closely with key Internet players to further enhance its monetization capability. Cheetah Mobile has recently reached a global strategic partnership with Yahoo, including the integration of its products with Yahoo’s Gemini native advertising platform. Furthermore, Cheetah Mobile is a user- and product-focused company, first and foremost. So, it is particularly encouraging that its content-driven products achieved some notable successes in the quarter. For example, Piano Tiles 2, a light, casual mobile game that Cheetah Mobile developed, reached the No. 1 spot in the US and the No. 5 spot globally as the most downloaded free game on Google Play in September. Looking ahead, Cheetah Mobile will stay focused on mobile and global to build a solid foundation for long-term, sustainable growth.”

In the third quarter, our cloud storage and computing services have demonstrated impressive progress in our focused market segments. For mobile game industry, Kingsoft Cloud continued its tremendous momentum, and gradually shifted to become a game cloud ecosystem service provider. We established the first game industry ecological base in Hainan Province, aiming to build the largest game cloud platform in China. From cooperating with GIF Deft and Today’s Headlines, Kingsoft Cloud has also emerged as a key player in video cloud services. Kingsoft Cloud also actively expanded its services into government and corporate markets, and won the contract from fierce competition to provide cloud service for Beijing municipal government.

During the past quarter, the revenue of our flagship game JX Online III achieved a new record high to RMB223.9 million, a growth of 24% quarter-over-quarter and 23% year-over-year. In October, we released the largest expansion pack of the year “Jian Dan Qin Xin” for JX Online III and received quite positive feedback, which indicated its sustainable growth potential. For mobile games, both 3D version of “Journey to the West: Conquering the Demons” and “Brave Cross” ranked as one of the top ten popular games on Xiaomi and iOS game platforms after they were launched. The mobile games developed on the basis of our core IP, “JX world” and “JX Online III”, are expected to be launched in 2016.

In the third quarter, revenue from WPS office, net of advertising revenue derived from cooperation with Cheetah Mobile, delivered double-digit percentage growth quarter-over-quarter and year-over-year to RMB108.0 million. We are encouraged to see the sales contribution from the enterprise customers increased steadily in the traditional WPS PC version sales. The global MAU of WPS family reached 167.4 million, among which the mobile MAU of WPS Office were 72.3 million, a 22% increase year-over-year. In July, WPS Android was awarded by Google Play as “Top Developer” and “Editor’s Choice”. In September, WPS Android partnered with Huawei, and launched its latest edition with other top 100 applications.

Mr. Jun LEI concluded, “As we make proactive investments in our core strategies, we have experienced pressure on short-term profits in the past few quarters. We believe 2015 is a year of major strategic expansion for Kingsoft and we are excited with the progresses achieved strategically and operationally so far. We will strive to keep up the growth momentum and seize the opportunities in mobile internet and cloud businesses that will come to fruition in the near future.”

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

The PRC, 17 November 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.