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 2017

The board ("**Board**") of directors (the "**Directors**") of Kingsoft Corporation Limited (the "**Company**") announces the unaudited results of the Company and its subsidiaries (the "**Group**" or "**Kingsoft**") for the three months ended 31 March 2017. These interim results have been reviewed by the auditor of the Company, and the audit committee of the Company (the "**Audit Committee**").

FINANCIAL HIGHLIGHTS

	For the three months ended				
	31 March 2017	31 March 2016	31 December 2016	YoY** Change	QoQ** Change
	RMB'000	*RMB'000*	*RMB'000*	%	%
	(Unaudited)	*(Unaudited)*	*(Unaudited)*		
		*(Restated)**	*(Restated)**		
Revenue	**1,213,366**	666,411	1,292,939	82	(6)
Profit attributable to owners of the parent***	**238,469**	133,803	261,326	78	(9)
	RMB	*RMB*	*RMB*		
	(Unaudited)	*(Unaudited)*	*(Unaudited)*		
		*(Restated)**	*(Restated)**		
Basic earnings per share					
— For profit for the period	**0.18**	0.10	0.20	80	(10)
— For profit from continuing operations	**0.14**	0.09	0.17	56	(18)
Diluted earnings per share					
— For profit for the period	**0.18**	0.10	0.20	80	(10)
— For profit from continuing operations	**0.14**	0.09	0.17	56	(18)

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

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

*** Profit attributable to owners of the parent before the effect of share-based compensation costs (including that from continuing operations and a discontinued operation) is RMB285.9 million, RMB198.7 million and RMB291.8 million for the three months ended at 31 March 2017, 31 March 2016 and 31 December 2016, respectively. This represents a YoY increase of 44% and a QoQ decrease of 2%.

OPERATIONAL HIGHLIGHTS

	For the three months ended				
	31 March 2017	31 March 2016	31 December 2016	YoY Change %	QoQ Change %
Online Games					
Daily Average Peak Concurrent Users ("**ADPCU**")	**937,438**	543,836	1,018,826	72	(8)
Monthly Average Paying Accounts ("**APA**")	**4,200,840**	2,960,358	4,523,832	42	(7)

The Board announces the unaudited results of the Group for the three months ended 31 March 2017.

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	For the three months ended		
	31 March 2017	31 March 2016	31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
		(Restated)	*(Restated)*
CONTINUING OPERATIONS			
Revenue			
Online games	**817,151**	456,870	820,087
Cloud services	**268,446**	128,810	255,279
Office software and services and others	**127,769**	80,731	217,573
	1,213,366	666,411	1,292,939
Cost of revenue	**(509,447)**	(191,413)	(427,342)
Gross profit	**703,919**	474,998	865,597
Research and development costs, net	**(321,439)**	(239,872)	(310,136)
Selling and distribution expenses	**(81,173)**	(55,134)	(106,319)
Administrative expenses	**(56,063)**	(48,650)	(50,080)
Share-based compensation costs	**(48,737)**	(22,614)	(6,617)
Other income	**70,777**	1,870	22,444
Other expenses	**(2,082)**	(584)	(8,125)
Operating profit	**265,202**	110,014	406,764
Other gains/(losses), net	**(92,254)**	27,992	(140,495)
Finance income	**47,777**	42,021	41,667
Finance costs	**(32,677)**	(21,002)	(29,634)
Share of profits and losses of:			
Joint ventures	**38,826**	(3,172)	46,821
Associates	**(2,395)**	(2)	(2,368)
Profit before tax	**224,479**	155,851	322,755
Income tax expense	**(46,087)**	(45,839)	(59,596)
Profit for the period from continuing operations	**178,392**	110,012	263,159
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	**101,873**	17,925	69,940
PROFIT FOR THE PERIOD	**280,265**	127,937	333,099
Attributable to:			
Owners of the parent	**238,469**	133,803	261,326
Non-controlling interests	**41,796**	(5,866)	71,773
	280,265	127,937	333,099

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

	For the three months ended		
	31 March 2017	31 March 2016	31 December 2016
	RMB	*RMB*	*RMB*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
		(Restated)	*(Restated)*
Earnings per share attributable to ordinary equity holders of the parent			
Basic			
— For profit for the period	**0.18**	0.10	0.20
— For profit from continuing operations	**0.14**	0.09	0.17
Diluted			
— For profit for the period	**0.18**	0.10	0.20
— For profit from continuing operations	**0.14**	0.09	0.17

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	31 March 2017	31 March 2016	31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
PROFIT FOR THE PERIOD	**280,265**	127,937	333,099
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**	(98,050)	(7,424)
Income tax effects	**—**	(9,500)	—
Exchange differences on translation of foreign operations	**(10,668)**	(26,127)	124,298
Disposal of an associate	**—**	129	—
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent period	**(418)**	(133,548)	116,874
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(418)**	(133,548)	116,874
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**279,847**	(5,611)	449,973
Attributable to:			
Owners of the parent	**242,788**	4,499	336,319
Non-controlling interests	**37,059**	(10,110)	113,654
	279,847	(5,611)	449,973

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2017 *RMB'000* *(Unaudited)*	As at 31 December 2016 *RMB'000* *(Audited)*
NON-CURRENT ASSETS		
Property, plant and equipment	**1,011,750**	1,097,766
Prepaid land lease payments	**266,960**	268,046
Goodwill	**9,559**	954,656
Other intangible assets	**68,285**	295,751
Investments in joint ventures	**201,604**	165,512
Investments in associates	**19,916**	406,773
Available-for-sale investments	**598,171**	1,050,654
Other financial assets	**41,027**	71,091
Deferred tax assets	**30,482**	119,868
Other non-current assets	**12,023**	43,459
Total non-current assets	**2,259,777**	4,473,576
CURRENT ASSETS		
Inventories	**9,573**	11,098
Trade receivables	**887,926**	1,774,156
Prepayments, deposits and other receivables	**591,593**	1,122,028
Available-for-sale investments	**88,000**	204,849
Restricted cash	**—**	98,381
Pledged deposits	**—**	69,370
Cash and bank deposits	**8,610,982**	9,825,494
	10,188,074	13,105,376
Assets of a disposal group classified as held for sale	**5,343,238**	—
Total current assets	**15,531,312**	13,105,376
CURRENT LIABILITIES		
Trade payables	**281,131**	560,488
Interest-bearing bank loans	**—**	379,544
Other payables and accruals	**995,886**	2,123,794
Deferred revenue	**545,609**	547,462
Income tax payable	**102,095**	119,931
Liability component of convertible bonds	**1,976,584**	—
	3,901,305	3,731,219
Liabilities of a disposal group classified as held for sale	**2,020,901**	—
Total current liabilities	**5,922,206**	3,731,219
NET CURRENT ASSETS	**9,609,106**	9,374,157
TOTAL ASSETS LESS CURRENT LIABILITIES	**11,868,883**	13,847,733

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31 March 2017 *RMB'000* *(Unaudited)*	As at 31 December 2016 *RMB'000* *(Audited)*
NON-CURRENT LIABILITIES		
Other liabilities	**29,516**	39,508
Deferred revenue	**33,151**	37,609
Deferred tax liabilities	**35,425**	122,201
Interest-bearing bank loans	**335,138**	438,330
Liability component of convertible bonds	**920,255**	2,911,354
Liability component of redeemable convertible preferred shares	**296,818**	297,007
Total non-current liabilities	**1,650,303**	3,846,009
Net assets	**10,218,580**	10,001,724
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**5,108**	5,097
Share premium account	**2,379,393**	2,369,129
Treasury shares	**(25,234)**	(25,477)
Equity component of convertible bonds	**72,295**	72,295
Other reserves	**5,737,757**	5,466,163
	8,169,319	7,887,207
Non-controlling interests	**2,049,261**	2,114,517
Total equity	**10,218,580**	10,001,724

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	31 March 2017	31 March 2016	31 December 2016
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(Unaudited)*
Net cash flows from operating activities	**612,953**	100,057	761,245
Net cash flows from/(used in) investing activities	**129,484**	(939,780)	(153,036)
Net cash flows from/(used in) financing activities	**17,881**	(81,121)	39,330
Net increase/(decrease) in cash and cash equivalents	**760,318**	(920,844)	647,539
Cash and cash equivalents at beginning of the period	**5,776,336**	6,629,275	4,987,452
Effect of foreign exchange rate changes, net	**(15,756)**	(20,840)	141,345
Cash and cash equivalents at end of the period	**6,520,898**	5,687,591	5,776,336
Non-pledged time deposits with original maturity of over three months when acquired	**667,960**	1,042,497	1,229,887
Principle protected structure deposits with original maturity of over three months when acquired	**2,749,300**	1,729,820	2,819,271
Less: Cash and cash equivalents attributable to a discontinued operation	**(1,327,176)**	—	—
Cash and bank deposits as stated in the consolidated statement of financial position	**8,610,982**	8,459,908	9,825,494

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.

During the three months ended 31 March 2017, there are no material changes in the principal activities of the Group, expect that the operation of Cheetah Mobile is reclassified as a discontinued operation of the Group. The continued operation of 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 discontinued operation of the Group was involved in research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices through Cheetah Mobile.

The interim condensed consolidated financial statements for the three months ended 31 March 2017 were approved and authorized for issue in accordance with a resolution of the Board on 23 May 2017.

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 2016.

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

Discontinued operation

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

Cheetah Mobile carries out the "information security and internet services segment" of the Group. As at 31 March 2017, the directors of the Company assessed that the completion of the above delegation is highly probable. In accordance with IFRS 5 *Non-current Assets Held for Sale* and *Discontinued Operations*, the assets and liabilities of Cheetah Mobile have been classified as a disposal group held for sale, and the operating results of Cheetah Mobile have been presented as a discontinued operation in the interim condensed consolidated statement of profit or loss for the three months ended 31 March 2017. The comparative figures for the interim condensed consolidated statement of profit or loss are restated to reflect the reclassification between continuing operations and a discontinued operation of the Group accordingly.

Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), except for the adoption of new standards and interpretations effective as at 1 January 2017. The following amendments to IFRSs did not have any significant impact on the accounting policies, financial position or performance of the Group:

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
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 2017

Revenue

Revenue for the first quarter of 2017 increased 82% year- over-year and decreased 6% quarter-over-quarter to RMB1,213.4 million. Revenue from the online games, cloud services and office software and services and others represented 67%, 22% and 11%, respectively, of the Group's total revenue for the first quarter of 2017. Revenue from these business lines are reported net of intra-group transactions.

Revenue from the online games business for the first quarter of 2017 increased 79% year-over-year and kept flat quarter-over-quarter to RMB817.2 million. The impressive year-over-year increase was mainly attributable to the successful release of the JX Online I mobile game in May 2016, and the continuing success of our effort to deliver superior user experiences of JX Online III.

ADPCU for the Group's online games for the first quarter of 2017 increased 72% year-over-year and decreased 8% quarter-over-quarter to 0.9 million. The year-over-year increase was the result of the successful release of the JX Online I mobile game. The quarter-over-quarter decrease was mainly due to the natural declining life cycles of the Group's older games. APA for the Group's online games for the first quarter of 2017 increased 42% year-over-year and decreased 7% quarter-over-quarter to 4.2 million. The year-over-year increase was due to the popularity of the JX Online I mobile game and expanded user base of JX Online III. The quarter-over-quarter decrease mainly reflected the natural declining life cycles of the Group's older games.

Revenue from the cloud services for the first quarter of 2017 increased 108% year-over-year and 5% quarter-over-quarter to RMB268.4 million. The significant year-over-year increase was primarily due to the increased demand from new customers in certain vertical industries, especially in mobile game and video cloud, reflecting the great progress of Kingsoft Cloud in exploring the market. The steady quarter-over-quarter increase was mainly due to the revenue growth from mobile game and video cloud, driven by increased usage demand.

Revenue from the office software and services and others for the first quarter of 2017 increased 58% year-over-year and decreased 41% quarter-over-quarter to RMB127.8 million. The strong year-over-year increase was primarily attributable to increased revenue contribution from WPS online marketing services, driven by the improvements in monetization capabilities. The quarter-over-quarter decrease was primarily due to seasonal trend in sales of WPS Office and WPS online marketing services.

Cost of Revenue and Gross Profit

Cost of revenue for the first quarter of 2017 increased 166% year-over-year and 19% quarter-over-quarter to RMB509.4 million. The year-over-year increase was primarily due to higher bandwidth and internet data center ("**IDC**") costs associated with increased user usage of cloud services, and the greater sharing cost along with JX Online I mobile game. The quarter-over-quarter increase was mainly due to an increase in bandwidth and IDC costs of cloud services.

Gross profit for the first quarter of 2017 increased 48% year-over-year and decreased 19% quarter-over-quarter to RMB703.9 million. The Group's gross profit margin decreased by thirteen percentage points year-over-year and nine percentage points quarter-over-quarter to 58%. 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 2017 increased 34% year-over-year and 4% quarter-over-quarter to RMB321.4 million. The year-over-year increase was mainly due to higher staff-related costs resulting from an increase in headcount and salaries.

Selling and Distribution Expenses

Selling and distribution expenses for the first quarter of 2017 increased 47% year-over-year and decreased 24% quarter-over-quarter to RMB81.2 million. The year-over-year increase was mainly driven by higher marketing and advertising expenses for certain games. The quarter-over-quarter decrease was primarily due to decreased promotional activities for online games business.

Administrative Expenses

Administrative expenses for the first quarter of 2017 increased 15% year-over-year and 12% quarter-over-quarter to RMB56.1 million. The increases were primarily due to the higher staff-related costs.

Share-based Compensation Costs

Share-based compensation costs for the first quarter of 2017 increased 116% year-over-year and 637% quarter-over-quarter to RMB48.7 million. The increases were primary due to the new grants of awarded shares to the selected employees.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first quarter of 2017 increased 137% year-over-year and decreased 24% quarter-over-quarter to RMB313.9 million as a result of the combination of the above reasons. The operating profit margin before share-based compensation costs for the first quarter of 2017 increased by six percentage points year-over-year and decreased by six percentage points quarter-over-quarter to 26%.

Other Gains/(Losses), net

Other gains/(losses), net for the first quarter of 2017 recorded a loss of RMB92.3 million. The losses in first quarter of 2017 were mainly due to the additional provision for impairment on the carrying value of investments in 21Vianet, Inc. ("**21Vianet**"). The losses in the fourth quarter of 2016 were mainly due to the provision for impairment on the carrying value of investments in

XunLei Limited ("**XunLei**") and 21Vianet. The gain in the first quarter of 2016 mainly represented the disposal gain of the shares of Zhigu Holdings Limited owned by the Company.

Finance Income

Finance income for the first quarter of 2017 increased 14% year-over-year and 15% quarter-over-quarter to RMB47.8 million.

Income Tax Expense

Income tax expense for the first quarter of 2017 increased 1% year-over-year and decreased 23% quarter-over-quarter to RMB46.1 million. Excluding share-based compensation costs and the non-tax-deductible provision for the impairment loss of investments, our effective tax rate would have been 12% in the first quarter of 2017.

Profit for the period from a discontinued operation

Profit for the period from a discontinued operation reflect profit from Cheetah Mobile, which increased 468% year-over-year and 46% quarter-over-quarter to RMB101.9 million. The increases were mainly reflected gains on disposal of certain investment assets in the first quarter of 2017. 2017 is a year of transformation for Cheetah Mobile. Cheetah Mobile will continue to enhance its artificial intelligence ("**AI**")-based technology platform that brings new opportunities to the mobile utility space and drives the rapid growth of its mobile content products. It is becoming increasingly clear that its total revenue growth is being driven by the fast growth of its content-driven products. Cheetah mobile continues to optimize cost structure on the utility products side to maintain profitability and support the growth of its content-driven products.

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 2017 increased 78% year-over-year and decreased 9% quarter-over-quarter to RMB238.5 million.

Profit Attributable to Owners of the Parent before Share-based Compensation Costs

Profit attributable to owners of the parent before share-based compensation costs, being profit attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent, is a measure supplementary to the consolidated financial statements presented in accordance with IFRSs.

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 2017 (including that from continuing operations and a discontinued operation) increased 44% year-over-year and decreased 2% quarter-over-quarter to RMB285.9 million. The net profit margin excluding the effect of share-based compensation costs was 12%, 11% and 11% for the three months ended 31 March 2017, 31 March 2016 and 31 December 2016, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 March 2017, the Group had major financial resources in the forms of cash and cash equivalent and non-pledged deposits with initial term of over three months amounting to RMB5,193.7 million and RMB3,417.3 million, respectively, which totally represented 48% of the Group's total assets.

As at 31 March 2017, the Group's gearing ratio, which represents total liabilities divided by total assets, was 43%, the same as at 31 December 2016. As at 31 March 2017, the Group had HK$3,262.9 million (equivalent of RMB2,896.8 million) debt of convertible bonds and RMB335.1 million bank loans.

Foreign Currency Risk Management

Certain expenses of the Group were denominated in currencies other than 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$, HK$ and MYR have been comparatively stable in the past. The Group adopted "natural immunity" method to match the income and payment in foreign currencies by arranging some expenses and expenditures denominated in foreign currencies.

As at 31 March 2017, RMB3,856.0 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 RMB613.0 million, RMB100.1 million and RMB761.2 million for the three months ended 31 March 2017, and 31 March 2016 and 31 December 2016, 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 RMB101.8 million, RMB177.0 million and RMB125.7 million for the three months ended 31 March 2017, 31 March 2016 and 31 December 2016, respectively.

Significant Subsequent Event

Disposal of shares in Seasun Holdings Limited ("Seasun")

On 21 April 2017, the Company through one of its subsidiaries, entered into a share purchase agreement with a subsidiary of Tencent, pursuant to which, the Company agreed to sell and Tencent agreed to purchase 39,819,466 shares of Seasun at a consideration of US$62,617,989.29. Immediately after the closing, the Company's equity interest in Seasun decreased from 71.99% to 67.65%, and Seasun continued to be a subsidiary of the Company.

Redemption of convertible bonds issued in 2014

On 11 April 2014, the Company issued the convertible bonds due 2019 in the principal amount of HK$2,327 million (the "**2014 Convertible Bonds**").

According to the terms of 2014 Convertible Bonds, the Company, at the options of certain bondholders of 2014 Convertible Bonds, representing the principal amount of HK$2,281 million, redeemed their 2014 Convertible Bonds on 11 April 2017 at an aggregate principal amount together with accrued and unpaid interest to such date.

As at the date of this announcement, the outstanding 2014 Convertible Bonds is in the principal amount of HK$46 million.

MANAGEMENT COMMENTS

Mr. Jun LEI, Chairman of Kingsoft, commented, "We achieved a good start to 2017 with solid progress in all areas of our business. Our flagship PC game JX Online III continued its growth despite being confronted with headwinds from the PC games market, while JX Online I mobile game delivered a steady performance in the first quarter, further revealing the great IP value of the JX Online series. We are glad to see that Kingsoft Cloud has so far achieved the goals set in the beginning of the year in all of its vertical businesses. Meanwhile, development of online marketing services for WPS has grown beyond market expectations. In future, Kingsoft will continue focusing on the development of its games, cloud services and office software and services businesses."

Mr. Tao ZOU, Chief Executive Officer of Kingsoft, added, "We achieved total revenue of RMB1,213.4 million in the first quarter at an annual growth rate of 82%. Though we made further impairment provision for the carrying value of our investment in 21 Vianet, excluding this non-operating adjustment, the operating profit of the first quarter delivered satisfactory growth and increased 141% year-over-year to RMB265.2 million.

We are pleased with the excellent financial results delivered by the online games business in the first quarter of 2017. With two updated versions released in the first quarter, JX Online III posted revenue of RMB458.2 million, achieving a year-over-year increase of 38%, far exceeding market expectations. With respect to the JX Online I mobile game, it remained on the top 10 grossing games on iOS in the first quarter. The Company remains optimistic about the revenue to be generated from JX Online I mobile game following the launch of an anniversary version and new expansion pack, as well as the introduction of the game to the Korean market in the coming months.

The Company's online games business has also reached a milestone in terms of its business expansion. Tencent made a strategic investment in Seasun, to hold approximately 9.90% of the issued shares of Seasun. This move will certainly facilitate in Seasun and Tencent's interest alignment and create synergy effects with joined forces. The Company will duly seek to promote business development, improve market competitiveness and generate benefits for both parties in the long term.

With regards to Kingsoft Cloud, all areas of business were developing in line with our strategic planning. The game cloud business achieved the established objectives of balancing the proportion of different products, and bringing together users with diverse product mix, the benefit of which began to appear at the beginning of this year. Revenue from the game cloud business increased steadily and it also established long-term cooperation agreements with key customers including Shoumeng Internet, Leniu Games, Aoyouweb, and JOYANY. The agreement Kingsoft Cloud signed with News CCTV is a breakthrough for the conventional mainstream media industry, presenting new ideas on the future expansion of the cloud model to conventional media. The overall structure of video cloud has undergone large-scale upgrading and optimization, which has notably enhanced its service stability, efficiency and overall quality. With regards to the internet sector, we will continue to develop through the big data platform, complemented by the application of technologies including AI and anti-fraud, and corporate cloud with other partners, and will implement these technologies for our corporate clients.

The revenue from WPS office software and services and others grew 58% year-over-year in the first quarter. The year-over-year growth of online marketing services far exceeded expectations, driven mainly by enhanced user experience and better product quality. On 27 March, Kingsoft Office Software and Loongson Technology reached a comprehensive strategic cooperation agreement with the aim of further optimizing the product features of both parties and to jointly build the domestic autonomous control information industry. Both parties are expected to achieve the goal of securing 300,000 mutual users in the coming three years. On 31 March, WPS office appeared on the Apple App Store featured page as a recommended application, highlighting the value and popularity of the product. On 8 May, Beijing Kingsoft Office Software, Inc. submitted an application to the China Securities Regulatory Commission for the proposed A-Share listing of Chinext on the Shenzhen Stock Exchange. This proposed spin-off will help to further unlock the value of WPS business, enhance its corporate profile and brand awareness, and raise the business to the next level."

Mr. Jun LEI concluded, "The strong performance of all business segments in the first quarter has given us confidence in business development and revenue growth in the coming quarters. We will continue to optimize current products while exploring new opportunities in the AI field. We will fully integrate our resource advantage to expand our user base and enlarge our market share. At the same time, we will bolster business ties with our powerful partners in order to enhance our competency and deliver notable growth in 2017 and onwards."

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 23 May 2017

As at the date of this announcement, the Executive Directors are Messrs. Tao ZOU and Yuk Keung NG; the Non-executive Directors are Messrs. Jun LEI, Pak Kwan KAU and Chi Ping LAU; the Independent Non-executive Directors are Messrs. Shun Tak WONG, David Yuen Kwan TANG, and Ms. Wenjie WU.