

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



## 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 YEAR ENDED 31 DECEMBER 2013

The board (“**Board**”) of directors (the “**Directors**”) of Kingsoft Corporation Limited (the “**Company**”) announces the audited results of the Company and its subsidiaries (the “**Group**” or “**Kingsoft**”) for the year ended 31 December 2013. The consolidated financial statements of the Group for the year have been audited by Ernst & Young, the auditors of the Company in accordance with Hong Kong Standards on Auditing. In addition, the results have also been reviewed by the audit committee of the Company (the “**Audit Committee**”).

## FINANCIAL HIGHLIGHTS

	Year ended 31 December			Year over year Change
	2013 <i>RMB'000</i>	2013 <i>HKD'000**</i>	2012 <i>RMB'000</i>	
Revenue	2,173,269	2,764,270	1,411,161	54%
Profit attributable to owners of the parent *	670,746	853,149	432,589	55%
	<i>RMB cent</i>	<i>HKD cent</i>	<i>RMB cent</i>	
Basic earnings per share	58.12	73.93	37.85	54%
Diluted earnings per share	55.19	70.20	37.15	49%

\* Profit attributable to owners of the parent before the effect of share-based compensation costs is RMB716.9 million and RMB473.0 million for the years ended 31 December 2013 and 31 December 2012, respectively, representing an increase of 52% year-over-year.

\*\* The conversion of Renminbi (“**RMB**”) into Hong Kong Dollar (“**HKD**”) in this release is based on RMB0.7862 to HKD 1.00 as published by the Bank of China on 31 December 2013. Translations of amounts from RMB into HKD are solely for the convenience of the reader. This convenient translation is not intended to imply that RMB amounts could have been, or could be, converted, realised, or settled into HKD at that rate on 31 December 2013, or at any other rate.

## DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.12 per share for the year ended 31 December 2013 (2012: HKD0.11 per share). The final dividend, if approved by the shareholders at the annual general meeting (“AGM”) of the Company to be held on 28 May 2014, will be payable on 25 June 2014 to the shareholders whose names appear on the register of members of the Company on 9 June 2014.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

		As at 31 December	
	Notes	2013	2012
		RMB'000	RMB'000
		(Audited)	(Audited)
<b>Non-current assets</b>			
Property, plant and equipment		385,067	371,213
Lease prepayments		42,260	43,201
Goodwill		53,994	14,559
Other intangible assets		60,104	53,261
Investments in joint ventures		—	20,122
Investments in associates		34,852	—
Available-for-sale investments		62,626	7,182
Other financial asset		21,796	27,822
Loan receivables		15,976	5,864
Deferred tax assets		52,406	32,962
		<u>729,081</u>	<u>576,186</u>
<b>Current assets</b>			
Inventories		3,528	17,006
Trade receivables	10	185,161	130,346
Prepayments, deposits and other receivables		151,074	120,476
Due from related parties		135,872	161,262
Deferred cost		305	113
Pledged deposit		19,588	19,000
Cash and cash equivalents		4,481,188	2,416,259
Short-term investment		55,780	—
		<u>5,032,496</u>	<u>2,864,462</u>
Investment in a joint venture classified as held for sale		42,756	—
Assets of a disposal group classified as held for sale		—	200,621
		<u>5,075,252</u>	<u>3,065,083</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)  
AS AT 31 DECEMBER 2013**

		<b>As at 31 December</b>	
	<i>Notes</i>	<b>2013</b>	2012
		<b>RMB'000</b>	RMB'000
		<i>(Audited)</i>	<i>(Audited)</i>
<b>Current liabilities</b>			
Trade payables	11	32,463	23,089
Interest-bearing bank loans	12	15,724	413,559
Other payables and accruals		498,964	298,827
Deferred revenue		202,105	185,462
Income tax payable		39,338	11,022
		<u>788,594</u>	<u>931,959</u>
Liabilities directly associated with the assets classified as held for sale		—	753
		<u>788,594</u>	<u>932,712</u>
<b>Net current assets</b>		<u>4,286,658</u>	<u>2,132,371</u>
<b>Total assets less current liabilities</b>		<u>5,015,739</u>	<u>2,708,557</u>
<b>Non-current liabilities</b>			
Deferred revenue		31,533	14,252
Deferred tax liabilities		30,545	19,373
Liability component of convertible bonds	13	1,037,587	—
Liability component of redeemable convertible preferred shares	14	77,982	—
Other liabilities		7,401	—
		<u>1,185,048</u>	<u>33,625</u>
<b>Net assets</b>		<u>3,830,691</u>	<u>2,674,932</u>
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		4,718	4,690
Share premium account		259,665	347,965
Shares held for share award scheme		(53,890)	(82,127)
Statutory reserves		173,228	156,462
Employee share-based reserve		166,756	160,833
Capital reserve		512,651	275,739
Equity component of convertible bonds		8,500	—
Equity component of redeemable convertible preferred shares		10,015	—
Foreign currency translation reserve		(89,277)	(75,353)
Retained earnings		2,278,468	1,624,488
Proposed final dividend	8	109,387	102,132
		<u>3,380,221</u>	<u>2,514,829</u>
<b>Non-controlling interests</b>		<u>450,470</u>	<u>160,103</u>
<b>Total equity</b>		<u>3,830,691</u>	<u>2,674,932</u>

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

		<b>Year ended 31 December</b>	
	<i>Notes</i>	<b>2013</b>	<b>2012</b>
		<b>RMB'000</b>	<b>RMB'000</b>
		<i>(Audited)</i>	<i>(Audited)</i>
<b>Revenue</b>			
Online game		1,095,913	851,402
Application software		1,055,716	544,064
Others		21,640	15,695
		<b>2,173,269</b>	1,411,161
Cost of revenue		(297,104)	(186,939)
		<b>1,876,165</b>	1,224,222
<b>Gross profit</b>			
Research and development costs, net of government grants		(596,491)	(385,409)
Selling and distribution expenses		(382,848)	(234,115)
Administrative expenses		(192,245)	(147,954)
Share-based compensation costs	6	(61,387)	(48,472)
Other income and gains		45,949	28,609
Other expenses		(7,263)	(22,971)
		<b>681,880</b>	413,910
<b>Operating profit</b>			
Fair value (loss)/gain on financial instruments at fair value through profit or loss		(10,355)	16,010
Gain on disposal of a subsidiary		47,452	—
Finance income		129,462	97,973
Finance costs		(24,466)	(8,702)
Share of profits and losses of:			
Joint ventures		4,827	9,532
Associates		(3,748)	(930)
		<b>825,052</b>	527,793
<b>Profit before tax</b>	5		
Income tax expense	7	(71,178)	(61,359)
		<b>753,874</b>	466,434
<b>Profit for the year</b>		<b>753,874</b>	466,434
<b>Attributable to:</b>			
Owners of the parent		670,746	432,589
Non-controlling interests		83,128	33,845
		<b>753,874</b>	466,434
<b>Earnings per share attributable to ordinary equity holders of the parent</b>	9	<b>RMB</b>	<b>RMB</b>
		<i>(Audited)</i>	<i>(Audited)</i>
Basic		0.5812	0.3785
Diluted		0.5519	0.3715
		<b>0.5519</b>	0.3715

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Year ended 31 December	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>
<b>Profit for the year</b>	<b>753,874</b>	466,434
<b>Other comprehensive loss:</b>		
Exchange differences on translation of foreign operations	(23,483)	(5,613)
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</b>		
Changes in fair value of available-for-sale investments	<u>20,927</u>	<u>—</u>
<b>Other comprehensive loss for the year, net of tax</b>	<u>(2,556)</u>	<u>(5,613)</u>
<b>Total comprehensive income for the year</b>	<u><u>751,318</u></u>	<u><u>460,821</u></u>
<b>Attributable to:</b>		
Owners of the parent	669,418	429,251
Non-controlling interests	<u>81,900</u>	<u>31,570</u>
	<u><u>751,318</u></u>	<u><u>460,821</u></u>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

Attributable to owners of the parent

	Issued capital RMB'000	Share premium account RMB'000	Shares held for share award scheme RMB'000	Statutory reserves RMB'000	Employee share-based reserve RMB'000	Capital reserve RMB'000	Equity component of convertible bonds RMB'000	Equity component of redeemable convertible preferred shares RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013	4,690	347,965	(82,127)	156,462	160,833	275,739	—	—	(75,353)	1,624,488	102,132	2,514,829	160,103	2,674,932
Profit for the year	—	—	—	—	—	—	—	—	—	670,746	—	670,746	83,128	753,874
Other comprehensive income for the year:														
Unrealised gains on available-for-sale securities	—	—	—	—	—	12,596	—	—	—	—	—	12,596	8,331	20,927
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(13,924)	—	—	(13,924)	(9,559)	(23,483)
Total comprehensive income for the year	—	—	—	—	—	12,596	—	—	(13,924)	670,746	—	669,418	81,900	751,318
Approved and paid final dividend in respect of the previous year	—	631	—	—	—	—	—	—	—	—	(102,132)	(101,501)	—	(101,501)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(20,460)	(20,460)
Share-based compensation costs	—	—	—	—	44,300	—	—	—	—	—	—	44,300	15,235	59,535
Profit appropriations	—	—	—	16,766	—	—	—	—	—	(16,766)	—	—	—	—
Exercise of share options	28	20,456	—	—	(10,140)	—	—	—	—	—	—	10,344	—	10,344
Vested awarded shares transferred to employees	—	—	28,237	—	(28,237)	—	—	—	—	—	—	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	3,000	3,000
Issue of convertible bonds	—	—	—	—	—	—	8,500	—	—	—	—	8,500	—	8,500
Issue of redeemable convertible preferred shares of a subsidiary	—	—	—	—	—	—	—	10,015	—	—	—	10,015	6,185	16,200
Proposed final 2013 dividend	—	(109,387)	—	—	—	—	—	—	—	—	109,387	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	224,316	—	—	—	—	—	224,316	204,507	428,823
At 31 December 2013	4,718	259,665	(53,890)	173,228	166,756	512,651	8,500	10,015	(89,277)	2,278,468	109,387	3,380,221	450,470	3,830,691
At 1 January 2012	4,677	440,974	(93,754)	146,654	145,435	253,914	—	—	(72,015)	1,201,707	92,241	2,119,833	93,287	2,213,120
Profit for the year	—	—	—	—	—	—	—	—	—	432,589	—	432,589	33,845	466,434
Other comprehensive income for the year:														
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	(3,338)	—	—	(3,338)	(2,275)	(5,613)
Total comprehensive income for the year	—	—	—	—	—	—	—	—	(3,338)	432,589	—	429,251	31,570	460,821
Approved and paid final dividend in respect of the previous year	—	(830)	—	—	—	—	—	—	—	—	(92,241)	(93,071)	—	(93,071)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	(12,958)	(12,958)
Share-based compensation costs	—	—	—	—	34,666	—	—	—	—	—	—	34,666	8,043	42,709
Profit appropriations	—	—	—	9,808	—	—	—	—	—	(9,808)	—	—	—	—
Exercise of share options	19	15,783	—	—	(7,641)	—	—	—	—	—	—	8,161	—	8,161
Vested awarded shares transferred to employees	—	—	11,627	—	(11,627)	—	—	—	—	—	—	—	—	—
Repurchase and cancellation of shares	(6)	(5,830)	—	—	—	—	—	—	—	—	—	(5,836)	—	(5,836)
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	11,195	11,195
Proposed final 2012 dividend	—	(102,132)	—	—	—	—	—	—	—	—	102,132	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	21,825	—	—	—	—	—	21,825	28,966	50,791
At 31 December 2012	4,690	347,965	(82,127)	156,462	160,833	275,739	—	—	(75,353)	1,624,488	102,132	2,514,829	160,103	2,674,932

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	<b>2013</b>	2012
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Net cash flows from operating activities</b>	<b>995,625</b>	555,946
<b>Net cash flows used in investing activities</b>	<b>(44,019)</b>	(1,063,120)
<b>Net cash flows from financing activities</b>	<b>1,064,215</b>	9,943
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,015,821</b>	(497,231)
Cash and cash equivalents at beginning of year	<b>696,499</b>	1,199,313
Effect of foreign exchange rate changes, net	<b>(35,072)</b>	(5,583)
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	<b>2,677,248</b>	696,499
Time deposits with original maturity of over three months when acquired	<b>1,803,940</b>	1,837,440
	<hr/>	<hr/>
Less: cash and cash equivalents attributable to a disposal group	—	(117,680)
<b>Cash and cash equivalents as stated in the consolidated statement of financial position</b>	<b>4,481,188</b>	2,416,259
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO FINANCIAL STATEMENTS

## 1. Corporate information

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

The Group is principally involved in the following principal activities:

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

## 2. Basis of preparation

These financial statements have been prepared under the historical cost convention, except for other financial assets, which have been measured at fair value. Investment in a joint venture classified as held for sale is stated at the lower of its carrying amounts and fair values less costs to sell. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise standards and interpretations approved by the International Accounting Standards Board (“IASB”), and International Accounting Standards (“IASs”) and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance.



### 3. Changes in accounting policy and disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 — <i>Transition Guidance</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 1 Amendments	Amendments to IAS 1 <i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i>
IAS 19 (2011)	<i>Employee Benefits</i>
IAS 27 (2011)	<i>Separate Financial Statements</i>
IAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
IAS 36 Amendments	Amendments to IAS 36 <i>Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets</i> (early adopted)
<i>Annual Improvements 2009–2011 Cycle</i>	Amendments to a number of IFRSs issued in June 2012

The adoption of the new and amended (revised) IFRSs has had no significant financial effect on these financial statements.

### 4. Segment information

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) the entertainment software segment engages in research and development of games, and provision of online games, mobile games and casual game services;
- (b) the information security software segment engages in the 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
- (c) the other application software segment engages in the 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.

#### 4. Segment information (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance income, finance costs, fair value gain or loss from the Group's financial instruments, administrative expenses, share-based compensation costs, share of profits and losses of joint ventures and associates, other expenses and other income and gains are excluded from such measurement.

Year ended 31 December 2013	Entertainment software RMB'000	Information security software RMB'000	Other application software RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	1,095,913	741,782	335,574	2,173,269
Sales to intersegments	<u>16,098</u>	<u>964</u>	<u>44,691</u>	<u>61,753</u>
<b>Segment results</b>	<b>578,028</b>	<b>192,422</b>	<b>126,376</b>	<b>896,826</b>
<i>Reconciliation:</i>				
Administrative expenses				(192,245)
Share-based compensation costs				(61,387)
Other income and gains				45,949
Other expenses				(7,263)
Fair value loss on financial instruments at fair value through profit or loss				(10,355)
Gain on disposal of a subsidiary				47,452
Finance income				129,462
Finance costs				(24,466)
Share of profits and losses of:				
Joint ventures				4,827
Associates				<u>(3,748)</u>
<b>Profit before tax</b>				<b><u>825,052</u></b>
<b>Other segment information:</b>				
Depreciation and amortisation	<u>27,323</u>	<u>23,758</u>	<u>37,171</u>	<u>88,252</u>

#### 4. Segment information (continued)

Year ended 31 December 2012	Entertainment software RMB'000	Information security software RMB'000	Other application software RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	860,651	336,741	213,769	1,411,161
Sales to intersegments	324	2,564	28,954	31,842
	<u>436,451</u>	<u>70,670</u>	<u>97,577</u>	<u>604,698</u>
<b>Segment results</b>				
<i>Reconciliation:</i>				
Administrative expenses				(147,954)
Share-based compensation costs				(48,472)
Other income and gains				28,609
Other expenses				(22,971)
Fair value gain on a financial instrument at fair value through profit or loss				16,010
Finance income				97,973
Finance costs				(8,702)
Share of profits and losses of:				
Joint ventures				9,532
Associates				(930)
				<u>527,793</u>
<b>Profit before tax</b>				<u>527,793</u>
<b>Other segment information:</b>				
Depreciation and amortisation	<u>38,724</u>	<u>11,206</u>	<u>27,030</u>	<u>76,960</u>

#### Geographical information

(a) Revenue from external customers:

	2013 RMB'000	2012 RMB'000
Mainland China	1,987,694	1,208,415
Hong Kong	45,367	52,811
Japan	111,647	105,809
Other countries	28,561	44,126
	<u>2,173,269</u>	<u>1,411,161</u>
Total	<u>2,173,269</u>	<u>1,411,161</u>

The revenue information above is based on the locations of the Group's operations.

#### 4. Segment information (continued)

##### Geographical information (continued)

(b) *Non-current assets:*

	<b>2013</b> <i>RMB'000</i>	2012 <i>RMB'000</i>
Mainland China	<b>539,120</b>	479,988
Japan	<b>2,237</b>	2,009
Other countries	<b>34,920</b>	20,359
	<hr/>	<hr/>
Total	<b><u>576,277</u></b>	<b><u>502,356</u></b>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

## 5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	<i>Notes</i>	<b>2013</b> <b>RMB'000</b>	2012 <i>RMB'000</i>
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		<b>524,150</b>	362,957
Social insurance costs and staff welfare		<b>103,086</b>	73,074
Share-based compensation costs		<b>61,387</b>	48,472
Pension plan contributions		<b>46,562</b>	33,215
		<b>735,185</b>	517,718
Minimum lease payments under operating leases:			
Bandwidth and server		<b>90,425</b>	61,377
Buildings		<b>39,279</b>	27,189
		<b>129,704</b>	88,566
Cost of inventory sold		<b>41,432</b>	15,419
Depreciation	(a)	<b>64,963</b>	60,723
Amortisation of lease prepayments	(a)	<b>941</b>	941
Amortisation of other intangible assets	(a)	<b>32,968</b>	26,700
Write-down of inventories**		<b>962</b>	11,314
Loss on disposal of items of property, plant and equipment**		<b>1,679</b>	272
Foreign exchange differences, net		<b>(24)</b>	591
Impairment of other intangible assets**		<b>—</b>	5,725
Impairment of trade and other receivables**		<b>14,356</b>	—
Reversal of impairment of investments in a joint venture**		<b>(13,400)</b>	—
Donation**		<b>3,690</b>	1,553
Auditors' remuneration		<b>9,090</b>	9,248
Interest on bank loans		<b>4,850</b>	8,702
Interest on convertible bonds		<b>16,642</b>	—
Interest on redeemable convertible preferred shares		<b>2,974</b>	—
Government grants:			
— Recorded as a reduction to research and development costs*		<b>(7,350)</b>	(12,831)
— Recorded in other income and gains		<b>(32,657)</b>	(23,318)
		<b>(40,007)</b>	(36,149)
Gain on disposal of a subsidiary		<b>(47,452)</b>	—
Fair value loss/(gain) on financial instruments at fair value through profit or loss		<b>10,355</b>	(16,010)
Interest income from loans to related parties		<b>(2,867)</b>	(2,974)
Bank interest income		<b>(126,595)</b>	(94,999)

## 5. Profit before tax (continued)

\* Government grants which were granted to support the development of software and online game technology are recorded as a reduction to “research and development costs” on the face of the consolidated income statement during the year. Government grants received/receivable for which the related expenditures have not yet been incurred are included in “deferred revenue” in the consolidated statement of financial position.

\*\* They are included in “other expenses” on the face of the consolidated income statement.

Note:

### (a) Depreciation of property, plant and equipment, amortisation of lease prepayments and other intangible assets

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Included in:		
Cost of revenue	31,080	33,425
Research and development costs	54,063	40,239
Selling and distribution expenses	3,108	3,296
Administrative expenses	10,621	11,404
	<u>98,872</u>	<u>88,364</u>

## 6. Share-based compensation costs

### (a) Share option schemes

#### *2004 and 2007 Pre-IPO Share Option Schemes*

The Company has adopted two option schemes for the purpose of providing incentives and awards to its employees, senior management and directors: 2004 Pre-IPO Share Option Scheme and 2007 Pre-IPO Share Option Scheme.

The 2004 Scheme and the 2007 Scheme were terminated on 3 September 2007. The following table illustrates the numbers and weighted average exercise prices (“WAEP”) of, and movements in, the Company’s share options under these two schemes for the years ended 31 December 2013 and 2012.

## 6. Share-based compensation costs (continued)

### (a) Share option schemes (continued)

#### *2004 and 2007 Pre-IPO Share Option Scheme (continued)*

	Group and Company			
	2013 Number of share options	2013 WAEP USD per share	2012 Number of share options	2012 WAEP USD per share
<b>2004 Scheme</b>				
Outstanding at 1 January	<b>2,943,000</b>	<b>0.0331</b>	5,143,500	0.0945
Exercised during the year	<u>(2,297,700)</u>	<b>0.0336</b>	<u>(2,200,500)</u>	0.1767
Outstanding at 31 December	<u><b>645,300</b></u>	<b>0.0314</b>	<u>2,943,000</u>	0.0331
Exercisable at 31 December	<u><b>645,300</b></u>	<b>0.0314</b>	<u>2,943,000</u>	0.0331
<b>2007 Scheme</b>				
Outstanding at 1 January	<b>14,083,800</b>	<b>0.2438</b>	17,776,800	0.2432
Exercised during the year	<u>(6,544,500)</u>	<b>0.2416</b>	<u>(3,693,000)</u>	0.2412
Outstanding at 31 December	<u><b>7,539,300</b></u>	<b>0.2457</b>	<u>14,083,800</u>	0.2438
Exercisable at 31 December	<u><b>7,539,300</b></u>	<b>0.2457</b>	<u>14,083,800</u>	0.2438
Total outstanding at 31 December	<u><b>8,184,600</b></u>	<b>0.2288</b>	<u>17,026,800</u>	0.2074
Total exercisable at 31 December	<u><b>8,184,600</b></u>	<b>0.2288</b>	<u>17,026,800</u>	0.2074

#### *2011 Share Option Scheme*

The Company operates 2011 share option scheme (the “**2011 Scheme**”) for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Scheme include the Company’s directors, including independent non-executive directors, other employees of the Group. The 2011 Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

## 6. Share-based compensation costs (continued)

### (a) Share option schemes (continued)

#### 2011 Share Option Scheme (continued)

The following share options were outstanding under the 2011 Scheme during the years ended 31 December 2013 and 2012:

	2013 Number of share options	Group and Company		2012 WAEP HKD per share
		2013 WAEP HKD per share	2012 Number of share options	
Outstanding at 1 January	10,500,000	3.00	12,500,000	2.89
Granted during the year	—	—	3,000,000	3.28
Forfeited during the year	—	—	(5,000,000)	2.89
	<u>10,500,000</u>	<u>3.00</u>	<u>10,500,000</u>	<u>3.00</u>
Outstanding at 31 December	<u>10,500,000</u>	<u>3.00</u>	<u>10,500,000</u>	<u>3.00</u>
Exercisable at 31 December	<u>3,600,000</u>	—	<u>1,500,000</u>	—

### (b) Share Award Scheme

On 31 March 2008, the directors of the Company approved and adopted the Share Award Scheme in which selected employees of the Group are entitled to participate. The vesting period of the awarded shares is determined by the Board.

The following table illustrates the numbers of and movements in the Company's Awarded Shares for the years ended 31 December 2013 and 2012.

	2013 Number of Awarded Shares	2012 Number of Awarded Shares
Outstanding as at 1 January	17,644,670	16,207,004
Granted during the year	1,230,000	8,092,000
Forfeited during the year	(302,000)	(3,224,334)
Cancelled during the year	—	—
Exercised and transferred during the year	(5,469,735)	(3,430,000)
	<u>13,102,935</u>	<u>17,644,670</u>
Outstanding as at 31 December	<u>13,102,935</u>	<u>17,644,670</u>
Exercisable as at 31 December	<u>211,000</u>	<u>2,046,000</u>



## 7. Income tax

PRC corporate income tax represents the tax charged on the estimated assessable profits arising from Mainland China during the year. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to tax holidays and preferential tax rates.

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on estimated assessable profits arising from Hong Kong during the year ended 31 December 2013.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiary in Japan was 41% for the year ended 31 December 2013 (2012: 41%).

The Group's subsidiary in Malaysia was granted the Multimedia Super Corridor Malaysia Status ("MSC Malaysia Status"). Therefore, the online game related activities of the subsidiary were exempted from corporate income tax for the period from April 2010 to December 2014.

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

	<b>Group</b>	
	<b>2013</b>	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Current — Mainland China	<b>67,879</b>	55,059
Current — Hong Kong	<b>10,322</b>	6,711
Current — Elsewhere	<b>5,353</b>	5,655
Deferred	<b>(12,376)</b>	(6,066)
	<hr/>	<hr/>
Total tax charge for the year	<b>71,178</b>	61,359
	<hr/> <hr/>	<hr/> <hr/>

## 8. Dividends

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Final dividend proposed (notes (a) and (b)): HKD0.12 (2012: HKD0.11) per share based on issued share capital as at year end	111,386	104,510
Less: Dividend for shares held for share award scheme as at year end	<u>(1,999)</u>	<u>(2,378)</u>
	<u><u>109,387</u></u>	<u><u>102,132</u></u>

Notes:

- (a) The actual amount of final 2012 dividends paid was RMB101.5 million, after eliminating RMB2.0 million paid for shares held by the Share Award Scheme Trust.
- (b) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 9. Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,154,128,710 (2012: 1,142,829,305) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the convertible bonds and the share option schemes and the award share schemes adopted by the Group's subsidiaries, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares.

## 9. Earnings per share attributable to ordinary equity holders of the parent (continued)

The calculations of basic and diluted earnings per share are based on:

	<b>2013</b>	2012
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent	<b>670,746</b>	432,589
Increase in earnings adjusted for the convertible bonds and the share option schemes and the award share schemes adopted by the Group's subsidiaries	<u>2,055</u>	<u>—</u>
	<u><b>672,801</b></u>	<u>432,589</u>
	<b>Number of shares</b>	
	<b>2013</b>	2012
<b>Shares</b>		
Weighted average number of ordinary shares in issue less shares held for the share award scheme	<b>1,154,128,710</b>	1,142,829,305
Effect of dilution — weighted average number of ordinary shares:		
Share options	<b>17,538,811</b>	11,509,686
Awarded shares	<b>11,841,127</b>	10,050,424
Convertible bond	<u>35,535,571</u>	<u>—</u>
	<u><b>1,219,044,219</b></u>	<u>1,164,389,415</u>

## 10. Trade receivables

An aged analysis of the Group's trade receivables as at the end of the year, based on the invoice date and net of provisions, is as follows:

	<b>Group</b>	
	<b>2013</b>	2012
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 30 days	<b>135,334</b>	71,842
31 to 60 days	<b>19,202</b>	30,206
61 to 90 days	<b>6,324</b>	9,018
91 to 365 days	<b>16,589</b>	14,900
Over one year	<u>7,712</u>	<u>4,380</u>
	<u><b>185,161</b></u>	<u>130,346</u>

## 11. Trade payables

An aged analysis of the Group's trade payables as at the end of the year, based on the invoice date, is as follows:

	<b>Group</b>	
	<b>2013</b>	2012
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 to 30 days	<b>17,246</b>	7,929
31 to 60 days	<b>6,967</b>	5,065
61 to 90 days	<b>1,857</b>	2,420
91 to 365 days	<b>4,740</b>	5,194
Over one year	<b>1,653</b>	2,481
	<u><b>32,463</b></u>	<u>23,089</u>

Trade payables are non-interest-bearing and are normally settled on terms of two to three months.

## 12. Interest-bearing bank loans

	<i>Notes</i>	<b>Maturity</b>	<b>Principal amount <i>RMB'000</i></b>
<b>Group and Company</b>			
At 31 December 2013			
Current			
Bank loan — secured	(a)	2014	<u><b>15,724</b></u>
<b>Group and Company</b>			
At 31 December 2012			
Current			
Bank loan — unsecured		2013	397,341
Bank loan — secured		2013	<u>16,218</u>
			<u><u>413,559</u></u>

## 12. Interest-bearing bank loans (continued)

- (a) The interest-bearing bank loan represented a drawdown of HKD20.0 million (equivalent to RMB15.7 million) (2012: HKD20.0 million, equivalent to RMB16.2 million) from the Group's banking facilities of HKD100.0 million (2012: HKD100.0 million) in September 2013. The bank loan was secured by the Group's time deposit of RMB19.6 million (2012: RMB19.0 million).

## 13. Convertible bonds

On 23 July 2013, the Company issued five-year convertible bonds in the principal amount of HKD1,356.0 million which bear interest at a rate of 3% per annum payable semi-annually (the "**Convertible Bonds**"). The Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 2 September 2013 to the close of business on the date falling 10 days prior to the maturity date, at a price of HKD16.9363 per share, subject to adjustments. The Company may redeem under certain circumstances, in whole, the outstanding Convertible Bonds at principal amount together with interest accrued by giving the bondholders not less than 30 days' prior notice. On the maturity date, any Convertible Bonds not converted will be redeemed by the Company at its principal amount together with accrued and unpaid interest thereon. There was no conversion or redemption of the Convertible Bonds from 23 July 2013 to 31 December 2013.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

## 14. Redeemable convertible preferred shares

On 9 April 2013, the Group's non-wholly owned subsidiary, Kingsoft Cloud Holdings Limited ("**KC Holdings**"), issued 188,636,000 and 80,844,000 series A redeemable convertible preferred shares of par value of USD0.001 each to a third party investor and the Company, respectively, at a price of USD0.0742 per share for an aggregate consideration of USD20.0 million (equivalent to approximately RMB125.1million).

If KC Holdings fails to consummate a qualified public offering prior to 10 April 2018, at the option of the holder of the series A redeemable convertible preferred shares, KC Holdings shall redeem all of the outstanding preferred shares held by the requesting holder, at the price for each series A redeemable convertible preferred share equal to the greater of (i) or (ii) below, plus accumulated and declared but unpaid dividends on the preferred share:

- (i) the fair market value of the series A redeemable convertible preferred share; and
- (ii) the series A redeemable convertible preferred shares issue price plus an 8% internal rate of return, compounded annually.

The redemption right shall terminate upon the closing of a qualified public offering.

#### 14. Redeemable convertible preferred shares (continued)

The series A redeemable convertible preferred shares can be converted into fully-paid ordinary shares of KC Holdings based on the then conversion price at any time after original issuance. The initial conversion ratio for series A redeemable convertible preferred shares to ordinary shares shall be 1:1, subject to adjustments.

The series A redeemable convertible preferred shares comprised of liability components and equity component. The liability component is stated at amortised cost with effective interest rate of 12.5% per annum. The equity component is measured at the residual amount.

#### 15. Events after the reporting period

- (a) On 2 January 2014, the share option schemes of Kingsoft Internet Software Holdings Limited (“**KIS Holdings**”) and Kingsoft Japan Inc. (“**Kingsoft Japan**”) were approved at the Extraordinary General Meeting of the Company.
- (b) On 11 February 2014, Beike Internet (Beijing) Technology Co., Ltd. (“**Beike Internet**”), a non-wholly-owned subsidiary of the Company, entered into the Capital Contribution Agreement with Moxiu Technology (Beijing) Co., Ltd. (“**Moxiu Technology**”) and the existing shareholders of Moxiu Technology, pursuant to which Moxiu Technology shall increase its registered capital by approximately RMB0.6 million and Beike Internet will subscribe for all such additional registered capital in full in consideration of RMB20.0 million in cash, representing a premium of approximately RMB19.4 million. Further, in order to promote the business strategic cooperation between Beike Internet and Moxiu Technology, Beike Internet agreed to provide Moxiu Technology promotion resources (including but not limited to the advertisement space on the applications of Beike Internet) with a value of approximately RMB5.0 million as part of the capital contribution. Upon completion of the capital contribution, the equity interest of Moxiu Technology will be owned as to 28.26% by Beike Internet.
- (c) On 14 February 2014, Kingsoft Entertainment Software Holdings Limited (“**KES Holdings**”), Westhouse Holdings Limited (“**Westhouse Holdings**”), Xiaomi Ventures Limited (“**Xiaomi Ventures**”), and Westgame Holdings Limited (“**Westgame Holdings**”) and the founder of Westgame Holdings entered into the Share Purchase Agreement, pursuant to which Westhouse Holdings issued 10,000,000 shares to KES Holdings for a consideration of USD5.0 million and 40,000,000 shares to Xiaomi Ventures for a consideration of USD20.0 million, respectively. Upon completion of the Share Purchase Agreement, the equity interest of Westhouse Holdings will be owned as to 4.7059% by Xiaomi Ventures and 76.4706% by KES Holdings. KES Holdings is a wholly-owned subsidiary of the Company.

## 15. Events after the reporting period (continued)

- (d) On 20 February 2014, the Company entered into a share redemption agreement (the “**Redemption Agreement**”) with Sky Profit Limited (“**Sky Profit**”) and Mr. Xu Xudong (the “**Founder**”), one of the shareholders of Sky Profit, pursuant to which the Company agreed to sell to Sky Profit and Sky Profit agreed to redeem from the Company, all of existing 4,206,620 shares of Sky Profit owned by the Company, at an aggregate repurchase price of USD25.0 million (the “**Redemption Price**”). The Redemption Price shall be paid in ten instalment payment from 2014 to 2017, and any amount of Redemption Price that are outstanding shall bear an interest rate of 4% per annum from the completion of the Redemption Agreement until the date such amount of Redemption Price and interest accrued thereon is paid in full. To ensure the implementation of the Redemption Agreement, the Founder guaranteed Sky profit’s obligations to make payment of the Redemption Price with certain of his assets and properties.

On 20 February 2014, the Company entered into a deed of share charge (the “**Deed of Share Charge**”) with Sky Profit and the Founder in connection with charge of 4,206,620 ordinary shares of Sky Profit held by the Founder in favour of the Company to secure Sky Profit’s obligations to pay the Redemption Price and the interest accrued there on under the Redemption Agreement.

- (e) On 27 January 2014, KIS Holdings made its initial confidential filing with the U.S. Securities and Exchange Commission for the proposed initial public offering and listing of its securities on the NASDAQ Global Market or the New York Stock Exchange. KIS Holdings and its subsidiaries (together with KIS Holdings, “**KIS**”) are currently carrying on all of the businesses under the information security software segment, except those carried on by Kingsoft Japan, a non-wholly owned subsidiary of the Company. Kingsoft Japan is currently carrying on the information security software business in Japan under a license granted by KIS. The mission of KIS is to make the internet and mobile experience faster, safer and easier for users worldwide. To achieve this mission, KIS has developed a platform that offers mission critical applications for users and global content distribution channels for business partners, both of which are powered by the proprietary cloud-based data analytics engines. KIS generates revenues from online marketing services, internet value-added services, or IVAS, and internet security services and others.

The Company directly holds approximately 54.09% of the issued shares of KIS Holdings. The Company and KIS Holdings are currently proposing to adopt a dual-class share capital structure for KIS Holdings, with investors in the initial public offering of KIS Holdings (the “**IPO**”) acquiring a class of ordinary shares that carries a lower vote per share and the Company and other existing shareholders holding a class of ordinary shares that carries a higher vote per share. Through this dual-class share capital structure, the Company will retain control over KIS Holdings and will continue to consolidate its financial results following the IPO.

# OPERATIONAL HIGHLIGHTS

	For the three months ended							
	31 December 2013	30 September 2013	30 June 2013	31 March 2013	31 December 2012	30 September 2012	30 June 2012	31 March 2012
<b>Online Games</b>								
Daily Average Peak Concurrent Users	632,171	614,263	616,285	631,098	633,084	611,474	615,221	631,485
Monthly Average Paying Accounts	1,869,433	1,791,194	2,002,414	1,768,190	1,650,636	1,524,761	1,459,883	1,330,868
Monthly Average Revenue per Paying User (RMB)	<u>49</u>	<u>48</u>	<u>43</u>	<u>47</u>	<u>48</u>	<u>46</u>	<u>47</u>	<u>47</u>



# MANAGEMENT DISCUSSION AND ANALYSIS

## For the Three Months Ended 31 December 2013

The following table sets forth the comparative numbers for the three months ended 31 December 2013, 30 September 2013 and 31 December 2012, respectively.

	<b>Three months ended</b>		
	<b>31 December 2013</b>	<b>30 September 2013</b>	<b>31 December 2012</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Revenue</b>			
Online game	287,724	270,984	240,627
Application software	378,017	270,395	189,466
Others	3,011	9,751	629
	<u>668,752</u>	<u>551,130</u>	<u>430,722</u>
Cost of revenue	<u>(89,680)</u>	<u>(79,799)</u>	<u>(51,936)</u>
<b>Gross profit</b>	<b>579,072</b>	<b>471,331</b>	<b>378,786</b>
Research and development costs, net of government grants	(175,465)	(169,645)	(113,486)
Selling and distribution expenses	(164,991)	(78,446)	(84,250)
Administrative expenses	(52,378)	(50,594)	(40,666)
Share-based compensation costs	(16,609)	(15,202)	(13,796)
Other income and gains	6,477	19,048	3,144
Other expenses	7,988	(48)	(18,095)
<b>Operating profit</b>	<b>184,094</b>	<b>176,444</b>	<b>111,637</b>
Fair value (loss)/gain on financial instruments at fair value through profit or loss	(8,645)	(1,959)	16,010
Finance income	39,640	34,754	27,145
Finance costs	(10,864)	(9,774)	(2,483)
Share of profits and losses of:			
Joint ventures	4,588	(751)	1,944
Associates	(2,774)	(415)	—
<b>Profit before tax</b>	<b>206,039</b>	<b>198,299</b>	<b>154,253</b>
Income tax expense	(11,028)	(20,648)	(15,942)
<b>Profit for the period</b>	<b>195,011</b>	<b>177,651</b>	<b>138,311</b>
<b>Attributable to:</b>			
Owners of the parent	166,301	163,276	125,084
Non-controlling interests	28,710	14,375	13,227
	<u>195,011</u>	<u>177,651</u>	<u>138,311</u>
<b>Earnings per share attributable to ordinary equity holders of the parent</b>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Basic	0.1435	0.1410	0.1042
Diluted	0.1277	0.1372	0.1023

## Revenue

Revenue for the fourth quarter of 2013 increased 21% quarter-over-quarter and 55% year-over-year to RMB668.8 million. Revenue from the online game and application software businesses represented 43% and 57%, respectively, of the Group's total revenue for the fourth quarter of 2013.

Revenue from the online game business for the fourth quarter of 2013 increased 6% quarter-over-quarter and 20% year-over-year to RMB287.7 million. The quarter-over-quarter increase was mainly due to the continued growth of JX Online III after the release of the expansion pack “Xue Zhan Tian Ce ( 血戰天策 )” in November 2013. The year-over-year increase was primarily attributable to the strong performance of JX Online III, which has grown for the past ten consecutive quarters, with the release of attractive expansion packs on quarterly basis.

Daily average peak concurrent users (“ADPCU”) for the Group's online games for the fourth quarter of 2013 increased 3% quarter-over-quarter and held flat year-over-year to 0.63 million. Monthly average paying accounts (“APA”) for the Group's online games increased 4% quarter-over-quarter and 13% year-over-year to 1.9 million. The sequential and year-over-year quarterly increases in APA were primarily attributable to the solid growth of APA of JX Online III, which was partially offset by a decline in APA of JX Series in Vietnam.

The monthly average revenue per paying user (“monthly ARPU”) for the Group's online games increased 2% quarter-over-quarter and year-over-year to RMB49.

Revenue from the applications software business for the fourth quarter of 2013 increased 40% quarter-over-quarter and 100% year-over-year to RMB378.0 million. The robust quarter-over-quarter increase was mainly due to strong growth of online marketing services driven by Dual Eleven Shopping Carnival and accelerated growth of revenue from game operation platform of KIS. The remarkable year-over-year increase in revenue primarily reflected the combination of: i) the strong growth of online marketing revenue from KIS driven by the rapid traffic growth of Duba.com personal start page and Cheetah Browser; ii) the accelerated growth of revenue from game operation platform of KIS; and iii) record sales and online marketing revenue from Kingsoft WPS Office.

## Cost of Revenue and Gross Profit

Cost of revenue for the fourth quarter of 2013 increased 12% quarter-over-quarter and 73% year-over-year to RMB89.7 million. The quarter-over-quarter increase was primarily due to the increased staff costs associated with the strengthened operation team of KIS and increased bandwidth and server costs associated with KIS and Kingsoft Cloud. The year-over-year increase was mainly driven by growing user traffic of KIS.

Gross profit for the fourth quarter of 2013 increased 23% quarter-over-quarter and 53% year-over-year to RMB579.1 million. The Group's gross profit margin increased by one percentage point quarter-over-quarter and decreased by one percentage point year-over-year to 87%.

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

R&D costs, net of government grants, for the fourth quarter of 2013 increased 3% quarter-over-quarter and 55% year-over-year to RMB175.5 million. The quarter-over-quarter increase was largely due to the amortisation of acquired intangible assets. The year-over-year increase was mainly attributable to the expansion of R&D talents to further develop mobile business and cloud-based analytics engines and increased salaries and benefits.

The following table sets forth a breakdown of our R&D costs for the three months ended 31 December 2013, 30 September 2013 and 31 December 31 2012:

	Three months ended		
	31 December 2013 RMB'000	30 September 2013 RMB'000	31 December 2012 RMB'000
Staff costs	130,934	132,104	93,364
Depreciation & Amortisation	14,991	7,872	8,523
Others	29,511	26,823	22,326
	<u>175,436</u>	<u>166,799</u>	<u>124,213</u>
Less: Capitalised software costs (excluding share-based compensation costs)	—	(247)	(4,906)
Add: Amortisation of capitalised software costs	3,404	4,147	2,230
Less: Government grants for research and development activities	(3,375)	(1,054)	(8,051)
Total	<u>175,465</u>	<u>169,645</u>	<u>113,486</u>

## Selling and Distribution Expenses

Selling and distribution expenses for the fourth quarter of 2013 increased 110% quarter-over-quarter and 96% year-over-year to RMB165.0 million. The quarter-over-quarter increase was mainly due to marketing expenses for the promotion of mobile applications of KIS in global market and marketing activities for the release of the expansion pack for JX Online III in November. The year-over-year increase was primarily attributable to higher marketing expenses incurred to accelerate the expansion of global user base of mobile applications of KIS.

## Administrative Expenses

Administrative expenses for the fourth quarter of 2013 increased 4% quarter-over-quarter and 29% year-over-year to RMB52.4 million. The quarter-over-quarter increase was mainly due to higher professional fees and staff costs. The year-over-year increase was primarily due to an increase in staff-related expenses.

## **Share-based Compensation Costs**

Share-based compensation costs for the fourth quarter of 2013 increased 9% quarter-over-quarter and 20% year-over-year to RMB16.6 million. The quarter-over-quarter and year-over-year increases were primarily due to the new grants of options and awarded shares of certain subsidiaries.

## **Other Income and Gains**

Other income and gains for the fourth quarter of 2013 decreased 66% quarter-over-quarter and increased 106% year-over-year to RMB6.5 million. The quarter-over-quarter decrease was mainly attributable to the recognition of RMB15.4 million of financial incentives from the local government in the third quarter of 2013.

## **Other Expenses**

Other expenses for the fourth quarter of 2013 recorded a gain of RMB8.0 million, which mainly reflected the reversal of impairment of investments in a joint venture in the previous years.

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

Operating profit before share-based compensation costs for the fourth quarter of 2013 increased 5% quarter-over-quarter and 60% year-over-year to RMB200.7 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the fourth quarter of 2013 decreased by five percentage points quarter-over-quarter and increased by one percentage point year-over-year to 30%.

## **Finance Income**

Finance income for the fourth quarter of 2013 increased 14% quarter-over-quarter and 46% year-over-year to RMB39.6 million.

## **Income Tax Expense**

Income tax expense for the fourth quarter of 2013 decreased 47% quarter-over-quarter and 31% year-over-year to RMB11.0 million. The Group's effective tax rate decreased by five percentage points quarter-over-quarter and year-over-year to 5%. The decreases were primarily due to that certain subsidiaries of the Group were identified as the national key software enterprises in the year of 2013 and entitled to preferential income tax policy.

## **Profit Attributable to Owners of the Parent**

As a result of the reasons discussed above, profit attributable to owners of the parent for the fourth quarter of 2013 increased 2% quarter-over-quarter and 33% year-over-year to RMB166.3 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 fourth quarter of 2013 increased 1% quarter-over-quarter and 31% year-over-year to RMB177.7 million. The net profit margin excluding the effect of share-based compensation costs was 27%, 32% and 32% for the three months ended 31 December 2013, 30 September 2013 and 31 December 2012, respectively.

## For the Year Ended 31 December 2013

The following table sets forth the comparative numbers for the years ended 31 December 2013 and 31 December 2012, respectively.

	<b>Year ended 31 December</b>	
	<b>2013</b>	<b>2012</b>
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
	<i><b>(Audited)</b></i>	<i><b>(Audited)</b></i>
<b>Revenue</b>		
Online game	1,095,913	851,402
Application software	1,055,716	544,064
Others	21,640	15,695
	<u>2,173,269</u>	<u>1,411,161</u>
Cost of revenue	(297,104)	(186,939)
	<u>1,876,165</u>	<u>1,224,222</u>
<b>Gross profit</b>		
Research and development costs, net of government grants	(596,491)	(385,409)
Selling and distribution expenses	(382,848)	(234,115)
Administrative expenses	(192,245)	(147,954)
Share-based compensation costs	(61,387)	(48,472)
Other income and gains	45,949	28,609
Other expenses	(7,263)	(22,971)
	<u>681,880</u>	<u>413,910</u>
<b>Operating profit</b>		
Fair value (loss)/gain on financial instruments at fair value through profit or loss	(10,355)	16,010
Gain on disposal of a subsidiary	47,452	—
Finance income	129,462	97,973
Finance costs	(24,466)	(8,702)
Share of profits and losses of:		
Joint ventures	4,827	9,532
Associates	(3,748)	(930)
	<u>825,052</u>	<u>527,793</u>
<b>Profit before tax</b>		
Income tax expense	(71,178)	(61,359)
	<u>753,874</u>	<u>466,434</u>
<b>Profit for the year</b>		
<b>Attributable to:</b>		
Owners of the parent	670,746	432,589
Non-controlling interests	83,128	33,845
	<u>753,874</u>	<u>466,434</u>
<b>Earnings per share attributable to ordinary equity holders of the parent</b>	<i><b>RMB</b></i>	<i><b>RMB</b></i>
	<i><b>(Audited)</b></i>	<i><b>(Audited)</b></i>
Basic	0.5812	0.3785
Diluted	0.5519	0.3715

## **Revenue**

Revenue for the year of 2013 increased 54% year-over-year to RMB2,173.3 million. Approximately 50% of the revenue was generated from the online game and 49% of the revenue was generated from the application software.

### **— *Online game***

Revenue from the online game for the year of 2013 increased 29% year-over-year to RMB1,095.9 million. The significant increase was primarily attributable to the continued rapid growth in revenue from JX Online III. The revenue from JX Online III almost doubled that of 2012 driven by the Company's continuous optimization and innovation of the game through expansion packs.

### **— *Application Software***

Revenue from the application software business for the year of 2013 increased 94% year-over-year to RMB1,055.7 million. The strong increase was mainly attributable to: i) the strong growth in revenue from online marketing and game platform of KIS as a result of strengthened monetization capability; ii) the emerging and accelerated growth of mobile marketing revenue and mobile game operation revenue as a result of initial success of KIS mobile monetization; and iii) strong sales of WPS Office stimulated by favorable IPR protection environment and emerging value-added revenue derived from the monetization of free user traffic of Kingsoft WPS Office.

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

Cost of revenue for the year of 2013 increased 59% year-over-year to RMB297.1 million. The increase was largely due to higher staff costs and bandwidth and server costs associated with: i) the strengthened operation team of KIS; and ii) the rapidly growing of user traffic across three major business.

Gross profit for the year of 2013 increased 53% year-over-year to RMB1,876.2 million. The Group's gross profit margin decreased by one percentage point year-over-year to 86%.

## **R&D Costs**

R&D costs, net of government grants, for the year of 2013 increased 55% year-over-year to RMB596.5 million. This was primarily due to an increase in headcount and related staff costs resulting from our increased investment in mobile business and cloud-based data analytics engines.



The following table sets forth a breakdown of R&D costs for the year ended 31 December 2013 and 2012

	<b>Year ended 31 December</b>	
	<b>2013</b>	2012
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Staff costs	<b>466,005</b>	317,122
Depreciation & Amortisation	<b>39,389</b>	31,313
Others	<b>93,141</b>	54,718
	<b>598,535</b>	403,153
Less: Capitalised software costs (excluding share-based compensation costs)	<b>(9,368)</b>	(13,839)
Add: Amortisation of capitalised software costs	<b>14,674</b>	8,926
Less: Government grants for research and development activities	<b>(7,350)</b>	(12,831)
Total	<b>596,491</b>	385,409

### **Selling and Distribution Expenses**

Selling and distribution expenses for the year of 2013 increased 64% year-over-year to RMB382.8 million. The increase was primarily due to higher marketing and promotion expenses to accelerate the expansion of global user base of mobile applications of KIS.

### **Administrative Expenses**

Administrative expenses for the year of 2013 increased 30% year-over-year to RMB192.2 million. This was primarily attributable to higher staff costs and professional fees.

### **Share-based Compensation Costs**

Share-based compensation costs for the year of 2013 increased 27% year-over-year to RMB61.4 million. The increase was mainly due to the options and awarded shares of certain subsidiaries granted in 2013 as we continued to strengthen our technology, product development and management capabilities.

### **Other Income and Gains**

Other income and gains for the year of 2013 increased 61% year-over-year to RMB45.9 million. The increase was primarily attributable to certain amount of deferred government grants relating to a WPS project funded by HEGAOJI recognised in 2013 upon completion of final inspection.

### **Other Expenses**

Other expenses for the year of 2013 decreased 68% year-over-year to RMB7.3 million.



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

Operating profit before share-based compensation costs for the year of 2013 increased 61% year-over-year to RMB743.3 million as a result of the combination of above reasons. The margin of operating profit before share-based compensation costs increased by one percentage point year-over-year to 34%.

## **Finance Income**

Finance income for the year of 2013 increased 32% year-over-year to RMB129.5 million.

## **Income Tax Expense**

Income tax expenses for the year of 2013 increased 16% year-over-year to RMB71.2 million. The Group's effective tax rate decreased by three percentage points year-over-year to 9%. The decrease was primarily due to that certain subsidiaries of the Group were identified as the national key software enterprises and entitled to the preferential income tax policy.

## **Profit attributable to Owners of the Parent**

For the reasons described above, profit attributable to owners of the parent for the year of 2013 increased 55% year-over-year to RMB670.7 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 for the year of 2013 increased 52% year-over-year to RMB716.9 million.

The profit margin excluding the effect of share-based compensation costs for the year of 2013 decreased by one percentage point year-over-year to 33%.

## **Liquidity and Financial Resource**

The Group had a strong cash position towards the end of the reporting period. As at 31 December 2013, the Group had major financial resources in the forms of cash and cash equivalent and time deposits with initial term of over three months amounting to RMB2,677.2 million and RMB1,803.9 million, respectively, which totally represented 77% of the Group's total assets.

As at 31 December 2013, the Group's gearing ratio, which represents total liabilities divided by total assets, was 34%, compared to 27% as at 31 December 2012. As at 31 December 2013, the Group had HKD1,319.7 million (equivalent of RMB1,037.6 million) debt of convertible bonds, USD12.8 million (equivalent of RMB78.0 million) debt of preferred shares of a subsidiary and HKD20.0 million (equivalent of RMB15.7 million) bank loan.

## **Foreign Currency Risk Management**

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

As at 31 December 2013, RMB1,107.0 million of the Group’s financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

## **Deferred Revenue**

Deferred revenue (including current and non-current portion) as at 31 December 2013 was RMB233.6 million compared to RMB199.7 million as at 31 December 2012. The increase was primarily due to the increased sales of prepaid cards in the year of 2013.

## **Net Cash Generated from Operating Activities**

Cash generated by the operating activities reflects the Group’s profit for the year, as the case may be, 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 by operating activities was RMB995.6 million and RMB555.9 million for the years ended 31 December 2013 and 31 December 2012, 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 RMB135.1 million and RMB84.8 million for the years ended 31 December 2013 and 31 December 2012, respectively.

## BUSINESS REVIEW AND PROSPECTS

“2013 was a critical year of transformation for Kingsoft.” said Mr. Jun LEI, Chairman of Kingsoft. “If the year 2012 was marked by the transformation of Kingsoft into an internet company, then the year 2013 would be the first year when we started to transform our core businesses into mobile businesses. We continue to see a rapid growth in our mobile monthly active users (“MAU”), posted over 210 million in December 2013, which is a significant milestone in our mobile strategy.”

“In 2013, all of our three major business lines delivered outstanding performance. JX Online III, a flagship game of our online game business, recorded a revenue growth of 92%, following a 99% growth in the year 2012, which significantly outpaced the growth rate of MMO gaming market in China. Mobile MAU of KIS has increased almost 4 folds from 46 million in March 2013 to 166 million in December 2013. It took only six months for Clean Master, a mission-critical utility application reached 84 million MAU in December 2013 from 13 million in June 2013. Clean master was the #1 chinese-published application excluding games on Google Play in terms of monthly downloads in January 2014 according to App Annie Limited (“App Annie”). In December 2013, over 50% of our mobile MAU were from overseas markets. KIS is now the #1 mobile application publisher in the Google Play Tools category based on worldwide downloads in January 2014 according to App Annie and the #2 internet security software provider in China according to iResearch as of December 2013. In the fourth quarter, approximately 11% of KIS revenue came from mobile services, representing a fast and strong ramp-up of KIS mobile monetization capabilities, compared with approximately 8% in the third quarter of 2013. Also, our global MAU of WPS mobile office has also expanded quickly to 34 million in December 2013 from 13 million a year ago.” Mr. Jun LEI continued.

“I am extremely pleased with the outstanding results, particularly the great success of Clean Master in the global market, the expansion of Kingsoft footprints in new markets and the substantial progress we have achieved in KIS mobile monetization. These trends showcase that Kingsoft has embraced a right set of strategies and successfully adopted the internet trends and methodologies. The measures we have taken since 2011, focusing on core businesses and user experiences, adopting MBOs, and shifting to mobile internet services, have all paid off. As we continue to execute our strategy and business plan, we believe we are well positioned for tremendous opportunities for gaming and mission critical applications brought by the explosive growth of mobile internet.” Mr. Jun LEI commented.

Dr. Hongjiang ZHANG, CEO of Kingsoft added, “We are thrilled to deliver a 54% annual growth in our revenue in 2013, well above the 38% annual revenue growth in 2012. All of our three major business lines have set new records in terms of revenue and operating metrics.”

With a more than doubled year-over-year growth rate, KIS achieved an all-time record revenue of approximately RMB700.0 million in the year of 2013. This strong growth momentum was supported by the significant increase in traffic from Duba.com personal start page, Cheetah Browser, and the tremendous growth of its game platform. Through our persistent efforts, there were more than 400 games on the KIS game platform in December 2013. Revenue from KIS internet value added services (“IVAS”) for the year increased 3,367% to RMB83.2 million from RMB2.4 million a year ago. We believe that the evolution of KIS game platform will further enhance our monetization capabilities in the coming years.

The past year marked another year of strong growth for KSO. Revenue from Kingsoft WPS Office for the year of 2013 grew 47% year-over-year to RMB288.8 million, 51% of which came from enterprise users. In August 2013, the Chinese State Council issued a policy on government agencies to use genuine software in order to improve IPR protection. Both office and antivirus software have been put on the routine software purchase list of the Chinese government agencies. We believe that this policy represents a milestone in the IPR protection history, and it will benefit our enterprise businesses in the long run, especially Kingsoft WPS Office. In the past year, we have completed milestone contracts with globally renowned financial institutions, which manifest the high quality and competitiveness of our product and services, and also signal our deeper and broader penetration to the enterprise markets. In addition, we are glad to see that online marketing revenue from WPS is becoming our growth catalyst supported by the expanded user traffic of WPS Personal Edition.

In the year of 2013, online game business continued to grow at an annual rate of 29%, which outpaced the growth rate of MMO gaming market in China. Our flagship game, JX Online III, following an annual revenue growth of 99% in 2012, increased 92% year-over-year to RMB456.7 million with the release of a series of expansion packs in 2013. In November 2013, JX Online III achieved a new record in terms of revenue and APA with the launch of a new expansion pack. The revenue of MAT for the year of 2013 also increased 43% year-over-year to RMB88.6 million. The significant revenue growth of JX online III and MAT in the past two years demonstrated the success of our strategy to provide better than expected game experiences and services through consistent efforts in games' innovation and development. In February 2014, Westhouse introduced Xiaomi Ventures Limited ("**Xiaomi**") as its strategic investor. Having Xiaomi as a shareholder and an important business partner, Westhouse will benefit the development of our mobile game business in the coming years.

We have expanded into enterprise data storage services and cloud storage platform services in 2013. The growth of user base of Kingsoft Cloud accelerated to 52 million in December 2013 through product innovation and strategic collaboration with Xiaomi and smart TV producers.

In 2013, we have included globally renowned fund and internet companies as strategic investors of our major subsidiaries, and the Company issued Convertible Bonds of HKD1,356.0 million in July 2013. On 27 January 2014, KIS Holdings made its initial confidential filing with the U.S. Securities and Exchange Commission for the proposed initial public offering and listing of its securities on the NASDAQ Global Market or the New York Stock Exchange. We believe that these activities will help us to strengthen and accelerate the execution of our mobile strategy.

Looking forward, KIS will continue to invest aggressively in product innovation and big data analytic research, in order to expand its worldwide user penetration in both PC and mobile internet markets. On the PC end, we expect revenue from online marketing and web game operation to keep its strong growth momentum, supported by the expanded user base of Duba.com personal start page, Cheetah Browser, as well as broader collaboration with our business partners. On the mobile end, Clean Master will maintain its strong growth momentum to be KIS' flagship mobile application as it continues to deliver innovative and better than expected mobile experiences. Also, leveraging the fast development of mobile internet market, the user base of Cheetah Browser, Battery Doctor, and other KIS mobile applications will continue to expand rapidly. We are excited to see the promising and rapid growth in mobile game and marketing revenue, mainly supported by the soaring user base of KIS mission critical mobile applications. We expect that KIS mobile platform will continue to attract user activities, game developers, and business partners, so the revenue from KIS mobile monetization will become our growth catalyst in the coming years.

JX Online III, a leading domestic 3D MMO game, will maintain its growth momentum as we continue to provide innovative and improved of service and game experiences to its players. A number of expansion packs for JXs and MAT will be launched in 2014 to further enhance the games experience, and to stimulate and consolidate our gaming population. For now, more than five mobile games are under full swing development, of which two to three games are in the pipeline for release. We expect that the revenue from our online game business will achieve double-digits growth rate in 2014.

We expect that the enterprise sales from Kingsoft Office will maintain its strong growth momentum benefitting from the improved IPR protection policies and user experiences. In addition, Kingsoft Office will actively explore the monetization of its free user traffic of WPS Personal Edition, and this will become a growth catalyst for Kingsoft Office in the coming year. More importantly, Kingsoft Office will focus and invest aggressively on the mobile office applications, and expand its worldwide mobile user base.

“Looking ahead, Kingsoft will continue to invest heavily in mobile and cloud services. As discussed above, we expect the top line of the Group to maintain its fast growth momentum and to reach new high in 2014. Kingsoft will always embrace the internet trends and strive to deliver products and services that exceed users’ expectations. I am confident that, by focusing on products and services innovation, exceptional user experiences, and being responsive to the fast changing market, we will continue to increase shareholders’ value in the coming years.” Dr. Hongjiang ZHANG concluded.

## **ABOUT KIS**

KIS’s mission is to make the internet and mobile experience faster, safer and easier for users worldwide. To achieve this mission, KIS has developed a platform that offers mission critical applications for its users and global content distribution channels for its business partners, both of which are powered by its proprietary cloud-based data analytics engines.

For its users, KIS’s diversified suite of mission critical applications optimizes internet and mobile system performance and provides real time protection against known and unknown security threats. KIS had 329.5 million MAU for all of its applications in December 2013 and its applications have been installed on 346.6 million mobile devices as of December 31, 2013. Set forth below is a brief description of its core applications for users.

- Clean Master, which is a junk file cleaning, memory boosting and privacy protection application, had 150.7 million installations as of December 31, 2013, and 83.9 million MAU and 43.3 million average daily active users (“DAU”), in December 2013. It was the No. 4 application worldwide excluding games on Google Play in terms of the number of monthly downloads in January 2014, according to App Annie, a third party app store analytics, app rankings, and market intelligence provider.



- Battery Doctor, which is a power optimization application, had 165.2 million installations as of December 31, 2013, and 52.5 million MAU and 22.8 million average DAU in December 2013. It was the sixth most downloaded productivity application on Google Play in December 2013, according to App Annie.
- Duba Anti-virus, which is an internet security application, had 141.0 million MAU and 58.3 million average DAU in December 2013. KIS is the second largest provider of internet security applications in China in terms of MAU in December 2013, according to iResearch.
- Cheetah Browser, which is KIS' safe internet browser launched in June 2012 for PCs and June 2013 for mobile devices, had 50.6 million MAU and 17.5 million average DAU in December 2013.
- Photo Grid, which is a popular photo collage application, had 41.1 million installations as of December 31, 2013, and 20.9 million MAU and 2.6 million average DAU in December 2013. It ranked No. 3 in number of monthly downloads in the Photography category worldwide on Google Play in December 2013.

For its business partners, KIS' platform provides multiple user traffic entry points and global content distribution channels capable of delivering targeted content to hundreds of millions of people. The business partners share revenues with KIS and promote KIS' products and services. KIS has benefited significantly from its cooperation with over 380 online marketing business partners in 2013, including major Chinese internet companies Alibaba, Baidu and Tencent. Set forth below is a brief description of KIS' core platform products for business partners.

- *Duba.com* personal start page, which aggregates popular online resources and provides users quick access to most of their online destinations, had 46.8 million MAU in December 2013, according to iResearch.
- Cheetah personalized recommendation engine, which recommends targeted content and services for users of its Cheetah Browser, had 50.6 million MAU in December 2013.
- Game centers, through which KIS has published over 400 games as of December 31, 2013.
- Mobile app stores, which include KIS' Mobile Assistant application stores in China and other in-app application stores, have offered approximately one million third party mobile applications as of December 31, 2013.
- Kingmobi mobile advertising network, launched in December 2013.

KIS' proprietary cloud-based data analytics engines are the core of its platform. For its users, the data analytics engines perform real time analysis of mobile applications, program files and websites on their devices for behavior that may impair system performance or impose security risks. For KIS' business partners, the data analytics engines help create user interest graphs according to a number of dimensions such as online shopping, gaming and frequently used applications, thus facilitating targeted content delivery.

Although substantially all of KIS' applications are free to its users, KIS' massive user base has created ample monetization opportunities for KIS and its business partners. KIS generates revenues from its online marketing services by referring traffic from its platform to e-commerce companies and search engine providers and by selling advertisements. KIS generated majority of its revenues from online marketing services in 2013. KIS also generates revenues by providing IVAS currently mainly from online games.

KIS believes the following competitive strengths have contributed to its growth and created significant barriers to entry for its competitors:

### **Massive, highly engaged and fast-growing global user base**

- In December 2013, total MAU of KIS's applications has reached 329.5 million.
- Mobile MAU has also increased almost 4 folds from 45.8 million in March 2013 to 166.2 million in December 2013, and mobile MAU has increased from approximately 23% of total MAU to over 50%.
- As of December 31, 2013, approximately 53% of KIS's mobile MAU were from overseas markets such as the United States, Asia (excluding China) and Europe.

### **Diversified suite of mission critical applications for users**

- KIS's mission critical applications have been developed from the ground up based on users' fundamental needs, and have a high level of "stickiness," as users frequently use them to perform a broad range of essential tasks. As a result, KIS's applications have quickly gained popularity among users worldwide.

### **Continuous R&D and innovation focused on optimizing user experience**

- KIS's user-centric culture drives its R&D and innovation. KIS optimizes user experience by involving over 800 R&D staff as of December 31, 2013 (constituting over 70% of its total employees as of the same date) and involving its CEO in the interactive product development process, listening to users' feedback via various channels such as pre-release trial and online social platform to feed into the improvement process.
- As a testament to KIS's high user satisfaction level, Clean Master received a rating of 4.7 out of 5 stars on Google Play on December 31, 2013.

## **Cloud-based data analytics engines enhancing platform performance**

- For KIS's users, its proprietary cloud-based data analytics engines optimize system performance of applications installed on their end devices and protect the applications against security threats; for KIS's business partners, the data analytics engines enable KIS to distribute targeted advertising or games to its users' devices. As of December 31, 2013, KIS analyzed approximately 2.8 million mobile applications.

## **Proven monetization model driven by platform products and extensive network of business partners**

- Via its platform products, KIS has a proven monetization model. KIS generated a majority of its revenue from online marketing services in 2012 and 2013, through referring traffic from its platform to e-commerce companies and search providers and by selling advertisements.
- Currently, IVAS primarily includes publishing online games, either under a joint operating or an exclusive publishing arrangement.

The global mobile internet industry is developing rapidly with the continuous enhancement of infrastructure, and the increasing use of smartphones and other mobile devices which have become more affordable. According to IDC, an independent market research firm, global mobile internet users totaled approximately 1.0 billion in 2012, representing a 36.5% increase over that in 2009, and are expected to reach approximately 2.3 billion in 2017, representing a five-year CAGR of 15.8%. The Android operating system has become the world's most commonly used operating system for smartphones. According to IDC, Android-based smartphones are expected to have approximately 77.4% market share of global smartphone shipments in 2013, compared with 15.7% market share for iOS-based smartphones and other mobile devices.

Mobile applications have become a popular means of engaging end users and delivering digital content and services. According to App Annie, there were more than 1.1 million and 1.0 million applications available on Google Play worldwide and in the Apple App Store as of December 31, 2013, respectively. However, the massive amount of mobile applications creates a challenge for efficient application discovery and distribution in application stores. Gradually alternative application discovery and distribution channels emerge including recommendation engines of super applications and mobile browsers. There are only eight non-game applications with over 50 million cumulative downloads on Google Play worldwide in the second half of 2013, including Facebook, WhatsApp and Clean Master. Such applications are commonly referred to as "super apps." Super apps are ideal channels for application distribution as they enable an application to identify its potential audience in a targeted way.

The global mobile internet industry is still at an early stage, poised for significant growth and monetization opportunities. According to IDC, global mobile advertising market is expected to grow five folds from USD10.0 billion in 2012 to USD52.2 billion in 2017, while global mobile game market, as measured by revenue generated from mobile digital game downloads, is expected to grow two folds from USD6.3 billion in 2012 to USD14.5 billion in 2017.



In China, the numbers of internet users is expected to continue to grow in the foreseeable future. According to China Internet Network Information Center (“CNNIC”), a not-for-profit organization, the number of internet users in China reached 618 million as of December 31, 2013, making China the largest internet market in the world based on the number of users. According to iResearch, that number is expected to increase to approximately 850 million in 2017. Meanwhile, the mobile internet population in China has grown substantially, reaching 500 million as of December 31, 2013 and is expected to increase to 745 million in 2017, representing a four-year CAGR of 10.5%, according to CNNIC. As Chinese users have continued to embrace the internet, mobile devices and internet and mobile applications, they have encountered an increasingly complex internet experience. As a result, the internet security and system optimization market in China has grown significantly over the past five years, reaching 493 million users, or approximately 80% of the online population in 2013.

## **OTHER INFORMATION**

### **Employee and Remuneration Policies**

The Group upholds a high standard of business ethics and personal conduct of its employees. The Group strives to ensure that our staff enjoy a healthy, safe and inspiring environment which promotes them to work and interact with others. These were demonstrated by the Group organizing various kinds of outdoor trips as well as the provision of certain facilities such as indoor sports center and staff canteen in our headquarter.

The remuneration policies and packages of the Group’s employees are periodically reviewed. The principle of the Group’s remuneration policies is fairness, motivating, performance-oriented and market-competitive. Apart from salaries, medical insurance, discretionary bonuses and state managed retirement benefit scheme, the Group has also adopted share option scheme and share award scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

As at 31 December 2013, the Group employed approximately 4,163 full-time employees (2012: 2,916) inclusive of all its staff in Mainland China and overseas offices, most of whom are based at the Company’s offices in Beijing and Zhuhai. The staff costs of the Group including Directors’ and senior management’s emoluments in 2013 and 2012 were approximately RMB735.2 million and RMB517.7 million, respectively.

### **Purchase, Sale or Redemption of the Company’s Listed Securities**

For the year ended 31 December 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

## Code of Conduct Regarding Directors' Securities Transaction

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing The Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) to govern securities transactions by Directors. Further to the specific enquiries made by the Company to all Directors, they have confirmed their compliance with the Model Code during their term of services for the year ended 31 December 2013.

### Closure of Register of Members

For the purposes of determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the final dividend, the register of members of the Company will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the AGM:

Latest time to lodge transfer documents for registration	4:30 pm on Wednesday, 21 May 2014
Closure of the register of members of the Company	Thursday, 22 May 2014 to Wednesday, 28 May 2014 (both dates inclusive)
Record date	Wednesday, 28 May 2014

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Tuesday, 3 June 2014
Closure of the register of members of the Company	Wednesday, 4 June 2014 to Monday, 9 June 2014 (both dates inclusive)
Record date	Monday, 9 June 2014

During the above closure periods, no transfer of shares will be registered. In order to qualify for the proposed final dividend and the right to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than the aforementioned latest time.

## Review by Audit Committee

The Audit Committee of the Company has been established since year 2007 with responsibility of assisting the Board in providing an independent review of the financial statements and internal control system. It acts in accordance with its terms of reference which clearly defines its membership, authority, duties and frequency of meetings. It meets regularly with our management, external auditor and internal audit personnel to discuss accounting principles and practices adopted by the Group and internal control and financial reporting matters. During the year ended 31 December 2013, our Audit Committee comprised of three independent non-executive Directors, namely Mr. To Thomas Hui (resigned as chairman and member of the Audit Committee on 6 May 2013), Mr. David Yuen Kwan TANG (appointed as member of the Audit Committee on 6 May 2013), Mr. Guangming George Lu, Mr. Chuan Wang (resigned as member of the Audit Committee on 1 March 2013) and Ms. Wenjie WU (appointed as member of the Audit Committee on 1 March 2013 and appointed as chairman of the Audit Committee on 6 May 2013).

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2013, and is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

## Code on Corporate Governance Practices

The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in Corporate Governance Code and Corporate Governance Report (the “**Code**”) contained in Appendix 14 to the Listing Rules, except for the code provision A.6.7 and C.1.2 of the Code.

The code provision A.6.7 of the Code is regarding non-executive directors' attendance to general meetings. Non-executive Directors Mr. Pak Kwan KAU and Mr. Chi Ping LAU did not attend the annual general meeting of the Company held on 23 May 2013 as they were traveling at that time for other engagements. Non-executive Directors Mr. Chi Ping LAU, and independent non-executive Directors Mr. To Thomas HUI and Mr. Chuan WANG did not attend the extraordinary general meeting held on 27 February 2013 due to previously arranged engagements. Non-executive Directors Mr. Pak Kwan KAU and Mr. Chi Ping LAU, and independent non-executive Directors Mr. David Yuen Kwan TANG and Ms. Wenjie WU did not attend the extraordinary general meeting held on 27 June 2013 due to previously arranged engagements. The code provision C.1.2 of the Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive Directors overseeing the daily operation of the Group and the effective communication between the executive Directors, the management and the non-executive Directors (including the independent non-executive Directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

## **Forward Looking Statements**

This announcement contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements are based upon current plans, estimates and projections and represent the Company's expectations or beliefs concerning future events, therefore, no undue reliance should be placed upon them.

Forward looking statements contain inherent risks and uncertainties. The Company warns that should any of these risks or uncertainties ever materialize or should any number of important factors or events occur or not occur, then the actual results of the Company may differ materially from those either expressed or implied in any of these forward looking statements.

## **Publication of the Annual Results, Annual Reports and Corporate Governance Report**

All the financial and other related information of the Company required by the Listing Rules will be published on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.kingsoft.com](http://www.kingsoft.com)) in due course.

## **APPRECIATION**

Last but not least, on behalf of the Board, I would like to take this opportunity to express my gratitude to our management and staff for their hard work and contributions, and our shareholders, business associates and investors for their support during the year.

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

The PRC, 18 March 2014

*As at the date of this announcement, the executive Directors are Messrs. HongJiang ZHANG, Yuk Keung NG and Tao ZOU; the non-executive Directors are Messrs. Jun LEI, Pak Kwan KAU and Chi Ping LAU; the independent non-executive Directors are Messrs. Guangming George LU, David Yuen Kwan TANG, and Ms. Wenjie WU.*

\* *for identification purpose only*