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## Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 3888)

### Announcement of the Unaudited Results For the Three Months ended September 30, 2010

The Board (“Board”) of directors (the “Directors”) of Kingsoft Corporation Limited (the “Company”) announces the unaudited results of the Company and its subsidiaries (the “Group” or “Kingsoft”) for the three months ended September 30, 2010. These interim results for the three months ended September 30, 2010 have been reviewed by Ernst & Young, the auditors of the Company, the Company’s audit committee (the “Audit Committee”), comprising a majority of the independent non-executive directors of the Company.

#### FINANCIAL HIGHLIGHTS

	For the three months ended			YtoY* Change %	QtoQ* Change %
	September 30, 2009 RMB'000 (unaudited)	June 30, 2010 RMB'000 (unaudited)	September 30, 2010 RMB'000 (unaudited)		
Revenue	246,099	246,314	<b>229,237</b>	(7)	(7)
Profit attributable to owners of the parent**	69,064	66,916	<b>84,990</b>	23	27
	RMB cent (unaudited)	RMB cent (unaudited)	RMB cent (unaudited)		
Basic earnings per share	6.48	6.14	<b>7.76</b>	20	26
Diluted earnings per share	5.96	5.79	<b>7.33</b>	23	27

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

\*\* Profit attributable to owners of the parent excluding the effect of share-based compensation cost is RMB98.0 million, RMB81.7 and RMB79.6 million for the three months ended at September 30, 2010, June 30, 2010 and September 30, 2009 respectively. This represents a YoY increase of 23% and a QoQ increase of 20%.

## OPERATIONAL HIGHLIGHTS

	For the three months ended			YoY change %	QoQ change %
	September 30, 2009	June 30, 2010	September 30, 2010		
<b>Online Games</b>					
Daily Average Peak					
Concurrent Users	1,061,250	817,835	<b>773,349</b>	(27)	(5)
Monthly Average Paying Users	1,543,946	1,276,351	<b>1,325,056</b>	(14)	4
Monthly Average Revenue per Paying User (RMB)	35	41	<b>39</b>	11	(5)
<b>Online Services of Internet securities</b>					
Daily Average Paying Users	8,269,916	7,648,623	<b>6,598,690</b>	(20)	(14)
Monthly Average Revenue per Paying User (RMB)	2.1	2.2	<b>2.2</b>	5	—

The Board announces the unaudited results of the Group for the three months ended September 30, 2010.

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

## CONDENSED CONSOLIDATED INCOME STATEMENT

	For the three months ended		
	September 30, 2009 RMB'000 (Unaudited)	June 30, 2010 RMB'000 (Unaudited)	September 30, 2010 RMB'000 (Unaudited)
<b>Revenue:</b>			
Entertainment software	162,786	158,924	155,203
Application software	81,464	85,904	71,880
Others	1,849	1,486	2,154
	<u>246,099</u>	<u>246,314</u>	<u>229,237</u>
Cost of revenue	(35,369)	(31,434)	(32,162)
	<u>210,730</u>	<u>214,880</u>	<u>197,075</u>
<b>Gross profit</b>			
Research and development costs, net of government grants	(61,163)	(57,369)	(70,676)
Selling and distribution costs	(62,692)	(33,614)	(34,732)
Administrative expenses	(28,037)	(27,157)	(27,056)
Share-based compensation costs	(10,524)	(14,817)	(12,998)
Other operating costs	(429)	(9,949)	(272)
Other income and gains	24,309	150	26,722
	<u>72,194</u>	<u>72,124</u>	<u>78,063</u>
<b>Operating Profit</b>			
Fair value gain on financial asset at fair value through profit or loss	—	—	11,613
Finance income	6,325	7,713	8,698
Finance costs	—	—	(373)
Share of profits and losses of:			
Associates	6,164	3,174	3,603
Jointly-controlled entities	(1,863)	(1,713)	(1,363)
	<u>82,820</u>	<u>81,298</u>	<u>100,241</u>
<b>Profit before tax</b>			
Income tax expense	(13,104)	(13,494)	(15,013)
	<u>69,716</u>	<u>67,804</u>	<u>85,228</u>
<b>Profit for the period</b>			
Attributable to:			
Owners of the parent	69,064	66,916	84,990
Non-controlling interests	652	888	238
	<u>69,716</u>	<u>67,804</u>	<u>85,228</u>
	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
<b>Earnings per share attributable to ordinary equity holders of the parent</b>			
Basic	0.0648	0.0614	0.0776
Diluted	0.0596	0.0579	0.0733

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>For the three months ended</b>		
	September 30, 2009 RMB'000 (Unaudited)	June 30, 2010 RMB'000 (Unaudited)	<b>September 30, 2010 RMB'000 (Unaudited)</b>
<b>Profit for the period</b>	69,716	67,804	<b>85,228</b>
<b>Other comprehensive income:</b>			
Exchange differences on translation of foreign operations	547	(351)	<b>149</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>	<u>547</u>	<u>(351)</u>	<u><b>149</b></u>
<b>Total comprehensive income for the period, net of tax</b>	<u><u>70,263</u></u>	<u><u>67,453</u></u>	<u><u><b>85,377</b></u></u>
Attributable to:			
Owners of the parent	68,913	65,954	<b>84,496</b>
Non-controlling interests	1,350	1,499	<b>881</b>
	<u><u>70,263</u></u>	<u><u>67,453</u></u>	<u><u><b>85,377</b></u></u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at September 30, 2010 RMB'000 (Unaudited)	As at December 31, 2009 RMB'000 (Audited)
<b>Non-current assets</b>		
Property, plant and equipment	393,002	407,980
Goodwill	—	2,377
Other intangible assets	51,990	48,489
Lease prepayments	45,124	6,972
Interests in associates	17,771	6,378
Interests in jointly-controlled entities	31,061	40,112
Other financial asset	11,613	—
Loan receivables	3,931	2,649
Deferred tax assets	25,712	28,917
Deferred cost	684	1,201
Long-term prepayments	—	38,738
	<u>580,888</u>	<u>583,813</u>
<b>Current assets</b>		
Inventories	6,254	5,384
Trade receivables	96,499	120,378
Prepayments, deposits and other receivables	116,744	60,075
Deferred cost	2,975	3,122
Cash and cash equivalents	1,426,837	1,268,098
	<u>1,649,309</u>	<u>1,457,057</u>
<b>Current liabilities</b>		
Trade payables	11,187	12,597
Interest-bearing bank loan	103,620	—
Dividend payable	280	174
Accrued expenses and other payables	121,392	186,896
Deferred revenue	156,997	158,643
Income tax payable	23,533	19,453
	<u>417,009</u>	<u>377,763</u>
<b>Net current assets</b>	<u>1,232,300</u>	<u>1,079,294</u>
<b>Total assets less current liabilities</b>	<u>1,813,188</u>	<u>1,663,107</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at September 30, 2010 RMB'000 (Unaudited)	As at December 31, 2009 RMB'000 (Audited)
<b>Total assets less current liabilities</b>	<u>1,813,188</u>	<u>1,663,107</u>
<b>Non-current liabilities</b>		
Deferred revenue	32,336	42,144
Deferred tax liabilities	<u>12,911</u>	<u>16,653</u>
	<u>45,247</u>	<u>58,797</u>
<b>Net assets</b>	<u><u>1,767,941</u></u>	<u><u>1,604,310</u></u>
<b>Equity attributable to owners of the parent</b>		
Issued capital	4,505	4,434
Share premium	555,669	525,349
Shares held for share award scheme	(63,317)	(72,365)
Statutory reserves	107,817	107,817
Employee share-based capital reserve	246,738	225,011
Foreign currency translation reserve	(67,357)	(66,464)
Retained earnings	964,982	723,335
Proposed final dividends	—	141,575
	<u>1,749,037</u>	<u>1,588,692</u>
<b>Non-controlling interests</b>	<u>18,904</u>	<u>15,618</u>
<b>Total equity</b>	<u><u>1,767,941</u></u>	<u><u>1,604,310</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>For the three months ended</b>		
	September 30,	June 30,	September 30,
	2009	2010	2010
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<b>Net cash flows from operating activities</b>	151,310	113,572	<b>63,104</b>
<b>Net cash flows from/(used in)</b>			
<b>investing activities</b>	(295,928)	97,514	<b>(378,848)</b>
<b>Net cash flows from/(used in)</b>			
<b>financing activities</b>	(23,046)	(18,297)	<b>965</b>
	<hr/>	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	(167,664)	192,789	<b>(314,779)</b>
Cash and cash equivalents at beginning of period	524,539	987,966	<b>1,180,801</b>
Effect of foreign exchange rate changes, net	(534)	46	<b>760</b>
	<hr/>	<hr/>	<hr/>
<b>Cash and cash equivalents at end of period</b>	356,341	1,180,801	<b>866,782</b>
Time deposits with original maturity of over three months when acquired	801,987	196,238	<b>560,055</b>
	<hr/>	<hr/>	<hr/>
<b>Cash and cash equivalents as stated in the condensed consolidated statement of financial position</b>	<u>1,158,328</u>	<u>1,377,039</u>	<u><b>1,426,837</b></u>

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

The Company was incorporated under the laws of the British Virgin Islands on March 20, 1998. It was continued into the Cayman Islands under the Companies Law of the Cayman Islands on November 15, 2005. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 9, 2007.

The Group is principally involved in the research, development and distribution of software products and the provision of online game services.

The interim condensed consolidated financial statements were approved and authorised for issue in accordance with a resolution of the Board on November 25, 2010.

## 2. Basis of Preparation and Significant Accounting Policies

### Basis of preparation

The interim condensed consolidated financial statements for the three months ended September 30, 2010 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the international Accounting Standards Board.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2009.

### Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2009, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), except for the adoption of new Standards and Interpretations applicable to the Group as of January 1, 2010, noted below.

#### *Impact of New and Revised IFRSs*

The Group has adopted the following new and revised IFRSs for the first time for the current period's financial statements. The adoption of these new and revised IFRSs has had no significant effect on these financial statements.

IFRS 2	<i>Share-based Payment — Group Cash-settled Share-based Payment Transactions</i>
IFRS 3 (Revised)	<i>Business Combinations</i>
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
	<i>Improvements to IFRSs (issued May 2008)</i>
	<i>Improvements to IFRSs (issued April 2009)</i>

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010

### *Revenue*

Revenue decreased by 7% quarter-over-quarter and also year-over-year to RMB229.2 million. Revenue from the entertainment and application software businesses represented 68% and 31%, respectively, of the Group's total revenue for the third quarter of 2010.

Revenue from the entertainment software business decreased by 2% quarter-over-quarter and decreased by 5% year-over-year to RMB155.2 million. The sequential decrease was mainly due to the adverse seasonality of school summer vacation for our JX games in China. The year-over-year decrease was mainly due to the declined revenue of JX World Online.

Daily average peak concurrent users decreased by 5% quarter-over-quarter and decreased by 27% year-over-year to 0.77 million. Monthly average paying users increased by 4% quarter-over-quarter and decreased by 14% year-over-year to 1.33 million. The quarter-over-quarter decrease in daily average peak concurrent users was largely attributable to the adverse impact of summer vacation. The quarter-over-quarter increase in monthly average paying users primarily reflected the recovery of paying players base overseas.

The monthly average revenue per paying user ("monthly ARPU") for the Group's online game decreased by 5% quarter-over-quarter and increased by 11% year-over-year to RMB39 in the third quarter of 2010.

Revenue from the application software business decreased by 16% quarter-over-quarter and decreased by 12% year-over-year to RMB71.9 million. This quarter-over-quarter decrease resulted mainly from the increasing competition in the internet security market in China and the release of new version of Microsoft Office in Japan market.

The number of subscribers for online services of Kingsoft Internet Security decreased by 14% quarter-over-quarter and decreased by 20% year-over-year to 6.60 million. This was largely due to a number of free version of Kingsoft Internet Security were released in OEM channel and the paying users declined accordingly.

Monthly ARPU for online services of Kingsoft Internet Security business held flat quarter-over-quarter and increased by 5% year-over-year to RMB2.2.

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

Gross profit decreased by 8% quarter-over-quarter and decreased by 6% year-over-year to RMB197.1 million. The Group's gross profit margin decreased by one percentage point quarter-over-quarter and held flat year-over-year to 86%.

Cost of revenue increased by 2% quarter-over-quarter and decreased by 9% year-over-year to RMB32.2 million. The sequential increase was primarily attributable to an increase in staff costs.

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

R&D costs, net of government grants, increased by 23% quarter-over-quarter and increased by 16% year-over-year to RMB70.7 million. This quarter-over-quarter increase was mainly attributable to reduced capitalised software costs when the new version of Kingsoft internet security was launched.

### ***Selling and Distribution Costs***

Selling and distribution costs increased by 3% quarter-over-quarter and decreased by 45% year-over-year to RMB34.7 million. The sequential increase was primarily due to increased promotional activities for the release of a new expansion pack “Reign of Swordsman” of JX World Online.

### ***Administrative Expenses***

Administrative expenses held flat quarter-over-quarter and decreased by 3% year-over-year to RMB27.1 million as a result of the Company's ongoing effort on cost controls.

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

Share-based compensation costs decreased by 12% quarter-over-quarter and increased by 24% year-over-year to RMB13.0 million. The quarter-over-quarter decrease was primarily due to the adoption of the graded vesting of the granted share options and awarded shares.

### ***Other Income and Gains***

Other income and gains increased by 17715% quarter-over-quarter and increased by 10% year-over-year to RMB26.7 million. This mainly reflected the local government's financial incentives to our PRC subsidiaries.

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

Operating Profit excluding share-based compensation costs increased by 5% quarter-over-quarter and increased by 10% year-over-year to RMB91.1 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs increased by five percentage points quarter-over-quarter and increased by six percentage points year-over-year to 40%.

### ***Fair Value Gain on Financial Asset at Fair Value through Profit or Loss (“Fair Value Gain”)***

Fair Value Gain recorded RMB11.6 million, which reflected the fair value of an option granted by Vina Group Corporation (“Vina Game”) to the Group to subscribe a number of ordinary shares of Vina Game at certain price within six years.

### ***Share of Profits of Associates***

The Group’s share of profits of associates increased by 14% quarter-over-quarter and decreased by 42% year-over-year to RMB3.6 million. The quarter-over-quarter increase was primarily a result of an increase in profit from Kingsoft Guangzhou.

### ***Income Tax Expense***

Income tax expense increased by 11% quarter-over-quarter and increased by 15% year-over-year to RMB15.0 million. The Group’s effective tax rate (excluding the impact of share-based compensation costs) decreased by one percentage point quarter-over-quarter and year-over-year to 13%.

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

As a result of the reasons discussed above, profit attributable to owners of the Parent increased by 27% quarter-over-quarter and increased by 23% year-over-year to RMB85.0 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 utilised by other companies.

The Group’s profit attributable to owners of the parent before share-based compensation costs increased by 20% quarter-over-quarter and increased by 23% year-over-year to RMB98.0 million. The net profit margin excluding the effect of share-based compensation costs was 43%, 33% and 32% for the three months ended September 30, 2010, June 30, 2010 and September 30, 2009, respectively.

## ***Liquidity and Financial Resource***

The Group had a strong cash position towards the end of reporting period. As at September 30, 2010, the group had major financial resources in the forms of cash and cash equivalents, time deposits with initial term of over three months amounting to RMB866.8 million, RMB560.1 million, respectively, which totally represented 64% of the Group's total assets.

As at September 30, 2010, the Group's gearing ratio, which represents total liabilities divided by total assets, was 21%, held flat from 21% as at December 31, 2009. As at September 30, the Group had HK\$120.0 million (RMB103.6 million) bank loan. The loan is repayable in full before June 14, 2011 and bears interest of HIBOR plus 1.1%.

## ***Foreign Currency Risk Management***

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

As at September 30, 2010, RMB157.9 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) decreased by 4% quarter-over-quarter and decreased by 18% year-over-year to RMB189.3 million as at September 30, 2010.

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

Net cash generated by the operating activities reflects the Group's profit for the three months periods, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalised software costs, and share-based compensation costs, as well as the effect of changes in certain items of statement of financial position, such as deferred revenue and accrued expenses and other payables.

Net cash generated by operating activities was RMB63.1 million, RMB113.6 million and RMB151.3 million for the three months ended September 30, 2010, and June 30, 2010 and September 30, 2009, respectively.

## ***Capital Expenditure***

Capital expenditures represent cash payments for acquisition of property, fixed assets and intangible assets. Cash used for capital expenditures was RMB14.0 million, RMB30.5 million and RMB19.8 million for the three months ended September 30, 2010, June 30, 2010 and September 30, 2009, respectively.

## MANAGEMENT COMMENTS

Mr. Pak Kwan Kau, the Chairman and CEO of Kingsoft, said, “In the third quarter, our net profit achieved a strong sequential growth of 26%, which was mainly resulted from government subsidy. To deepen our strategic alliance with Vina Game, we further entered a strategic Ordinary Shares Subscription Option agreement with Vina Game. By doing so, we believe that we will benefit from the growth of Vietnam online game market in long run. Our online game business also progressed well by launching First Myth 3 in unlimited closed beta testing in November. The Legend of Moon is still targeting to complete the last round of limited closed beta testing by year-end and then start unlimited closed beta testing in March, 2011. On November 10, 2010, we announced Kingsoft’s acquisition of Conew, an independent internet security company operating in China and the commencing of free offerings of Kingsoft Internet Security Personal edition in China. We believe this transaction will speed up the launch of a business model based upon providing various add-ons of value-added-service for Kingsoft Internet Security.”

By Order of the Board  
**Kingsoft Corporation Limited**  
**Pak Kwan KAU**  
*Chairman*

Hong Kong, November 25, 2010

*As at the date of this announcement, the Executive Directors are Messrs. Pak Kwan KAU, Donghui WANG and Tao ZOU; the Non-executive Directors are Messrs. Jun LEI and Shuen Lung CHEUNG; the Independent Non-Executive Directors are Messrs. Shun Tak WONG, Guangming George LU and Mingming HUANG.*