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Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

**ANNOUNCEMENT OF THE RESULTS
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2012**

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 and six months ended 30 June 2012. These interim results have been reviewed by Ernst & Young, the auditors of the Company, and the Company’s audit committee (the “**Audit Committee**”), comprising three independent non-executive directors of the Company.

FINANCIAL INFORMATION

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended 30 June 2012

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Revenue:					
Entertainment software		208,728	173,004	399,818	336,380
Application software		112,073	89,963	202,827	157,863
Others		1,666	—	12,407	—
		<u>322,467</u>	<u>262,967</u>	<u>615,052</u>	<u>494,243</u>
Cost of revenue		(40,877)	(34,608)	(90,531)	(67,398)
Gross profit		281,590	228,359	524,521	426,845
Research and development costs, net of governments grants		(86,973)	(61,447)	(174,317)	(135,755)
Selling and distribution costs		(40,104)	(31,176)	(71,310)	(51,021)
Administrative expenses		(36,753)	(26,088)	(70,725)	(54,443)
Share-based compensation costs	10	(14,092)	(3,699)	(22,244)	(11,231)
Other income and gains		7,418	6,655	9,678	7,840
Other expenses		(2,305)	(2,920)	(3,018)	(3,110)
Operating profit		108,781	109,684	192,585	179,125
Finance income		24,152	13,791	46,359	26,838
Finance costs		(1,997)	(806)	(3,942)	(924)
Share of profits and losses of:					
Jointly-controlled entities		2,681	(625)	4,646	(1,478)
Associates		—	(815)	(930)	(2,591)
Profit before tax	4	133,617	121,229	238,718	200,970
Income tax expense	5	(15,197)	(15,334)	(29,976)	(26,815)
Profit for the period		118,420	105,895	208,742	174,155
Attributable to:					
Owners of the parent		111,897	103,915	199,423	170,809
Non-controlling interests		6,523	1,980	9,319	3,346
		<u>118,420</u>	<u>105,895</u>	<u>208,742</u>	<u>174,155</u>
		RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
Earnings per share attributable to ordinary equity holders of the parent	6				
Basic		0.0979	0.0927	0.1748	0.1532
Diluted		0.0964	0.0893	0.1720	0.1471

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2012

	For the three months ended 30 June		For the six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Profit for the period	118,420	105,895	208,742	174,155
Other comprehensive income:				
Exchange differences on translation of foreign operations	<u>(2,425)</u>	<u>499</u>	<u>(4,456)</u>	<u>(1,415)</u>
Other comprehensive (loss)/income for the period, net of tax	<u>(2,425)</u>	<u>499</u>	<u>(4,456)</u>	<u>(1,415)</u>
Total comprehensive income for the period	<u>115,995</u>	<u>106,394</u>	<u>204,286</u>	<u>172,740</u>
Attributable to:				
Owners of the parent	<u>109,632</u>	104,367	<u>195,992</u>	170,287
Non-controlling interests	<u>6,363</u>	<u>2,027</u>	<u>8,294</u>	<u>2,453</u>
	<u>115,995</u>	<u>106,394</u>	<u>204,286</u>	<u>172,740</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		386,142	395,328
Lease prepayments		43,671	44,142
Goodwill		14,559	14,559
Other intangible assets		56,862	68,170
Long-term prepayment		80,109	80,109
Investments in jointly-controlled entities		15,422	10,622
Investments in associates		—	930
Available-for-sale investments		4,990	4,990
Other financial asset		11,878	11,812
Loan receivables		4,339	4,500
Deferred tax assets		29,552	27,547
		<u>647,524</u>	<u>662,709</u>
Current assets			
Inventories		15,359	3,311
Trade receivables	7	129,112	80,366
Prepayments, deposits and other receivables		97,529	90,956
Due from related parties		131,979	137,502
Deferred cost		647	905
Pledged deposit		—	85,000
Cash and cash equivalents		2,131,967	1,953,770
		<u>2,506,593</u>	<u>2,351,810</u>
Current liabilities			
Trade payables	8	17,596	16,568
Interest-bearing bank loans	9	415,752	346,655
Other payables and accruals		192,783	219,400
Deferred revenue		137,242	161,210
Income tax payable		12,024	17,221
		<u>775,397</u>	<u>761,054</u>
Net current assets		<u>1,731,196</u>	<u>1,590,756</u>
Total assets less current liabilities		<u>2,378,720</u>	<u>2,253,465</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Non-current liabilities			
Deferred revenue		17,555	20,321
Deferred tax liabilities		16,419	20,024
		<u>33,974</u>	<u>40,345</u>
Net assets		<u><u>2,344,746</u></u>	<u><u>2,213,120</u></u>
Equity			
Equity attributable to owners of the parent			
Issued capital		4,689	4,677
Share premium account		451,062	440,974
Shares held for share award scheme		(85,860)	(93,754)
Statutory reserves		146,654	146,654
Employee share-based reserve		146,351	145,435
Capital reserve		254,209	253,914
Foreign currency translation reserve		(75,446)	(72,015)
Retained earnings		1,401,130	1,201,707
Proposed final dividend	11	—	92,241
		<u>2,242,789</u>	<u>2,119,833</u>
Non-controlling interests		<u>101,957</u>	<u>93,287</u>
Total equity		<u><u>2,344,746</u></u>	<u><u>2,213,120</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the parent											
	Issued capital	Share premium account	Shares held for share award scheme	Statutory reserves	Employee share-based reserve	Capital reserve	Foreign currency translation reserve	Retained earnings	Proposed final and special dividends	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
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 period	—	—	—	—	—	—	—	199,423	—	199,423	9,319	208,742
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(3,431)	—	—	(3,431)	(1,025)	(4,456)
Total comprehensive income for the period	—	—	—	—	—	—	(3,431)	199,423	—	195,992	8,294	204,286
Approved and paid final dividend in respect of the previous year	—	(830)	—	—	—	—	—	—	(92,241)	(93,071)	—	(93,071)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(13,027)	(13,027)
Share-based compensation costs	—	—	—	—	14,068	—	—	—	—	14,068	2,510	16,578
Exercise of share options	12	10,918	—	—	(5,258)	—	—	—	—	5,672	—	5,672
Vested awarded shares transferred to employees	—	—	7,894	—	(7,894)	—	—	—	—	—	—	—
Capital contributions from non-controlling interests	—	—	—	—	—	—	—	—	—	—	11,195	11,195
Changes in the ownership interests in subsidiaries	—	—	—	—	—	295	—	—	—	295	(302)	(7)
At 30 June 2012	4,689	451,062	(85,860)	146,654	146,351	254,209	(75,446)	1,401,130	—	2,242,789	101,957	2,344,746
At 1 January 2011	4,527	408,241	(57,773)	140,057	207,646	16,230	(68,625)	883,575	376,000	1,909,878	24,183	1,934,061
Profit for the period	—	—	—	—	—	—	—	170,809	—	170,809	3,346	174,155
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(522)	—	—	(522)	(893)	(1,415)
Total comprehensive income for the period	—	—	—	—	—	—	(522)	170,809	—	170,287	2,453	172,740
Approved and paid final and special dividends in respect of the previous year	—	1,043	—	—	—	—	—	—	(376,000)	(374,957)	—	(374,957)
Share-based compensation costs	—	—	—	—	4,344	—	—	—	—	4,344	516	4,860
Exercise of share options	54	47,992	—	—	(23,233)	—	—	—	—	24,813	—	24,813
Vested awarded shares transferred to employees	—	—	5,744	—	(5,744)	—	—	—	—	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	164,882	—	—	—	164,882	10,614	175,496
At 30 June 2011	4,581	457,276	(52,029)	140,057	183,013	181,112	(69,147)	1,054,384	—	1,899,247	37,766	1,937,013

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	148,470	191,259
Net cash flows used in investing activities	(506,038)	(431,136)
Net cash flows used in financing activities	(32,128)	(57,578)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(389,696)	(297,455)
Cash and cash equivalents at beginning of period	1,199,313	1,186,711
Effect of foreign exchange rate changes, net	(2,686)	(505)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	806,931	888,751
Time deposits with original maturity of over three months when acquired	1,325,036	760,850
	<hr/>	<hr/>
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	<u>2,131,967</u>	<u>1,649,601</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

The Group is principally engaged in research, development and operation of games, information security services and other application services across devices.

The interim condensed consolidated financial statements were approved and authorised for issue in accordance with a resolution of the board of directors of the Company on 23 August 2012.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, issued by International Accounting Standards Board ("IASB").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

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

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The following amendments to IFRSs did not have any impact on the accounting policies, financial position or performance of the Group:

IAS 12 — *Deferred Tax: Recovery of Underlying Assets* (Amendment)

IFRS 7 — *Disclosures — Transfers of financial assets* (Amendment)

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

3. Operating 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, provision of information security services across devices, and provision of online advertising services; and
- (c) The other application software segment engages in the research, development and distribution of office application software, provision of office, cloud storage, cloud computation and dictionary services across devices, and provision of online advertising services.

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, administrative expenses, share-based compensation costs, share of profits and losses of jointly-controlled entities and associates, other expenses and other income and gains are excluded from such measurement.

3. Operating segment information (continued)

	Entertainment software RMB'000 (Unaudited)	Information security software RMB'000 (Unaudited)	Other application software RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<i>For the six months ended 30 June 2012</i>				
Segment revenue:				
Sales to external customers	<u>408,264</u>	<u>108,771</u>	<u>98,017</u>	<u>615,052</u>
Segment results	226,985	7,145	44,764	278,894
Reconciliation:				
Administrative expenses				(70,725)
Share-based compensation costs				(22,244)
Other income and gains				9,678
Other expenses				(3,018)
Finance income				46,359
Finance costs				(3,942)
Share of profits and losses of:				
Jointly-controlled entities				4,646
Associates				(930)
Profit before tax				<u>238,718</u>
<i>For the six months ended 30 June 2011</i>				
Segment revenue:				
Sales to external customers	<u>336,380</u>	<u>101,658</u>	<u>56,205</u>	<u>494,243</u>
Segment results	192,586	22,305	25,178	240,069
Reconciliation:				
Administrative expenses				(54,443)
Share-based compensation costs				(11,231)
Other income and gains				7,840
Other expenses				(3,110)
Finance income				26,838
Finance costs				(924)
Share of losses of:				
Jointly-controlled entities				(1,478)
Associates				(2,591)
Profit before tax				<u>200,970</u>

4. Profit before tax

The Group's profit before tax is arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Employee benefit expense	119,148	85,768	233,050	173,650
Bandwidth and server fees	14,148	9,848	28,581	21,695
Depreciation of property, plant and equipment	15,296	15,552	31,440	30,608
Amortisation of lease prepayments	235	235	471	471
Amortisation of other intangible assets*	6,092	6,915	19,123	14,970
Impairment of loan to a shareholder of a jointly-controlled entity**	—	2,000	—	2,000
Impairment of other intangible assets**	2,000	—	2,000	—
Donation**	460	500	870	500
Interest on bank loans	1,997	806	3,942	924

* The amortisation of capitalised software costs is included in “research and development costs” on the face of the condensed consolidated income statement.

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

5. Income tax expense

The major components of income tax expense in the unaudited condensed consolidated income statement are:

	For the three months ended 30 June		For the six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Current income tax	13,729	17,528	35,586	31,065
Deferred income tax	<u>1,468</u>	<u>(2,194)</u>	<u>(5,610)</u>	<u>(4,250)</u>
Income tax expense	<u>15,197</u>	<u>15,334</u>	<u>29,976</u>	<u>26,815</u>

The People's Republic of China (the "PRC") corporate income tax represents the tax charged on the estimated assessable profits arising in the Mainland China. 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 holiday and preferential tax rates.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2011: 16.5%) on estimated assessable profits arising in Hong Kong for the six months ended 30 June 2012.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiaries in Japan was 41% for the six months ended 30 June 2012 (six months ended 30 June 2011: 41%).

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

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

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, 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 relating to the Group's share option schemes and share award scheme into ordinary shares.

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

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent	<u>199,423</u>	<u>170,809</u>
	Number of shares	
	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme	1,141,171,733	1,115,111,918
Effect of dilution — weighted average number of ordinary shares:		
Share options	10,672,345	37,977,252
Awarded shares	7,566,372	7,731,246
	<u>1,159,410,450</u>	<u>1,160,820,416</u>

7. Trade receivables

Trade receivables, which are non-interest-bearing and generally on credit terms of 30 to 90 days, are recognised and carried at original invoiced amounts less any impairment loss.

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
0 – 30 days	60,051	39,090
31 – 60 days	20,906	15,742
61 – 90 days	18,272	13,339
91 – 365 days	25,239	8,380
Over one year	4,644	3,815
	<u>129,112</u>	<u>80,366</u>

8. Trade payables

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
0 – 30 days	6,619	5,557
31 – 60 days	1,778	1,794
61 – 90 days	1,813	2,022
91 – 365 days	4,946	4,976
Over one year	2,440	2,219
	<u>17,596</u>	<u>16,568</u>

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

9. Interest-bearing bank loans

	Maturity	Principal amount RMB'000
30 June 2012		(Unaudited)
Current		
Bank loan — unsecured	2012 – 2013	<u>415,752</u>
31 December 2011		(Audited)
Current		
Bank loan — unsecured	2012	265,585
Bank loan — secured	2012	<u>81,070</u>
		<u>346,655</u>

- (a) The Group provided a RMB deposit of amount not less than 50% or 100% of the bank loans outstanding from time to time as an undertaking of banking facilities from which the above unsecured bank loans were drawn down.
- (b) As at 31 December 2011, one of the Group's bank loans was secured by the Group's time deposit of RMB85.0 million.
- (c) As at 30 June 2012, all bank loans were denominated in Hong Kong dollars (31 December 2011: bank loan of RMB265.6 million denominated in US dollars and of RMB81.1 million denominated in Hong Kong dollars).

10. Share-based compensation costs

(a) Share options

2004 and 2007 Pre-IPO Share Option Schemes

The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme (collectively, the “Pre-IPO Share Option Schemes”) on 30 September 2004 and 22 January 2007, respectively. The Pre-IPO Share Option Schemes were terminated on 3 September 2007. The following table illustrates the number of and movements in the Company’s share options of Pre-IPO Share Option Schemes for the six months ended 30 June 2012 and 2011.

	2012	2011
	Number of	Number of
	shares options	shares options
	(Unaudited)	(Unaudited)
Outstanding at 1 January	22,920,300	69,497,600
Forfeited during the period	—	(98,000)
Exercised during the period	(3,870,000)	(16,360,870)
	<u>19,050,300</u>	<u>53,038,730</u>
Outstanding at 30 June	<u>19,050,300</u>	<u>53,038,730</u>

2011 Share Option Scheme

The Company operates the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Share Option Scheme include the Company’s directors, including independent non-executive directors, other employees of the Group. The 2011 Share Option Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The following share options were outstanding under the 2011 Share Option Scheme during the six months ended 30 June 2012:

	2012
	Number of
	shares options
	(Unaudited)
Outstanding at 1 January	12,500,000
Forfeited during the period	—
Exercised during the period	—
	<u>—</u>
Outstanding at 30 June	<u>12,500,000</u>

10. Share-based compensation costs (continued)

(b) Share Award Scheme

On 31 March 2008, the directors of the Company approved and adopted a share award scheme (the “Share Award Scheme”) in which selected employees of the Group have been awarded the awarded shares (the “Awarded Shares”) through their continued employment with the Group. Unless early terminated by the directors of the Company, the Share Award Scheme is valid and effective for a term of five years commencing from 31 March 2008. On 25 November 2010, the directors of the Company resolved to extend the termination date of the Share Awarded Scheme from 30 March 2013 to 30 March 2017. The directors will not grant any awarded shares which would result in the total number of shares, which are the subject of awards granted by the directors of the Company under the Share Award Scheme (but not counting any which have lapsed or have been forfeited), representing in aggregate over 10% of the issued capital of the Company as at the date of such grant.

During the six months ended 30 June 2012, 7,242,000 shares (six months ended 30 June 2011: 2,370,000 shares) were awarded to a number of employees with vesting period of five years. No shares of the Company were acquired by the Share Award Scheme Trust during the six months ended 30 June 2012 and 2011.

The following table illustrates the number of and movements in the Company’s Awarded Shares during the six months ended 30 June 2012 and 2011.

	2012	2011
	Number of	Number of
	Awarded Shares	Awarded Shares
	(Unaudited)	(Unaudited)
Outstanding at 1 January	16,207,004	16,596,801
Awarded during the period	7,242,000**	2,370,000
Forfeited during the period	(147,668)	(2,193,199)
Cancelled during the period	—	(1,440,600)*
Vested and transferred during the period	(2,596,332)	(3,503,664)
Outstanding at 30 June	<u>20,705,004</u>	<u>11,829,338</u>

* During the six months ended 30 June 2011, 1,440,600 Awarded Shares granted to certain directors and employees on 26 March 2010 were cancelled with cash compensation of RMB7.5 million.

** During the six months ended 30 June 2012, 500,000 Awarded Shares were granted to a director of the Company.

10. Share-based compensation costs (continued)

(c) Share Award Scheme adopted by Kingsoft Internet Security Software Holdings Limited (“KIS Holdings”)

On 26 May 2011 (the “KIS Adoption Date”), the directors of KIS Holdings, a subsidiary of the Company, approved and adopted a share award scheme (the “KIS Share Award Scheme”), in which selected employees of KIS Holdings and its subsidiaries (“KIS Group”) have been awarded the awarded shares (the “KIS Awarded Shares”) through their continued employment with the Group. Unless early terminated by the directors of KIS Holdings, the KIS Share Award Scheme shall be valid and effective for a term of ten years commencing on the KIS Adoption Date. The directors of KIS Holdings will not grant any award of shares which would result in the total number of shares which are subject of awards granted by the board of directors of KIS Holdings under the KIS Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 100,000,000 shares, as at the date of such grant.

For the KIS Awarded Shares granted under the KIS Share Award Scheme, the fair value of the KIS Awarded Shares is recognised as an expense and credited to equity over the period in which the vesting conditions (i.e., service conditions and/or performance conditions) are fulfilled.

The following table illustrates the number of and movement in the KIS Awarded Shares during the six months ended 30 June 2012 and 2011.

	2012	2011
	Number of KIS	Number of KIS
	Awarded Shares	Awarded Shares
	(Unaudited)	(Unaudited)
Outstanding at 1 January	49,870,000	—
Awarded during the period	23,060,000	51,550,000
Forfeited during the period	(3,087,500)	—
Vested and transferred during the period	<u>—</u>	<u>—</u>
Outstanding at 30 June	<u>69,842,500</u>	<u>51,550,000</u>

11. Dividends

A final dividend of HKD0.1 per ordinary share for 2011 were proposed pursuant to a resolution passed by the Board on 27 March 2012, and were approved by the shareholders in the annual general meeting held on 28 May 2012.

The actual 2011 final dividends paid was RMB93.1 million, after eliminating RMB2.3 million paid for shares held by the Share Award Scheme Trust.

The board of the Company has resolved not to declare any interim dividend in respect of the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

12. Capital commitments

The Group had the following capital commitments as at the end of the reporting period:

	Note	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Contracted, but not provided for:			
Purchase of electronic equipment		600	6,333
Development of land and buildings	(a)	1,642,747	1,646,500
Acquisition of intangible assets		—	430
		<u> </u>	<u> </u>
Total		<u><u>1,643,347</u></u>	<u><u>1,653,263</u></u>

(a) The capital commitment for the development of land and buildings represented the commitment to invest an aggregate of RMB924.4 million before 2014 in the development of a piece of land in Zhuhai and, an aggregate of RMB718.3 million in the development of a piece of land in Chengdu, the PRC, in accordance with the relevant land use rights acquisition agreement.

13. Related party transactions

(a) The Group had the following material transactions with related parties during the period:

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Equity contribution from non-controlling shareholder of a subsidiary	(i)	—	159,078	—	159,078
Equity contribution from non-controlling shareholder of a subsidiary	(ii)	—	16,418	—	16,418
Loan to non-controlling shareholder of a subsidiary	(i)	—	125,967	—	125,967
Interest income from non-controlling shareholder of a subsidiary	(i)	565	—	1,155	—
Provision of services to companies whose parent has a significant influence on the Company	(iii)	11,368	—	18,464	—
Purchases of products from a company controlled by a member of the key management personnel of the Company	(iv)	684	—	1,275	—

(i) On 8 April 2011, Westhouse Holdings Limited (“Westhouse Holdings”) issued 160,000,000 shares (representing 20% of enlarged equity interest of Westhouse Holdings) to WestGame Holdings Limited (“WestGame Holdings”), which is owned by some founding employees, at a subscription price of HKD1.1834 per share for an aggregate consideration of approximately HKD189.3 million (equivalent to RMB159.1 million) pursuant to a share subscription agreement dated 24 January 2011 entered into by Westhouse Holdings, WestGame Holdings and the founding employees. Part of the consideration amounting to HKD151.5 million (equivalent to RMB126.0 million) was funded by a loan advanced from Kingsoft Entertainment Software Holdings Limited (“KES Holdings”), the parent of Westhouse Holdings, which bears interest rate of Hong Kong Interbank Offered Rate plus 1.3% for initial term and Hong Kong Bank Offered Loan Rate for the succeeding terms, and was secured by 128,000,000 shares of Westhouse Holdings held by WestGame Holdings. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied.

13. Related party transactions (continued)

(a) The Group had the following material transactions with related parties during the period (continued):

- (ii) Pursuant to a share subscription agreement dated 8 March 2011, KIS Holdings issued 100,000,000 ordinary shares to a company controlled by non-controlling shareholder of a subsidiary, for an aggregate consideration of USD2.5 million (equivalent to RMB16.4 million) on 31 March 2011.

Pursuant to the above subscription agreement, KIS Holdings was granted options from the above company to repurchase the above 100,000,000 ordinary shares (the “Repurchase Option”) if certain conditions have been fulfilled. The option relating to the repurchase of the 20% of the above shares has been expired as at 30 September 2011, and the option relating to the repurchase of the remaining 80% of the above shares will be expired upon the earlier of: (i) the IPO of KIS Holdings, or (ii) the fourth anniversary from the date of 31 March 2011.

- (iii) The directors of the Company consider that the provision of services was made according to the published prices and conditions offered to the major customers of the Group.

- (iv) The directors of the Company consider that the purchases were made according to the published prices and conditions offered to the major customers of the supplier.

(b) Outstanding balances with related parties:

The Group had the following outstanding balances with related parties as at the end of the reporting period:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Due from related parties:		
Loans to non-controlling shareholders of subsidiaries	(i) <u>131,979</u>	<u>137,502</u>
Due from related parties included in trade receivables:		
Receivables from companies whose parent has a significant influence on the Company	<u>12,614</u>	<u>2,140</u>

13. Related party transactions (continued)

(b) Outstanding balances with related parties: (continued)

- (i) A loan of HKD145.9 million (equivalent to RMB118.9 million) was due from non-controlling shareholder of a subsidiary. Details are included in note (a)(i) above.

A loan of RMB13.1 million was due from non-controlling shareholder of a subsidiary. This loan bears interest at a rate of HIBOR plus 1.5% per annum and will be repaid in four years since June 2009. The loan was secured by certain equity interest of the subsidiary held by the aforementioned shareholders.

(c) Compensation of key management personnel of the Group (including directors' remuneration):

	For the three months ended 30 June		For the six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Salaries, allowances, and benefits in kind	2,862	2,888	5,721	6,915
Pension scheme contributions	76	41	127	90
Share-based compensation costs	3,530	1,319	6,652	3,130
Total compensation paid to key management personnel	<u>6,468</u>	<u>4,248</u>	<u>12,500</u>	<u>10,135</u>

14. Events after the reporting period

On 3 July 2012, the Group's subsidiary, Kingsoft Office Software Holdings Limited ("KOS Holdings") issued 200,000,000 shares (representing 21% of enlarged equity interest of KOS Holdings) to WPS Holdings Limited ("WPS Holdings"), which is owned by some founding employees, at a subscription price of USD0.03 per share for an aggregate consideration of approximately USD6.0 million pursuant to an ordinary share subscription agreement dated 21 May 2012 entered into by KOS Holdings, WPS Holdings and the founding employees. Part of the consideration amounting to USD4.5 million was funded by a loan advanced from the Company, the parent of KOS Holdings, which bears interest at a rate of Hong Kong Interbank Offered Rate plus 1.3%, and was secured by 200,000,000 shares of KOS Holdings held by WPS Holdings. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied.

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	30 September 2010	31 December 2010	31 March 2011	30 June 2011	30 September 2011	31 December 2011	31 March 2012	30 June 2012
Online games								
Daily Average Peak Concurrent Users	773,349	771,352	684,023	653,085	608,607	661,774	631,485	615,221
Monthly Average Paying Accounts	1,325,056	1,347,806	1,258,525	1,250,771	1,186,481	1,326,071	1,330,868	1,459,883
Monthly Average Revenue per Paying User (RMB)	<u>39</u>	<u>41</u>	<u>43</u>	<u>46</u>	<u>46</u>	<u>47</u>	<u>47</u>	<u>47</u>

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue:		
Entertainment software	399,818	336,380
Application software	202,827	157,863
Others	12,407	—
	<u>615,052</u>	<u>494,243</u>
Cost of revenue	<u>(90,531)</u>	<u>(67,398)</u>
Gross profit	524,521	426,845
Research and development costs, net of government grants	(174,317)	(135,755)
Selling and distribution costs	(71,310)	(51,021)
Administrative expenses	(70,725)	(54,443)
Share-based compensation costs	(22,244)	(11,231)
Other income and gains	9,678	7,840
Other expenses	<u>(3,018)</u>	<u>(3,110)</u>
Operating profit	192,585	179,125
Finance income	46,359	26,838
Finance costs	(3,942)	(924)
Share of profits and losses of:		
Jointly-controlled entities	4,646	(1,478)
Associates	<u>(930)</u>	<u>(2,591)</u>
Profit before tax	238,718	200,970
Income tax expense	<u>(29,976)</u>	<u>(26,815)</u>
Profit for the period	<u>208,742</u>	<u>174,155</u>
Attributable to:		
Owners of the parent	199,423	170,809
Non-controlling interests	<u>9,319</u>	<u>3,346</u>
	<u>208,742</u>	<u>174,155</u>
	RMB	RMB
	(Unaudited)	(Unaudited)
Earnings per share attributable to ordinary equity holders of the parent		
Basic	0.1748	0.1532
Diluted	0.1720	0.1471

	For the three months ended		
	30 June 2012 RMB'000 (Unaudited)	31 March 2012 RMB'000 (Unaudited)	30 June 2011 RMB'000 (Unaudited)
Revenue:			
Entertainment software	208,728	191,090	173,004
Application software	112,073	90,754	89,963
Others	1,666	10,741	—
	<u>322,467</u>	<u>292,585</u>	<u>262,967</u>
Cost of revenue	<u>(40,877)</u>	<u>(49,654)</u>	<u>(34,608)</u>
Gross profit	281,590	242,931	228,359
Research and development costs, net of government grants	(86,973)	(87,344)	(61,447)
Selling and distribution costs	(40,104)	(31,206)	(31,176)
Administrative expenses	(36,753)	(33,972)	(26,088)
Share-based compensation costs	(14,092)	(8,152)	(3,699)
Other income and gains	7,418	2,260	6,655
Other expenses	(2,305)	(713)	(2,920)
Operating profit	108,781	83,804	109,684
Finance income	24,152	22,207	13,791
Finance costs	(1,997)	(1,945)	(806)
Share of profits and losses of:			
Jointly-controlled entities	2,681	1,965	(625)
Associates	—	(930)	(815)
Profit before tax	133,617	105,101	121,229
Income tax expense	<u>(15,197)</u>	<u>(14,779)</u>	<u>(15,334)</u>
Profit for the period	<u>118,420</u>	<u>90,322</u>	<u>105,895</u>
Attributable to:			
Owners of the parent	111,897	87,526	103,915
Non-controlling interests	<u>6,523</u>	<u>2,796</u>	<u>1,980</u>
	<u>118,420</u>	<u>90,322</u>	<u>105,895</u>
	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
Earnings per share attributable to ordinary equity holders of the parent			
Basic	0.0979	0.0768	0.0927
Diluted	0.0964	0.0757	0.0893

MANAGEMENT DISCUSSION AND ANALYSIS

First Half of 2012 Compared to First Half of 2011

Revenue

Revenue for the first half of 2012 increased 24% year-over-year to RMB615.1 million. Revenue from online game and application software business represented 65% and 33%, respectively, of the Group's total revenue for the first half of 2012.

Revenue from online game for the first half of 2012 increased 19% year-over-year to RMB399.8 million. The year-over-year increase was primarily driven by the strong performance of JX Online III, one of our core games.

Revenue from the application software business for the first half of 2012 increased 28% year-over-year to RMB202.8 million. The increase was mainly due to: i) continued increasing advertising revenue from Kingsoft Internet Security; and ii) strong sales from Kingsoft WPS Office, benefiting from the improved awareness of copyright protection in China and the continued improvement of the product.

Cost of Revenue and Gross Profit

Cost of revenue for the first half of 2012 increased 34% year-over-year to RMB90.5 million. The increase in cost of revenue was mainly due to higher bandwidth costs driven by the development of Kingsoft Internet Security and Kingsoft Cloud.

Gross profit for the first half of 2012 increased 23% year-over-year to RMB524.5 million. The Group's gross profit margin decreased by one percentage point year-over-year to 85%.

Research and Development (“R&D”) Costs

R&D costs, net of government grants, for the first half of 2012 increased 28% year-over-year to RMB174.3 million. The year-over-year increase was attributable to the increases in staff headcount and higher salaries and benefits.

The following table sets forth a breakdown of R&D costs for the six months ended 30 June 2012 and 30 June 2011:

	For the six months ended	
	30 June 2012 RMB'000 (Unaudited)	30 June 2011 RMB'000 (Unaudited)
Staff costs	141,201	104,673
Depreciation & Amortisation	15,019	16,996
Others	21,601	19,654
	<hr/> 177,821	<hr/> 141,323
Less: Capitalised software costs (excluding share-based compensation costs)	(4,322)	(2,986)
Add: Amortisation of capitalised software costs	4,462	10,680
Less: Government grants for research and development activities	(3,644)	(13,262)
	<hr/> 174,317 <hr/>	<hr/> 135,755 <hr/>
Total	174,317	135,755

Selling and Distribution Costs

Selling and distribution costs for the first half of 2012 increased 40% year-over-year to RMB71.3 million. The increase was mainly attributable to marketing promotional activities for the launch of new expansion packs for our existing games and open beta testing for our new games.

Administrative Expenses

Administrative expenses for the first half of 2012 increased 30% year-over-year to RMB70.7 million. The year-over-year increase was primarily due to the increased staff-related costs.

Share-based Compensation Costs

Share-based compensation costs for the first half of 2012 increased 98% year-over-year to RMB22.2 million. This increase was primarily due to the restricted shares and options granted to the directors at the end of the fourth quarter of 2011.

Operating Profit Excluding Share-based Compensation Costs

Operating Profit excluding share-based compensation costs for the first half of 2012 increased 13% year-over-year to RMB214.8 million as a result of the combination of above reasons. The operating profit margin excluding share-based compensation costs decreased four percentage points year-over-year to 35%.

Finance Income

Finance income for the first half of 2012 increased 73% year-over-year to RMB46.4 million. The year-over-year increase was due to higher interest rate and increased deposit balance.

Income Tax Expense

Income tax expense for the first half of 2012 increased 12% year-over-year to RMB30.0 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) decreased two percentage points year-over-year to 11%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent for the first half of 2012 increased 17% year-over-year to RMB199.4 million.

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

Profit attributable to owners of the parent before share-based compensation costs, 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 Group'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 increased 20% year-over-year to RMB218.8 million. The net profit margin excluding the effect of share-based compensation costs was 36% and 37% for the six months ended 30 June 2012 and 30 June 2011, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 30 June 2012, the group had majority of financial resources in the forms of cash and cash equivalents, time deposits with initial term of over three months amounting to RMB807.0 million, RMB1,325.0 million, respectively, which totally represented 68% of the Group's total assets.

As at 30 June 2012, the Group's gearing ratio, which represents total liabilities divided by total assets, was 26%, decreased from 27% as at 31 December 2011. As at 30 June 2012, the Group had HKD510.0 million (equivalent to RMB415.8 million) bank loans.

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 30 June 2012, RMB156.9 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) as at 30 June 2012 was RMB154.8 million compared to RMB181.5 million as at 31 December 2011. This decrease was primarily due to the sales promotion of prepaid card in the year end of 2011.

Net Cash Generated from Operating Activities

Cash generated by the operating activities reflects the Group’s profit for the six month period, 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, other payables and accruals.

Net cash generated by operating activities was RMB148.5 million and RMB191.3 million for the six months ended 30 June 2012 and 30 June 2011, respectively.

Capital Expenditure

Capital expenditures represent cash payments for acquisition of property, land use right, fixed assets and intangible assets. Cash used for capital expenditures was RMB48.0 million and RMB85.0 million for the six months ended 30 June 2012 and 30 June 2011, respectively.

Second Quarter of 2012 Compared to First Quarter of 2012 and Second Quarter of 2011

Revenue

Revenue for the second quarter of 2012 increased 10% quarter-over-quarter and 23% year-over-year to RMB322.5 million. Revenue from online game and application software business represented 65% and 35%, respectively, of the Group's total revenue for the second quarter of 2012.

Revenue from online game for the second quarter of 2012 increased 9% quarter-over-quarter and 21% year-over-year to RMB208.7 million. The quarter-over-quarter and year-over-year increase was primarily due to the continued popularity of our flagship game, JX Online III.

Daily average peak concurrent users ("ADPCU") for the Group's online games for the second quarter of 2012 decreased 3% quarter-over-quarter and 6% year-over-year to 0.62 million. The decline was primarily due to the adverse impact of online game control policies conducted by the Vietnamese Government. Monthly average paying accounts ("APA") for the Group's online games for the second quarter of 2012 increased 10% quarter-over-quarter and 17% year-over-year to 1.46 million. This quarter-over-quarter increase primarily reflected the rapid growth of paying accounts for JX Online III driven by the release of expansion pack, "Light Up The Fire" (燭火燎天) in April 2012.

The monthly ARPU for the Group's online games for the second quarter of 2012 held flat quarter-over-quarter and increased 2% year-over-year to RMB47.

Revenue from the application software business for the second quarter of 2012 increased 23% quarter-over-quarter and 25% year-over-year to RMB112.1 million. The sequential and year-over-year increase was mainly due to the combination of: i) the constantly rising advertising revenue from Kingsoft Internet Security; and ii) the growing sales of Kingsoft WPS Office.

Cost of Revenue and Gross Profit

Cost of revenue for the second quarter of 2012 decreased 18% quarter-over-quarter and increased 18% year-over-year to RMB40.9 million. The decrease was mainly due to the amortisation of capitalised television program production costs based on the progress of the revenue recognised during the first quarter of 2012.

Gross profit for the second quarter of 2012 increased 16% quarter-over-quarter and 23% year-over-year to RMB281.6 million. The Group's gross profit margin increased by four percentage points quarter-over-quarter and held flat year-over-year to 87%.

R&D Costs

R&D costs, net of government grants, for the second quarter of 2012 held flat quarter-over-quarter and increased 42% year-over-year to RMB87.0 million. The year-over-year increase was primarily due to an increase in staff costs.

The following table sets forth a breakdown of R&D costs for three months ended 30 June 2012, 31 March 2012 and 30 June 2011:

	For the three months ended		
	30 June 2012 RMB'000 (Unaudited)	31 March 2012 RMB'000 (Unaudited)	30 June 2011 RMB'000 (Unaudited)
Staff costs	70,919	70,282	52,444
Depreciation & Amortisation	7,390	7,629	8,504
Others	10,942	10,659	8,423
	89,251	88,570	69,371
Less: Capitalised software costs (excluding share-based compensation costs)	(2,417)	(1,905)	(1,453)
Add: Amortisation of capitalised software costs	2,230	2,232	4,665
Less: Government grants for research and development activities	(2,091)	(1,553)	(11,136)
Total	86,973	87,344	61,447

Selling and Distribution Costs

Selling and distribution costs for the second quarter of 2012 increased 29% quarter-over-quarter and year-over-year to RMB40.1 million. The sequential and year-over-year quarterly increases were attributable to the marketing promotions for the release of expansion packs for JX Online III and open beta testing of our new games.

Administrative Expenses

Administrative expenses for the second quarter of 2012 increased 8% quarter-over-quarter and 41% year-over-year to RMB36.8 million.

Share-based Compensation Costs

Share-based compensation costs for the second quarter of 2012 increased 73% quarter-over-quarter and increased 281% year-over-year to RMB14.1 million.

Operating Profit Excluding Share-based Compensation Costs

Operating Profit excluding share-based compensation costs for the second quarter of 2012 increased 34% quarter-over-quarter and 8% year-over-year to RMB122.9 million as a result of the combination of above reasons. The operating profit margin excluding share-based compensation costs increased seven percentage points quarter-over-quarter and decreased five percentage points year-over-year to 38%.

Finance Income

Finance income for the second quarter of 2012 increased 9% quarter-over-quarter and 75% year-over-year to RMB24.2 million.

Income Tax Expense

Income tax expense for the second quarter of 2012 increased 3% quarter-over-quarter and decreased 1% year-over-year to RMB15.2 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) decreased three percentage points quarter-over-quarter and two percentage point year-over-year to 10%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent for the second quarter of 2012 increased 28% quarter-over-quarter and 8% year-over-year to RMB111.9 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 increased 30% quarter-over-quarter and 15% year-over-year to RMB123.8 million. The net profit margin excluding the effect of share-based compensation costs was 38%, 32% and 41% for the three months ended 30 June 2012, 31 March 2012 and 30 June 2011, respectively.

BUSINESS REVIEW AND OUTLOOK

Dr. Hongjiang Zhang, CEO of Kingsoft, commented, “We are pleased to report strong top and bottom line growths on a quarter-over-quarter and year-over-year basis for the second quarter of 2012. With quarterly revenue exceeding RMB300 million, we see a solid and healthy growth in revenue from all of our major business lines.”

Kingsoft Internet Security (“KIS”) business reached a new milestone in its monetization capability. Supported by the expanded user base of all product lines, the advertising revenue surged to a historical level. This milestone marks the successful transformation of KIS business. On 19 June, we officially launched our internet browser, codenamed Cheetah. We also launched a number of mobile applications, such as “China Survival Guide”, in the past quarter, that have gained overwhelmingly positive feedbacks.

In July, Kingsoft Japan launched a market campaign to promote the free model of Kingsoft Internet Security services in Japanese market aiming at expanding our user base in Japan.

Kingsoft WPS Office continued to deliver strong financial results in the second quarter of 2012. The monthly active user base of Kingsoft WPS Office has expanded over 30 million. On 29 July 2012, Kingsoft WPS Office for android jumped to the first place in the free “business” application category in Google Play. The latest worldwide statistics from Google Play shows that after having gained and retained the first place in the seven countries and regions, including Britain, Germany, Australia, and Taiwan, WPS Office for android also jumped to the first place in a number of major markets in July, including the United States, France, Canada, Singapore, and Hong Kong. The outstanding performances have demonstrated that WPS’s strategic transformation to mobile internet and expanding to international market has gained solid ground.

Our game portfolio has continued to grow and perform well in the second quarter of 2012. In particular, JX Online III has reached a historical record in term of popularity and revenue, thanks to the release of the new expansion pack, “Light Up The Fire (燭火燎天)”, in April, and the continued focus on improving user experiences. The release of our first summer expansion pack, “Wakened Dragon of Erhai (洱海驚龍)”, for JX Online III in July 2012 has further consolidated and enhanced the high popularity of the game. Also, JX Online World has demonstrated solid growth in the second quarter since the release of expansion pack, “Heroic Western Dragon (西域龍魂)”, in March.

The open beta testing of our new 3D MMO, “Legend of the Holy World (聖道傳奇)”, was started in July and has been well received by gamers. “Legend of Moon (月影傳說)” is targeting at commercial launch in September following the final round testing in April. In addition, “Ma La Jiang Hu (麻辣江湖)”, a Q version of 3D role-playing game, is scheduled for open beta testing later this year. To further extend our game pipeline, several web-games and mobile games are also under development in full swing, and one of which is planned for release in the second half of 2012. Overall, we will see a solid growth in both our existing and new games in 2012.

In our Kingsoft Cloud initiative, we continue to see the growth of user base of Kuaipan, our personal data storage service, resulting from continued improvement in user experiences and new features. We entered a strategic partnership with Skyworth TV to provide cloud storage service to Skyworth Cloud TV users. The partnership with Xiaomi has led to the release of personal data storage service on Xiaomi phones. We have also expanded and will continue to push our partnerships with application developers who develop mobile apps based on the open API of our cloud storage platform.

“With the impressive growth of JX Online III, our new games pipeline, the successful transformation and turnaround of KIS business, and the continued strong sales of WPS Office and its fast expansion into mobile devices, we believe we have laid a solid foundation for a successful second half of 2012.” Dr Zhang concluded.

OTHER INFORMATION

Changes of Directors’ Information Under Rule 13.51B(1) of the Listing Rules

Below are the changes of directors’ information required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) since the date of the Company’s 2011 annual report:

NAME OF DIRECTOR	DETAILS OF CHANGES
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Tat Joel, Chang	Resignation as an independent non-executive director, the chairman of the Audit Committee and a member of the remuneration committee of the Company on 25 May 2012
To Thomas Hui	Appointment as an independent non-executive director, the chairman of the Audit Committee and a member of the remuneration committee of the Company on 25 May 2012
Mr. Shun Tak Wong	Resignation as an executive director and the chief financial officer of the Company on 15 July 2012

Employee and Remuneration Policies

As at 30 June 2012, the Group had 2,577 employees (30 June 2011: 2,484), most of whom are based in Beijing and Zhuhai, the PRC. The number of employees employed by the Group varies from time to time depending on need. Employee remuneration is determined in accordance with prevailing industry practice and employees’ educational backgrounds, experiences and performance. The remuneration policy and package of the Group’s employees are periodically reviewed. Apart from pension funds, in-house training programs, discretionary bonuses, medical insurance and mandatory provident fund, share awards and share options may be granted to employees according to the assessment of individual performance.

The total remuneration cost (including capitalized remuneration cost) incurred by the Group for the six months ended 30 June 2012 was RMB233.1 million (for the six months ended 30 June 2011: RMB173.7 million).

Purchase, Sale and Redemption of the Company's Listed Securities

None of the Company, its subsidiaries and the trustee of the Share Award Scheme had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the period under review.

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. Our Audit Committee is comprised of three independent non-executive directors, namely Mr. To Thomas Hui (chairman), Mr. Guangming George Lu and Mr. Chuan Wang.

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, together with our external auditors has reviewed the Group's unaudited interim financial information for the three and six months ended 30 June 2012.

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2012.

Code on Corporate Governance Practices

The revised Appendix 14, Corporate Governance Code and Corporate Governance Report (the "**Revised Code**") took effect on 1 April 2012 and applies to financial reports covering periods after 1 April 2012. 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 the Code on Corporate Governance Practices (for the period from 1 January 2012 to 31 March 2012) and Revised Code (for the period from 1 April 2012 to 30 June 2012) contained in Appendix 14 to the Listing Rules except for the code provision A.6.7 and C.1.2 of the Revised Code. The code provision A.6.7 of the Revised Code is regarding non-executive directors' attendance on general meetings. Non-executive directors Mr. Pak Kwan Kau and Mr. Chi Ping Lau, and independent non-executive directors Mr. Tat Joel, Chang, Mr. Guangming George Lu and Mr. Chuan Wang did not attend the annual general meeting of the Company held on 23 May 2012 as they were traveling at that time attending other engagements. The code provision C.1.2 of the Revised 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.

Publication of Interim Results and Interim Report

This announcement, containing the relevant information required by the Listing Rules, is published on the Company's website (www.kingsoft.com) and the website of the Stock Exchange (www.hkex.com.hk). The Company's interim report will be available on the above websites and dispatched to our shareholders in due course.

Appreciation

On behalf of the Board, I would like to express our sincere thanks to our shareholders and investors for their continuous support and confidence in us. I would like to thank our employees for their hard work and valuable contributions which are the core elements of the Company's success.

By Order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 23 August 2012

As at the date of this announcement, the Executive Directors are Messrs. HongJiang ZHANG, and Tao ZOU; the Non-executive Directors are Messrs. Jun LEI, Pak Kwan KAU and Chi Ping LAU; and the Independent Non-Executive Directors are Messrs. To Thomas HUI, Guangming George LU and Chuan WANG.