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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012. 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

	For the year ended			Year over Year change %
	31 December 2012 RMB'000	31 December 2012** HKD'000	31 December 2011 RMB'000	
Revenue	1,411,161	1,740,455	1,020,508	38%
Profit attributable to owners of the parent *	432,589	533,534	324,729	33%
	RMB cent	HKD cent	RMB cent	
Basic earnings per share	37.85	46.68	28.86	31%
Diluted earnings per share	37.15	45.82	27.90	33%

* Profit attributable to owners of the parent before share-based compensation costs is RMB473.0 million and RMB340.6 million for the years ended 31 December 2012 and 31 December 2011, respectively, representing an increase of 39% year-over-year.

** The conversion of Renminbi (“**RMB**”) into Hong Kong Dollar (“**HKD**”) in this release is based on RMB0.8108 to HKD1.00 as published by the Bank of China on 31 December 2012. 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, realized, or settled into HKD at that rate on 31 December 2012, or at any other rate.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.11 per share for the year ended 31 December 2012 (2011: HKD0.10 per share). The final dividend, if approved by the shareholders at the annual general meeting (“AGM”) of the Company to be held on 23 May 2013, will be payable on 19 June 2013 to the shareholders whose names appear on the register of members of the Company on 3 June 2013.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

		As at 31 December	
	Notes	2012	2011
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		371,213	395,328
Lease prepayments		43,201	44,142
Goodwill		14,559	14,559
Other intangible assets		53,261	68,170
Long-term prepayment		—	80,109
Investments in jointly-controlled entities		20,122	10,622
Investments in associates		—	930
Available-for-sale investments		7,182	4,990
Other financial asset		27,822	11,812
Loan receivables		5,864	4,500
Deferred tax assets		32,962	27,547
		<u>576,186</u>	<u>662,709</u>
Current assets			
Inventories		17,006	3,311
Trade receivables	10	130,346	80,366
Prepayments, deposits and other receivables	11	120,476	90,956
Due from related parties		161,262	137,502
Deferred cost		113	905
Pledged deposit		19,000	85,000
Cash and cash equivalents		2,416,259	1,953,770
		<u>2,864,462</u>	<u>2,351,810</u>
Assets of a disposal group classified as held for sale	14	200,621	—
		<u>3,065,083</u>	<u>2,351,810</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012 (CONTINUED)**

		As at 31 December	
		2012	2011
	Notes	RMB'000	RMB'000
Current liabilities			
Trade payables	12	23,089	16,568
Interest-bearing bank loans	13	413,559	346,655
Other payables and accruals		298,827	219,400
Deferred revenue		185,462	161,210
Income tax payable		11,022	17,221
		931,959	761,054
Liabilities directly associated with the assets classified as held for sale	14	753	—
		932,712	761,054
Net current assets		2,132,371	1,590,756
Total assets less current liabilities		2,708,557	2,253,465
Non-current liabilities			
Deferred revenue		14,252	20,321
Deferred tax liabilities		19,373	20,024
		33,625	40,345
Net assets		2,674,932	2,213,120
Equity			
Equity attributable to owners of the parent			
Issued capital		4,690	4,677
Share premium account		347,965	440,974
Shares held for share award scheme		(82,127)	(93,754)
Statutory reserves		156,462	146,654
Employee share-based reserve		160,833	145,435
Capital reserve		275,739	253,914
Foreign currency translation reserve		(75,353)	(72,015)
Retained earnings		1,624,488	1,201,707
Proposed final dividend	8	102,132	92,241
		2,514,829	2,119,833
Non-controlling interests		160,103	93,287
Total equity		2,674,932	2,213,120

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Year ended 31 December	
		2012 RMB'000	2011 RMB'000
Revenue:			
Entertainment software		851,402	689,519
Application software		544,064	326,098
Others		15,695	4,891
		<u>1,411,161</u>	<u>1,020,508</u>
Cost of revenue		(186,939)	(147,812)
		<u>1,224,222</u>	<u>872,696</u>
Gross profit			
Research and development costs, net of government grants		(385,409)	(303,848)
Selling and distribution costs		(234,115)	(125,873)
Administrative expenses		(147,954)	(127,498)
Share-based compensation costs	6	(48,472)	(17,266)
Other income and gains		28,609	44,051
Other expenses		(22,971)	(10,747)
		<u>413,910</u>	<u>331,515</u>
Operating profit			
Fair value gain/(loss) on a financial asset at fair value through profit or loss		16,010	(1,973)
Finance income		97,973	65,130
Finance costs		(8,702)	(3,461)
Share of profits and losses of:			
Jointly-controlled entities		9,532	(1,945)
Associates		(930)	(4,070)
		<u>527,793</u>	<u>385,196</u>
Profit before tax	5		
Income tax expense	7	(61,359)	(50,162)
		<u>466,434</u>	<u>335,034</u>
Profit for the year			
Attributable to:			
Owners of the parent		432,589	324,729
Non-controlling interests		33,845	10,305
		<u>466,434</u>	<u>335,034</u>
		RMB	RMB
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic		0.3785	0.2886
Diluted		0.3715	0.2790

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit for the year	466,434	335,034
Other comprehensive loss:		
Exchange differences on translation of foreign operations	<u>(5,613)</u>	<u>(3,885)</u>
Other comprehensive loss for the year, net of tax	<u>(5,613)</u>	<u>(3,885)</u>
Total comprehensive income for the year	<u><u>460,821</u></u>	<u><u>331,149</u></u>
Attributable to:		
Owners of the parent	429,251	321,339
Non-controlling interests	<u>31,570</u>	<u>9,810</u>
	<u><u>460,821</u></u>	<u><u>331,149</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to owners of the parent											
	Issued capital	Share premium account	Shares held for award scheme	Statutory reserves	Employee share-based reserve	Capital reserve	Foreign currency translation reserve	Retained earnings	Proposed final dividend	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
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
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 year	—	—	—	—	—	—	—	324,729	—	324,729	10,305	335,034
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(3,390)	—	—	(3,390)	(495)	(3,885)
Total comprehensive income for the year	—	—	—	—	—	—	(3,390)	324,729	—	321,339	9,810	331,149
Approved and paid final and special dividends in respect of the previous year	—	1,043	—	—	—	—	—	—	(376,000)	(374,957)	—	(374,957)
Share purchased for share award scheme	—	—	(47,420)	—	—	—	—	—	—	(47,420)	—	(47,420)
Share-based compensation costs	—	—	—	—	9,381	—	—	—	—	9,381	1,432	10,813
Profit appropriations	—	—	—	6,597	—	—	—	(6,597)	—	—	—	—
Exercise of share options	150	123,931	—	—	(60,153)	—	—	—	—	63,928	—	63,928
Vested awarded shares transferred to employees	—	—	11,439	—	(11,439)	—	—	—	—	—	—	—
Proposed final 2011 dividend	—	(92,241)	—	—	—	—	—	—	92,241	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	237,684	—	—	—	237,684	57,862	295,546
At 31 December 2011	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

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012**

	2012	2011
	RMB'000	RMB'000
Net cash flows from operating activities	555,946	451,768
Net cash flows used in investing activities	(1,063,120)	(616,353)
Net cash flows from financing activities	9,943	179,199
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(497,231)	14,614
Cash and cash equivalents at beginning of year	1,199,313	1,186,711
Effect of foreign exchange rate changes, net	(5,583)	(2,012)
	<hr/>	<hr/>
Cash and cash equivalents at end of year	696,499	1,199,313
Time deposits with original maturity of over three months when acquired	1,837,440	754,457
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Less: cash and cash equivalents attributable to a disposal group	(117,680)	—
Cash and cash equivalents as stated in the consolidated statement of financial position	2,416,259	1,953,770
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NOTES TO FINANCIAL STATEMENTS

1. Corporate information

Kingsoft Corporation Limited was incorporated under the Companies Act of the British Virgin Islands on 20 March 1998. On 15 November 2005, it was redomiciled to Cayman Island under the Company Law (2004 revision) of the Cayman Islands. The registered office of the Company is located at Clifton House, 75 Fort Street, George Town, Grand Cayman, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 9 October 2007.

During the year, the Group was 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 and internet browser, provision of information security service across devices, and provision of online advertising services; and
- research, development and distribution of office application software, provision of cloud storage, cloud computation and dictionary services across devices, and provision of online advertising services.

2. Basis of preparation

These financial statements have been prepared under the historical cost convention, except for other financial asset, which has been measured at fair value. Disposal groups held for sale are stated at the lower of their 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 revised IFRSs for the first time for the current year's financial statements.

IFRS 7 Amendments *Disclosures — Transfers of Financial Assets Requirements*

IAS 12 Amendments *Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRS has had no significant financial effect on these financial statements.

4. Segment information

For management purposes, the Group is organized 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 service 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 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 and fair value gain/(loss) from the Group's financial instruments, 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.

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
Segment revenue:				
Sales to external customers	<u>860,651</u>	<u>336,741</u>	<u>213,769</u>	<u>1,411,161</u>
Segment results	436,451	70,670	97,577	604,698
<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 asset at fair value through profit or loss				16,010
Finance income				97,973
Finance costs				(8,702)
Share of profits and losses of:				
Jointly-controlled entities				9,532
Associates				(930)
Profit before tax				<u><u>527,793</u></u>
Other segment information:				
Depreciation and amortization	<u>38,724</u>	<u>11,206</u>	<u>27,030</u>	<u>76,960</u>

4. Segment information (continued)

Year ended 31 December 2011	Entertainment software RMB'000	Information security software RMB'000	Other application software RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	<u>694,410</u>	<u>194,548</u>	<u>131,550</u>	<u>1,020,508</u>
Segment results	352,798	15,976	74,201	442,975
<i>Reconciliation:</i>				
Administrative expenses				(127,498)
Share-based compensation costs				(17,266)
Other income and gains				44,051
Other expenses				(10,747)
Fair value loss on a financial asset at fair value through profit or loss				(1,973)
Finance income				65,130
Finance costs				(3,461)
Share of losses of:				
Jointly-controlled entities				(1,945)
Associates				(4,070)
Profit before tax				<u>385,196</u>
Other segment information:				
Depreciation and amortization	<u>37,732</u>	<u>19,306</u>	<u>20,452</u>	<u>77,490</u>

Geographical information

(a) Revenue from external customers:

	2012 RMB'000	2011 RMB'000
Mainland China	1,208,415	826,147
Hong Kong	52,811	54,229
Japan	105,809	83,294
Other countries	<u>44,126</u>	<u>56,838</u>
Total	<u>1,411,161</u>	<u>1,020,508</u>

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

4. Segment information (continued)

Geographical information (continued)

(b) *Non-current assets:*

	2012	2011
	RMB'000	RMB'000
Mainland China	479,988	601,228
Japan	2,009	1,540
Other countries	20,359	11,092
	<u>502,356</u>	<u>613,860</u>
Total	<u>502,356</u>	<u>613,860</u>

The non-current assets information above is based on the location of 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):

	Notes	2012 RMB'000	2011 RMB'000
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		362,957	286,238
Social insurance costs and staff welfare		73,074	57,047
Share-based compensation costs		48,472	17,266
Pension plan contributions		33,215	26,538
		<u>517,718</u>	<u>387,089</u>
Minimum lease payments under operating leases:			
Bandwidth and server hosting		61,377	34,218
Buildings		27,189	19,542
		<u>88,566</u>	<u>53,760</u>
Cost of inventory sold		15,419	11,272
Depreciation	(a)	60,723	63,547
Amortization of lease prepayments	(a)	941	941
Amortization of other intangible assets	(a)	26,700	27,940
Write-down of inventories**		11,314	1,527
Loss on disposal of items of property, plant and equipment**		272	899
Foreign exchange differences, net**		591	(2,807)
Impairment of other intangible assets**		5,725	—
Impairment of investments in jointly-controlled entities**		—	5,000
Impairment of loans to shareholders of jointly-controlled entities**		—	2,000
Donation**		1,553	500
Auditors' remuneration		9,248	9,268
Interest on bank loans		8,702	3,461
Government grants:			
— Recorded as a reduction to research and development costs*		(12,831)	(21,781)
— Recorded in other income and gains		(23,318)	(35,497)
		<u>(36,149)</u>	<u>(57,278)</u>
Gain on deemed disposal of an associate		—	(1,500)
Gain on disposal of an available-for-sale investment		—	(1,440)
Gain on disposal of a subsidiary		—	(828)
Fair value (gain)/loss on a financial asset at fair value through profit or loss		(16,010)	1,973
Interest income from loans to related parties		(2,974)	(2,040)
Bank interest income		(94,999)	(63,090)

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, amortization of lease prepayments and other intangible assets

	2012 RMB'000	2011 RMB'000
Included in:		
Cost of revenue	33,425	26,558
Research and development costs	40,239	46,979
Selling and distribution costs	3,296	3,953
Administrative expenses	11,404	14,938
	<u>88,364</u>	<u>92,428</u>

6. Share-based compensation costs

(a) Share options 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 2012 and 2011.

6. Share-based compensation costs (continued)

(a) Share options schemes (continued)

2004 and 2007 Pre-IPO Share Option Schemes (continued)

	Group and Company			
	2012 Number of share options	2012 WAEP USD per share	2011 Number of share options	2011 WAEP USD per share
2004 Scheme				
Outstanding at 1 January	5,143,500	0.0945	12,480,500	0.0789
Exercised during the year	<u>(2,200,500)</u>	0.1767	<u>(7,337,000)</u>	0.0680
Outstanding at 31 December	<u>2,943,000</u>	0.0331	<u>5,143,500</u>	0.0945
Exercisable at 31 December	<u>2,943,000</u>	0.0331	<u>5,143,500</u>	0.0945
2007 Scheme				
Outstanding at 1 January	17,776,800	0.2432	57,017,100	0.2411
Forfeited during the year	—	—	(104,000)	0.2400
Exercised during the year	<u>(3,693,000)</u>	0.2412	<u>(39,136,300)</u>	0.2401
Outstanding at 31 December	<u>14,083,800</u>	0.2438	<u>17,776,800</u>	0.2432
Exercisable at 31 December	<u>14,083,800</u>	0.2438	<u>17,776,800</u>	0.2432
Total outstanding at 31 December	<u>17,026,800</u>	0.2074	<u>22,920,300</u>	0.2099
Total exercisable at 31 December	<u>17,026,800</u>	0.2074	<u>22,920,300</u>	0.2099

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 options schemes (continued)

2011 Share Option Scheme (continued)

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

	2012 Number of share options	Group and Company		2011 WAEP HKD per share
		2012 WAEP HKD per share	2011 Number of share options	
Outstanding at 1 January	12,500,000	2.89	—	—
Granted during the year	3,000,000	3.28	12,500,000	2.89
Forfeited during the year	<u>(5,000,000)</u>	2.89	<u>—</u>	—
Outstanding at 31 December	<u>10,500,000</u>	3.00	<u>12,500,000</u>	2.89
Exercisable at 31 December	<u>1,500,000</u>	—	<u>—</u>	—

6. Share-based compensation costs (continued)

(b) Share Award Scheme

On the 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 2012 and 2011.

	2012	2011
	Number of Awarded Shares	Number of Awarded Shares
Outstanding as at 1 January	16,207,004	16,596,801
Granted during the year	8,092,000	11,870,000
Forfeited during the year	(3,224,334)	(4,214,202)
Cancelled during the year	—	(1,440,600)
Exercised and transferred during the year	(3,430,000)	(6,604,995)
	<u>17,644,670</u>	<u>16,207,004</u>
Outstanding as at 31 December		
	<u>2,046,000</u>	<u>1,024,000</u>
Exercisable as at 31 December		

6. 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 the KIS Share Award Scheme, in which selected employees of KIS Holdings and its subsidiaries (“**KIS Group**”) are entitled to participate. 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 (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.

The vesting period of the awarded shares is determined by the board of KIS Group.

During the year ended 31 December 2012, 29,270,000 shares (2011: 51,550,000 shares) were awarded to a number of employees. 4,212,500 awarded shares were forfeited during the year ended 31 December 2012 (2011: 1,680,000 shares).

(d) Share Award Scheme adopted by KOS Holdings

On 3 December 2012 (the “**KOS Adoption Date**”), the directors of KOS Holdings, a subsidiary of the Company, approved and adopted the KOS Share Award Scheme, in which selected employees of KOS Holdings and its subsidiaries (“**KOS Group**”) are entitled to participate.

During the year ended 31 December 2012, 30,000,000 shares were awarded to a number of employees, of which 6,000,000 shares were vested, and the remain shares will be vested by several tranches over a vesting period not less than four years. No shares were forfeited during the year ended 31 December 2012.

7. Income tax

PRC corporate income tax represents the tax charged on the estimated assessable profits arising in 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% (2011: 16.5%) on estimated assessable profits arising in Hong Kong during the year ended 31 December 2012.

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 2012 (2011: 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 2012 and 2011 are:

	2012 RMB'000	2011 RMB'000
Current — Mainland China	55,059	52,689
Current — Hong Kong	6,711	4,907
Current — Elsewhere	5,655	9,557
Deferred	<u>(6,066)</u>	<u>(16,991)</u>
Total tax charge for the year	<u><u>61,359</u></u>	<u><u>50,162</u></u>

8. Dividends

	2012 RMB'000	2011 RMB'000
Final dividend proposed (notes (a) and (b)): HKD0.11 (2011: HKD0.10) per share based on issued share capital as at year end	104,510	94,680
Less: Dividend for shares held for share award scheme as at year end	<u>(2,378)</u>	<u>(2,439)</u>
	<u><u>102,132</u></u>	<u><u>92,241</u></u>

8. Dividends (continued)

Notes:

- (a) The actual amount of final 2011 dividends paid was RMB93.0 million, after eliminating RMB0.2 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 1,142,829,305 (2011: 1,125,104,224) 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. 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 of all dilutive potential ordinary shares relating to the Group's share option schemes and the Share Award Scheme into ordinary shares.

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

	2012 RMB'000	2011 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>432,589</u>	<u>324,729</u>
	Number of shares	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue less shares held for the Share Award Scheme	1,142,829,305	1,125,104,224
Effect of dilution — weighted average number of ordinary shares:		
Share options	11,509,686	29,717,895
Awarded Shares	<u>10,050,424</u>	<u>8,934,331</u>
	<u>1,164,389,415</u>	<u>1,163,756,450</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:

	2012	2011
	RMB'000	RMB'000
0 to 30 days	71,842	39,090
31 to 60 days	30,206	15,742
61 to 90 days	9,018	13,339
91 to 365 days	14,900	8,380
Over one year	4,380	3,815
	<u>130,346</u>	<u>80,366</u>

11. Prepayments, deposits and other receivables

	2012	2011
	RMB'000	RMB'000
Prepayments	65,805	59,057
Value-added tax refund receivable	22,560	11,485
Deposits	9,080	5,376
Other receivables	23,031	15,038
	<u>120,476</u>	<u>90,956</u>

12. 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:

	2012	2011
	RMB'000	RMB'000
0 to 30 days	7,929	5,557
31 to 60 days	5,065	1,794
61 to 90 days	2,420	2,022
91 to 365 days	5,194	4,976
Over one year	2,481	2,219
	<u>23,089</u>	<u>16,568</u>

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

13. Interest-bearing bank loans

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

At 31 December 2011

Current			
Bank loan — unsecured		2012	265,585
Bank loan — secured		2012	<u>81,070</u>
			<u><u>346,655</u></u>

(a) The interest-bearing bank loan represented a drawdown of HKD490.0 million (equivalent to RMB397.3 million) from the Group's banking facility of HKD670.0 million in 2012. As an undertaking of such banking facility, the Group provided a RMB deposit of an amount of 50%–100% of the bank loan outstanding from time to time.

(b) The interest-bearing bank loan of HKD20.0 million (equivalent to RMB16.2 million) was secured by the Group's time deposit amounting to RMB19.0 million.

14. A disposal group classified as held for sale

In August 2012, the Board made a decision to dispose of a significant portion of its equity interest in Chengdu Baiming Real Estate Company Limited (“Chengdu Baiming”), a wholly owned subsidiary of the Group, which engages in development of real estate. The Group has decided to cease the development of a piece of land acquired and held by Chengdu Baiming because it plans to focus on its main business. As at 31 December 2012, final negotiations for the sale were in progress and Chengdu Baiming was classified as a disposal group held for sale.

15. Events after the reporting period

- (a) On 5 February 2013, Zhuhai Kingsoft Software entered into a share and purchase agreement with a third party company (the “**Purchaser**”), whereby the Purchaser agreed to purchase 80% equity interest in Chengdu Baiming, a wholly-owned subsidiary of Zhuhai Kingsoft Software, at a consideration of RMB200.0 million. The Purchaser and Chengdu Baiming agreed that the benefit accrued to the Zhuhai Kingsoft Software’s remaining 20% interest in Chengdu Baiming shall not be less than RMB88.0 million (inclusive of equity investment cost of RMB40.0 million), such interest shall take priority over other shareholders’ interests and that such interest shall be realized not later than 30 June 2016.
- (b) On 27 February 2013, the share option scheme of Kingsoft Cloud and Kingsoft Jingcai was approved at the Extraordinary General Meeting of the Company.

OPERATIONAL HIGHLIGHTS

			For the three months ended					
	31 December 2012	30 September 2012	30 June 2012	31 March 2012	31 December 2011	30 September 2011	30 June 2011	31 March 2011
Online Games								
Daily Average Peak Concurrent Users	633,084	611,474	615,221	631,485	661,774	608,607	653,085	684,023
Monthly Average Paying Accounts	1,650,636	1,524,761	1,459,883	1,330,868	1,326,071	1,186,481	1,250,771	1,258,525
Monthly Average Revenue per Paying User (RMB)	<u>48</u>	<u>46</u>	<u>47</u>	<u>47</u>	<u>47</u>	<u>46</u>	<u>46</u>	<u>43</u>

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended 31 December 2012

The following table sets forth the comparative numbers for the three months ended 31 December 2012, 30 September 2012 and 31 December 2011, respectively.

	For the three months ended		
	31 December 2012	30 September 2012	31 December 2011
	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)
Revenue:			
Entertainment software	240,627	210,957	188,812
Application software	189,466	151,771	90,752
Others	629	2,659	3,994
	<u>430,722</u>	<u>365,387</u>	<u>283,558</u>
Cost of revenue	<u>(51,936)</u>	<u>(44,472)</u>	<u>(43,644)</u>
Gross profit	378,786	320,915	239,914
Research and development costs, net of government grants	(113,486)	(97,606)	(88,224)
Selling and distribution costs	(84,250)	(78,555)	(41,306)
Administrative expenses	(40,666)	(36,563)	(41,467)
Share-based compensation costs	(13,796)	(12,432)	(4,058)
Other income and gains	3,144	15,787	8,454
Other expenses	(18,095)	(1,858)	(2,263)
Operating profit	111,637	109,688	71,050
Fair value gain/(loss) on a financial asset at fair value through profit or loss	16,010	—	(2,278)
Finance income	27,145	24,469	21,392
Finance costs	(2,483)	(2,277)	(1,310)
Share of profits and losses of:			
Jointly-controlled entities	1,944	2,942	(151)
Associates	—	—	(191)
Profit before tax	154,253	134,822	88,512
Income tax expense	(15,942)	(15,441)	(11,794)
Profit for the period	138,311	119,381	76,718
Attributable to:			
Owners of the parent	125,084	108,082	79,026
Non-controlling interests	13,227	11,299	(2,308)
	<u>138,311</u>	<u>119,381</u>	<u>76,718</u>
	RMB	RMB	RMB
	(Unaudited)	(Unaudited)	(Unaudited)
Earnings per share attributable to ordinary equity holders of the parent			
Basic	0.1042	0.0944	0.0693
Diluted	0.1023	0.0930	0.0682

	For the three months ended		
	31 December 2012 RMB'000 (Unaudited)	30 September 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Unaudited)
Profit for the period	138,311	119,381	76,718
Other comprehensive (loss)/income:			
Exchange differences on translation of foreign operations	<u>(5,221)</u>	<u>4,064</u>	<u>(90)</u>
Other comprehensive (loss)/income for the period, net of tax	<u>(5,221)</u>	<u>4,064</u>	<u>(90)</u>
Total comprehensive income for the period, net of tax	<u>133,090</u>	<u>123,445</u>	<u>76,628</u>
Attributable to:			
Owners of the parent	122,707	110,552	78,230
Non-controlling interests	<u>10,383</u>	<u>12,893</u>	<u>(1,602)</u>
	<u>133,090</u>	<u>123,445</u>	<u>76,628</u>

Revenue

Revenue for the fourth quarter of 2012 increased 18% quarter-over-quarter and 52% year-over-year to RMB430.7 million. Revenue from the entertainment and application software businesses represented 56% and 44%, respectively, of the Group's total revenue.

Revenue from the entertainment software business for the fourth quarter of 2012 increased 14% quarter-over-quarter and 27% year-over-year to RMB240.6 million. The solid quarter-over-quarter increase mainly reflected the combination of: i) high popularity of our Q version of 3D role-playing game, "Ma La Jiang Hu (麻辣江湖)" which was commercially launched on 19 December; ii) the successful release of the year's largest expansion pack "Nirvana of the Light (日月明尊)" for JX Online III in November and expansion pack "New JX Online World" for JX Online World in October; and iii) a full quarter's revenue contribution from our new games titles, Legend of Moon and Legend of Holy World. The robust year-over-year increase was mainly attributable to: i) ongoing popularity and strong performance of JX Online III supported by the success of expansion packs launched in the year; ii) the stable and solid performance of other existing games; and iii) the revenue contribution from our new game titles.

Daily average peak concurrent users for the Group's online games for the fourth quarter of 2012 increased 4% quarter-over-quarter and decreased 4% year-over-year to 0.63 million. Monthly average paying accounts (“APA”) for the Group's online games for the fourth quarter of 2012 increased 8% quarter-over-quarter and 24% year-over-year to 1.65 million. The sequential and year-over-year increase in APA was primarily attributable to the continuous growth of JX Online III gamers.

The monthly average revenue per paying user for the Group's online games increased 4% quarter-over-quarter and 2% year-over-year to RMB48.

Revenue from the applications software business for the fourth quarter of 2012 increased 25% quarter-over-quarter and 109% year-over-year to RMB189.5 million. The sequential and year-over-year quarterly double-digit and triple-digit increase was mainly due to the combination of: i) enhanced traffic of landing page of Kingsoft Internet Security; ii) expanded and deeper cooperation between Kingsoft Internet Security and electronic business companies; iii) rapid traffic growth from Cheetah Browser; and iv) record sales from Kingsoft WPS Office benefiting from the favorable policy of “Legitimate Software Use in China” and improved product experiences.

Cost of Revenue and Gross Profit

Cost of revenue for the fourth quarter of 2012 increased 17% quarter-over-quarter and 19% year-over-year to RMB51.9 million. The increase was mainly due to increased traffic for Cheetah Browser and the further expansion of Kingsoft Cloud business.

Gross profit for the fourth quarter of 2012 increased 18% quarter-over-quarter 58% year-over-year to RMB378.8 million. The Group's gross profit margin held flat quarter-over-quarter and increased by three percentage points year-over-year to 88%.

Research and Development (“R&D”) Costs

R&D costs, net of government grants, for the fourth quarter of 2012 increased 16% quarter-over-quarter and 29% year-over-year to RMB113.5 million. The quarter-over-quarter increase in R&D costs was mainly attributable to accrued year-end bonuses. The year-over-year increase was primarily due to the investment in talents for mobile internet and cloud business and increased salaries and benefits.

The following table sets forth a breakdown of our R&D costs for the three months ended 31 December 2012, 30 September 2012 and 31 December 2011:

	For the three months ended		
	31 December 2012 RMB'000 (Unaudited)	30 September 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Unaudited)
Staff costs	93,364	82,557	71,936
Depreciation & Amortization	8,523	7,771	7,206
Others	22,326	10,792	15,454
	124,213	101,120	94,596
Less: Capitalized software costs (excluding share-based compensation costs)	(4,906)	(4,608)	(3,143)
Add: Amortization of capitalized software costs	2,230	2,230	2,232
Less: Government grants for research and development activities	(8,051)	(1,136)	(5,461)
Total	113,486	97,606	88,224

Selling and Distribution Costs

Selling and distribution costs for the fourth quarter of 2012 increased 7% quarter-over-quarter and 104% year-over-year to RMB84.3 million. The sequential quarterly increase was mainly due to higher marketing spending for Kingsoft Internet Security. The year-over-year increase was primarily due to planned intensive marketing and promotion activities in the fourth quarter to commercialize new games, launch the year's largest expansion packs for JXs, and enhance the market penetration of Kingsoft Internet Security and Cheetah Browser.

Administrative Expenses

Administrative expenses for the fourth quarter of 2012 increased 11% quarter-over-quarter and decreased 2% year-over-year to RMB40.7 million. The quarter-over-quarter increase was mainly due to the accrual of discretionary year-end bonuses.

Share-based Compensation Costs

Share-based compensation costs for the fourth quarter of 2012 increased 11% quarter-over-quarter and 240% year-over-year to RMB13.8 million. This quarter-over-quarter and year-over-year increase was mainly due to certain subsidiaries' awarded shares and options granted to selected employees.

Other Income and Gains

Other income and gains for the fourth quarter of 2012 decreased 80% quarter-over-quarter and 63% year-over-year to RMB3.1 million. This quarter-over-quarter decrease was mainly attributable to more local government's financial incentives were recognized in the third quarter of 2012.

Other Expenses

Other expenses for the fourth quarter of 2012 increased 874% quarter-over-quarter and 700% year-over-year to RMB18.1 million. The increase was primarily due to write-down of inventories of Android pad of Kingsoft Japan.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the fourth quarter of 2012 increased 3% quarter-over-quarter and 67% year-over-year to RMB125.4 million as a result of the combination of above reasons. The operating profit margin before share-based compensation costs for the fourth quarter of 2012 decreased by four percentage points quarter-over-quarter and increased by three percentage points year-over-year to 29%. This quarter-over-quarter decrease was mainly due to lower other income and gains and higher other expenses.

Fair Value Gain/(Loss) on a Financial Asset at Fair Value through Profit or Loss (“Fair Value Gain/(Loss)”)

Fair value gain/(loss), which reflected the increase/(decrease) of fair value of an option granted by VNG Corporation to the Group to subscribe a number of ordinary shares of VNG Corporation at a predetermined price, recorded a gain of RMB16.0 million, compared to nil for the third quarter of 2012 and a loss of RMB2.3 million for the fourth quarter of 2011.

Finance Income

Finance income for the fourth quarter of 2012 increased 11% quarter-over-quarter and 27% year-over-year to RMB27.1 million. The increase in financial income was primarily due to higher effective interest rate.

Income Tax Expense

Income tax expense for the fourth quarter of 2012 increased 3% quarter-over-quarter and 35% year-over-year to RMB15.9 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) decreased by one percentage point quarter-over-quarter and decreased by four percentage points year-over-year to 9%.

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 2012 increased 16% quarter-over-quarter and 58% year-over-year to RMB125.1 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 2012 increased 15% quarter-over-quarter and 65% year-over-year to RMB136.1 million. The net profit margin excluding the effect of share-based compensation costs was 32%, 32% and 29% for the three months ended 31 December 2012, 30 September 2012 and 31 December 2011, respectively.

For the Year Ended 31 December 2012

The following table sets forth the comparative numbers for the years ended 31 December 2012 and 31 December 2011, respectively.

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Revenue:		
Entertainment software	851,402	689,519
Application software	544,064	326,098
Others	15,695	4,891
	<u>1,411,161</u>	<u>1,020,508</u>
Cost of revenue	<u>(186,939)</u>	<u>(147,812)</u>
Gross profit	1,224,222	872,696
Research and development costs, net of government grants	(385,409)	(303,848)
Selling and distribution costs	(234,115)	(125,873)
Administrative expenses	(147,954)	(127,498)
Share-based compensation costs	(48,472)	(17,266)
Other income and gains	28,609	44,051
Other expenses	(22,971)	(10,747)
	<u>413,910</u>	<u>331,515</u>
Operating profit	413,910	331,515
Fair value gain/(loss) on a financial asset at fair value through profit or loss	16,010	(1,973)
Finance income	97,973	65,130
Finance costs	(8,702)	(3,461)
Share of profits and losses of:		
Jointly-controlled entities	9,532	(1,945)
Associates	(930)	(4,070)
	<u>527,793</u>	<u>385,196</u>
Profit before tax	527,793	385,196
Income tax expense	(61,359)	(50,162)
	<u>466,434</u>	<u>335,034</u>
Profit for the year	466,434	335,034
Attributable to:		
Owners of the parent	432,589	324,729
Non-controlling interests	33,845	10,305
	<u>466,434</u>	<u>335,034</u>
	RMB	RMB
Earnings per share attributable to ordinary equity holders of the parent		
Basic	0.3785	0.2886
Diluted	0.3715	0.2790

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit for the year	466,434	335,034
Other comprehensive loss:		
Exchange differences on translation of foreign operations	<u>(5,613)</u>	<u>(3,885)</u>
Other comprehensive loss for the year, net of tax	<u>(5,613)</u>	<u>(3,885)</u>
Total comprehensive income for the year	<u>460,821</u>	<u>331,149</u>
Attributable to:		
Owners of the parent	429,251	321,339
Non-controlling interests	<u>31,570</u>	<u>9,810</u>
	<u>460,821</u>	<u>331,149</u>

Revenue

Revenue for the year of 2012 increased 38% year-over-year to RMB1,411.2 million. Approximately 60% of the revenue was generated from the entertainment software and 39% of the revenue was generated from the applications software.

— *Entertainment Software*

Revenue from the entertainment software for the year of 2012 increased 23% year-over-year to RMB851.4 million. This was primarily driven by robust growth of paying user base for our flagship 3D MMO JX Online III. APA of JX Online III has jumped to a new record of over 0.9 million in December with an increase of 104% year-over-year stimulated by continuous optimization and innovation through expansion packs.

— *Application Software*

Revenue from the application software business for the year of 2012 increased 67% year-over-year to RMB544.1 million. The robust increase was mainly due to: i) online advertising revenue from Kingsoft Internet Security recorded triple-digit increase driven by enhanced user base of Kingsoft Internet Security and Cheetah Browser; and ii) strong sales of WPS Office benefiting from favorable policy of copyright protection in China and improved product experiences.

Cost of Revenue and Gross Profit

Cost of revenue for the year of 2012 increased 26% year-over-year to RMB186.9 million. The increase was mainly attributable to higher bandwidth costs and server depreciation expenses with the increasing user base and expansion into cloud business.

Gross profit for the year of 2012 increased 40% year-over-year to RMB1,224.2 million. The Group's gross profit margin increased by one percentage point year-over-year to 87%.

R&D Costs

R&D costs, net of government grants, for the year of 2012 increased 27% year-over-year to RMB385.4 million. This was primarily due to an increase in headcount and improved salaries and benefits to strengthen our technology and product development capabilities, and expand into new business initiatives.

The following table sets forth a breakdown of R&D costs for the years ended 31 December 2012 and 2011.

	For the year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Staff costs	317,122	239,491
Depreciation & Amortization	31,313	32,580
Others	54,718	46,677
	<u>403,153</u>	<u>318,748</u>
Less: Capitalized software costs (excluding share-based compensation costs)	(13,839)	(7,518)
Add: Amortization of capitalized software costs	8,926	14,399
Less: Government Grants for research and development activities	<u>(12,831)</u>	<u>(21,781)</u>
Total	<u>385,409</u>	<u>303,848</u>

Selling and Distribution Costs

Selling and distribution costs for the year of 2012 increased 86% year-over-year to RMB234.1 million. The increase was mainly due to intensive marketing and promotion activities to launch our new games, expansion packs for JXs, Kingsoft Internet Security, as well as Cheetah Browser.

Administrative Expenses

Administrative expenses for the year of 2012 increased 16% year-over-year to RMB148.0 million. This was primarily attributable to higher staff costs and professional costs.

Share-based Compensation Costs

Share-based compensation costs for the year of 2012 increased 181% year-over-year to RMB48.5 million. The increase was mainly due to the options and awarded shares of the Company and its subsidiaries granted in late 2011 and 2012 as we continued to strengthen our technology, product development and management capabilities.

Other Income and Gains

Other income and gains for the year of 2012 decreased 35% year-over-year to RMB28.6 million. The decrease was primarily attributable to the decrease in financial incentives received from local government.

Other Expenses

Other expenses for the year of 2012 increased 114% year-over-year to 23.0 million. The increase was mainly due to write-down of inventories of Android pad in Kingsoft Japan.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the year of 2012 increased 33% year-over-year to RMB462.4 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs decreased by one percentage point year-over-year to 33%. This decrease was mainly due to increased selling and distribution costs.

Fair Value Gain/(Loss)

Fair value gain/(loss), which reflected the increase/(decrease) of fair value of an option granted by VNG Corporation, recorded a gain of RMB16.0 million for the year of 2012, compared to a loss of RMB2.0 million for the year of 2011.

Finance Income

Finance income for the year of 2012 increased 50% year-over-year to RMB98.0 million.

Income Tax Expense

Income tax expense for the year of 2012 increased 22% year-over-year to RMB61.4 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) decreased by one percentage point year-over-year to 11%.

Profit attributable to Owners of the Parent

For the reasons described above, profit attributable to owners of the parent for the year of 2012 increased 33% year-over-year to RMB432.6 million.

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

Profit attributable to owners of the parent before share-based compensation costs for the year of 2012 increased 39% year-over-year to RMB473.0 million.

The profit margin excluding the effect of share-based compensation costs for the year of 2012 increased one percentage point year-over-year to 34%.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 December 2012, 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 RMB619.8 million and RMB1,796.5 million, respectively, which totally represented 66% of the Group's total assets.

As at 31 December 2012, the Group's gearing ratio, which represents total liabilities divided by total assets, was 27%, held flat from 27% as at 31 December 2011. As at 31 December 2012, the Group had HKD510.0 million (equivalent of RMB413.6 million) interest-bearing bank loans.

Foreign Currency Risk Management

Certain expenses of the Group were denominated in currencies other than the RMB. The Group generates foreign currency revenue either from license sales made in other Asian countries or from its overseas subsidiaries. RMB against 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 2012, RMB141.1 million of the Group's financial assets were held in deposits and investment 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 2012 was RMB199.7 million compared to RMB181.5 million as at 31 December 2011. The increase was primarily due to the increased sales of prepaid cards in the year of 2012.

Net Cash Generated from Operating Activities

Cash generated from our operating activities reflects our profit for reporting year, as the case may be, as adjusted for non-cash items, such as depreciation, amortization 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 and accrued expenses and accruals.

Net cash generated from operating activities increased 23% year-over-year to RMB555.9 million for the year ended 31 December 2012.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of property, land use right, fixed assets and intangible assets. Cash used for capital expenditures was RMB84.8 million and RMB168.0 million for the years ended 31 December 2012 and 31 December 2011, respectively.

BUSINESS REVIEW AND PROSPECTS

Mr. Jun LEI, Chairman of Kingsoft, commented, “2012 was a critical, encouraging and historical year for Kingsoft. The completion of MBO of Kingsoft WPS Office subsidiary in July marked the completion of restructuring our three major subsidiaries. Kingsoft Internet Security has successfully transformed itself into an internet company with advertising revenue continued to break historical highs, supported by a rapid growing user base. JX Online III continued to improve its popularity and doubled its revenue, despite the slow growth of the overall MMO gaming market. As a Chinese leading office software, WPS Office capitalized on a historic opportunity for development as the government continued to improve IPR environment. Leveraging the accelerated growth of mobile internet user base and smart devices in China, the active user base of Kingsoft Kuaipan, the first initiative of our strategic cloud business, has expanded further and topped the list of the similar services. I am pleased to announce Kingsoft’s strategy, Three Plus One, has taken shape with three major existing business lines and one strategic new business line.”

Dr Hongjiang ZHANG, CEO of Kingsoft, added, “I am very delighted to report that in 2012, we delivered over 38% annual revenue growth and all business lines had a record year in terms of total revenue and operating metrics.”

Our existing games JX series continues its trend of revenue growth. JX Online III, our flagship 3D MMO game, doubled its revenue and APA in 2012, and significantly outpaced the growth rate of MMO gaming market. The successful launch of each expansion pack for JX Online III in 2012 has demonstrated our capabilities of capturing gamer’s needs and optimizing gamer’s experiences. During the year, we commercially launched three main game titles and further enriched our game portfolios, among which Ma La Jiang Hu, our first Q version of 3D role playing game, has shown promising potential in terms of popularity and revenue. Also, we are actively pursuing the development of web and mobile games. Web game T3 and mobile game Pet Castle are in the pipeline to be released soon. Meanwhile, we invested Shanghai Quwan, a web game R&D studio, to grow our R&D capabilities in web games.

Kingsoft Internet Security has completed its transformation into an internet company and reached new milestones in its monetization capability. Advertising revenue has experienced a fast growth at triple-digit year-over-year, supported by our expanded user base of 150 million and improved monetization capability. We have also been actively developing other value-added services, especially web game operation. On 19 June, we officially launched its internet browser, Cheetah. With its stylish design and outstanding user experiences, the user base of Cheetah Browser has had tremendous growth. The creative marketing efforts for Cheetah, such as train ticket purchase applications, have also accelerated the growth of the install base. We believe that our browser services will further enhance our monetization capabilities in the coming years. In addition, benefiting from the rapid growth of mobile internet and smart phones, the monthly active user base of Kingsoft Mobile Security has recorded rapid growth to 40.7 million.

Benefiting from the government's continued push in IPR protection and our product innovation, revenue from Kingsoft WPS Office continued its strong growth momentum in 2012 and achieved a new record with sales in Mainland China and Japan exceeded RMB195.8 million. The monthly active users of WPS Personal Edition rose to over 43.3 million supported by the improved user experiences. We are more excited to see the global monthly active users of WPS Mobile Office exceeded 11.2 million in 2012. As the leading mobile office software with users in over 226 countries and regions, WPS Mobile Office supports 23 types of main document formats and 46 languages and took the top spot in Google Play in the business APPs category in 25 major countries and regions.

Kingsoft Cloud was established in early 2012 to capture the opportunities in cloud storage and computing services. In order to leverage the accelerated growth of mobile internet user base and smart devices in China, we established strategic collaborations with Xiaomi, Skyworth TV and AIGO in 2012. Xiaomi, invested into Kingsoft Cloud as a strategic partner, in November 2012, to allow Kingsoft Cloud to take advantage of Xiaomi phone's rapid growth to expand its storage services to mobile device users. Total registered users for Kingsoft Cloud expanded further and topped the list of the similar services.

Looking forward, JX Online III, as a leading domestic 3D MMO game, will continue the growth momentum as we continue to introduce new and improved gamer experiences. Ma La Jiang Hu, as a Q version of 3D role playing game, has enriched our 3D game portfolio and will be another growth catalyst of our online game in 2013. We expect that JXs and Ma La Jiang Hu will achieve double-digit growth in terms of gaming revenue and APA in 2013. Two more MMO games: Jiutian Myth (九天神話), Doomsday Dragon (末日屠龍), a number of web games and mobile games are in the pipeline to be released in 2013. These focused investments will help us to capture the growth opportunities of web and mobile gaming markets in the coming years.

We would further grow our user base of Kingsoft Internet Security and Cheetah Browser through product innovation, improved user experiences, and strengthened collaboration with our strategic partners. We expect that revenue from advertising would keep strong momentum of growth, supported by the expanded user base of our internet security services and our browser. Revenue from web game operation is currently at its infant stage and is expected to be the next growth catalyst in 2013. Besides, Kingsoft Internet Security would invest heavily in mobile business and launch a series of mobile services in 2013, targeting at transforming itself into a mobile internet company.

In 2013, WPS Office will focus on growing enterprise business and new revenue sources. Also, WPS Office will further nurture the mobile user base worldwide with new functions, improved user experiences and expansion into new mobile platform. In February 2013, WPS Mobile Office for IOS was launched and received positive feedback.

Kingsoft will continue investing heavily in Kingsoft Cloud. In addition to personal data storage service, we will expand into enterprise data storage services and cloud storage platform services in 2013. The growth of user base of Kingsoft Cloud will accelerate in 2013 through product innovation and strategic collaboration with Xiaomi and smart TV producers. This will be a long term strategic investment and will better position us in the coming years.

Looking forward, we believe the top line of the Group would maintain a fast growth as we continue investing heavily in mobile internet business and cloud business. We are confident that, by focusing on product and service innovation, exceptional user experiences and future opportunities, we will deliver long term value to our shareholders.

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 organising various kinds of outdoor trips as well as the provision of certain facilities such as indoor sports centre 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 2012, the Group employed approximately 2,916 full-time employees (2011: 2,782) 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 2012 and 2011 were approximately RMB517.7 million and RMB387.1 million, respectively.

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

During the year ended 31 December 2012, the Company repurchased a total of 1,983,000 of its own ordinary shares on the Stock Exchange at a total cost of approximately HKD 7.1 million, inclusive of transaction cost. All the repurchased shares were cancelled by the Company upon such repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase was charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the issued capital as set out in the consolidated statement of changes in equity. The Company considered that it is in the best interest of the shareholders to return some surplus funds to them which will in turn enhance shareholders' value. During the year ended 31 December 2012, the Company has not repurchased any shares under its Share Award Scheme. Details of the Share Award Scheme will be set out in the 2012 Annual Report of the Company.

Details of the repurchases by the Company on the Stock Exchange during the year ended 31 December 2012 were as follows:

Month of Repurchase in 2012	No. of Shares Repurchase	Repurchase Consideration Per Share		Aggregate
		Highest Price Paid <i>HKD</i>	Lowest Price Paid <i>HKD</i>	Consideration Paid <i>HKD</i>
August	1,630,000	3.60	3.56	5,867,305
September	353,000	3.60	3.57	1,269,657

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2012.

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 2012.

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 Thursday, 16 May 2013
Closure of the register of members of the Company	Friday, 17 May 2013 to Thursday, 23 May 2013 (both dates inclusive)
Record date	Thursday, 23 May 2013

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Tuesday, 28 May 2013
Closure of the register of members of the Company	Wednesday, 29 May 2013 to Monday, 3 June 2013 (both dates inclusive)
Record date	Monday, 3 June 2013

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 2012, our Audit Committee comprised of three independent non-executive directors, namely Mr. Tat Joel, Chang (resigned as chairman and member of the Audit Committee on 25 May 2012), Mr. To Thomas Hui (appointed as chairman and member of the Audit Committee on 25 May 2012), Mr. Guangming George Lu and Mr. Chuan Wang. Pursuant to the resolution of the Board passed on 1 March 2013, Mr. Chuan Wang resigned as a member of the Audit Committee due to other business commitments and Ms. Wenjie Wu has been appointed as the member of the Audit Committee with effect from 1 March 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 2012, 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 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 31 December 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 to 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. Non-executive directors Mr. Jun Lei, Mr. Pak Kwan Kau and 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 17 October 2012 as they had to attend to previously arranged 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.

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) and the Company's website (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, 19 March 2013

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. To Thomas HUI and Guangming George LU, and Ms. Wenjie WU.