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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 MONTHS ENDED 30 SEPTEMBER 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 months ended 30 September 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 HIGHLIGHTS

	For the three months ended			YoY* Change %	QoQ* Change %
	30 September 2012 RMB'000 (unaudited)	30 June 2012 RMB'000 (unaudited)	30 September 2011 RMB'000 (unaudited)		
Revenue	365,387	322,467	242,707	51	13
Profit attributable to owners of the parent**	108,082	111,897	74,894	44	(3)
	RMB cent (unaudited)	RMB cent (unaudited)	RMB cent (unaudited)		
Basic earnings per share	9.44	9.79	6.63	42	(4)
Diluted earnings per share	9.30	9.64	6.42	45	(4)

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

** Profit attributable to owners of the parent excluding the effect of share-based compensation costs is RMB118.2 million, RMB123.8 million and RMB76.3 million for the three months ended at 30 September 2012, 30 June 2012 and 30 September 2011, respectively. This represents a YoY increase of 55% and a QoQ decrease of 5%.

OPERATIONAL HIGHLIGHTS

	For the three months ended			YoY Change %	QoQ Change %
	30 September 2012	30 June 2012	30 September 2011		
Online games					
Daily Average Peak Concurrent Users	611,474	615,221	608,607	—	(1%)
Monthly Average Paying Accounts	1,524,761	1,459,883	1,186,481	29%	4%
Monthly Average Revenue per Paying User (RMB)	46	47	46	—	(2%)

The Board announces the unaudited results of the Group for the three months ended 30 September 2012.

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

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	For the three months ended		
	30 September 2012 RMB'000 (Unaudited)	30 June 2012 RMB'000 (Unaudited)	30 September 2011 RMB'000 (Unaudited)
Revenue:			
Entertainment software	210,957	208,728	165,224
Application software	151,771	112,073	77,483
Others	2,659	1,666	—
	<u>365,387</u>	<u>322,467</u>	<u>242,707</u>
Cost of revenue	(44,472)	(40,877)	(36,770)
	<u>320,915</u>	<u>281,590</u>	<u>205,937</u>
Gross profit			
Research and development costs, net of government grants	(97,606)	(86,973)	(79,869)
Selling and distribution costs	(78,555)	(40,104)	(33,546)
Administrative expenses	(36,563)	(36,753)	(31,588)
Share-based compensation costs	(12,432)	(14,092)	(1,977)
Other income and gains	15,787	7,418	28,062
Other expenses	(1,858)	(2,305)	(5,374)
	<u>109,688</u>	<u>108,781</u>	<u>81,645</u>
Operating profit			
Finance income	24,469	24,152	16,900
Finance costs	(2,277)	(1,997)	(1,227)
Share of profits and losses of:			
Jointly-controlled entities	2,942	2,681	(316)
Associates	—	—	(1,288)
	<u>134,822</u>	<u>133,617</u>	<u>95,714</u>
Profit before tax			
Income tax expense	(15,441)	(15,197)	(11,553)
	<u>119,381</u>	<u>118,420</u>	<u>84,161</u>
Profit for the period			
Attributable to:			
Owners of the parent	108,082	111,897	74,894
Non-controlling interests	11,299	6,523	9,267
	<u>119,381</u>	<u>118,420</u>	<u>84,161</u>
	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)	<i>RMB</i> (Unaudited)
Earnings per share attributable to ordinary equity holders of the parent			
Basic	0.0944	0.0979	0.0663
Diluted	0.0930	0.0964	0.0642

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	30 September 2012 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2012 <i>RMB'000</i> <i>(Unaudited)</i>	30 September 2011 <i>RMB'000</i> <i>(Unaudited)</i>
Profit for the period	119,381	118,420	84,161
Other comprehensive income:			
Exchange differences on translation of foreign operations	<u>4,064</u>	<u>(2,425)</u>	<u>(2,380)</u>
Other comprehensive income/(loss) for the period, net of tax	<u>4,064</u>	<u>(2,425)</u>	<u>(2,380)</u>
Total comprehensive income for the period	<u><u>123,445</u></u>	<u><u>115,995</u></u>	<u><u>81,781</u></u>
Attributable to:			
Owners of the parent	110,552	109,632	72,822
Non-controlling interests	<u>12,893</u>	<u>6,363</u>	<u>8,959</u>
	<u><u>123,445</u></u>	<u><u>115,995</u></u>	<u><u>81,781</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2012 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2011 <i>RMB'000</i> <i>(Audited)</i>
Non-current assets		
Property, plant and equipment	376,233	395,328
Lease prepayments	125,303	44,142
Goodwill	14,559	14,559
Other intangible assets	57,617	68,170
Long-term prepayment	—	80,109
Investments in jointly-controlled entities	18,561	10,622
Investments in associates	—	930
Available-for-sale investments	7,441	4,990
Other financial asset	11,916	11,812
Loan receivables	5,243	4,500
Deferred tax assets	30,476	27,547
	<u>647,349</u>	<u>662,709</u>
Current assets		
Inventories	27,596	3,311
Trade receivables	132,236	80,366
Prepayments, deposits and other receivables	111,840	90,956
Due from related parties	164,195	137,502
Deferred cost	602	905
Pledged deposit	—	85,000
Cash and cash equivalents	2,316,742	1,953,770
	<u>2,753,211</u>	<u>2,351,810</u>
Current liabilities		
Trade payables	16,931	16,568
Interest-bearing bank loans	433,434	346,655
Other payables and accruals	217,948	219,400
Deferred revenue	167,264	161,210
Income tax payable	19,005	17,221
	<u>854,582</u>	<u>761,054</u>
Net current assets	<u>1,898,629</u>	<u>1,590,756</u>
Total assets less current liabilities	<u>2,545,978</u>	<u>2,253,465</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 30 September 2012 RMB'000 (Unaudited)	As at 31 December 2011 RMB'000 (Audited)
Non-current liabilities		
Deferred revenue	16,084	20,321
Deferred tax liabilities	15,781	20,024
	<u>31,865</u>	<u>40,345</u>
Net assets	<u>2,514,113</u>	<u>2,213,120</u>
Equity		
Equity attributable to owners of the parent		
Issued capital	4,686	4,677
Share premium account	447,595	440,974
Shares held for share award scheme	(83,352)	(93,754)
Statutory reserves	146,654	146,654
Employee share-based reserve	152,355	145,435
Capital reserve	268,213	253,914
Foreign currency translation reserve	(72,976)	(72,015)
Retained earnings	1,509,212	1,201,707
Proposed final dividend	—	92,241
	<u>2,372,387</u>	<u>2,119,833</u>
Non-controlling interests	<u>141,726</u>	<u>93,287</u>
Total equity	<u>2,514,113</u>	<u>2,213,120</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	30 September 2012 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2012 <i>RMB'000</i> <i>(Unaudited)</i>	30 September 2011 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash flows from operating activities	175,834	105,422	111,047
Net cash flows from/(used in) investing activities	(500,709)	31,885	(185,795)
Net cash flows from/(used in) financing activities	47,591	(58,018)	141,644
Net increase/(decrease) in cash and cash equivalents	(277,284)	79,289	66,896
Cash and cash equivalents at beginning of period	806,931	728,304	888,751
Effect of foreign exchange rate changes, net	4,977	(662)	(1,700)
Cash and cash equivalents at end of period	534,624	806,931	953,947
Time deposits with original maturity of over three months when acquired	1,782,118	1,325,036	881,312
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	2,316,742	2,131,967	1,835,259

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 Main Board of 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 30 November 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2012

Revenue

Revenue for the third quarter of 2012 increased 13% quarter-over-quarter and 51% year-over-year to RMB365.4 million. Revenue from online games and application software business represented 58% and 42%, respectively, of the Group's total revenue for the third quarter of 2012.

Revenue from online games for the third quarter of 2012 increased 1% quarter-over-quarter and 28% year-over-year to RMB211.0 million. The slight quarter-over-quarter increase mainly reflected the combination of: i) the adverse impact of seasonal factors on JX Online World; ii) JX Online III continued to achieve solid growth against adverse seasonality; and iii) our new games, Legend of Moon and Legend of Holy World, started to contribute top line in late of the third quarter. The year-over-year increase was primarily attributable to the ongoing popularity and strong performance of JX Online III, which achieved triple-digit year-over-year growth.

Daily average peak concurrent users (“ADPCU”) for the Group's online games for the third quarter of 2012 decreased 1% quarter-over-quarter and held flat year-over-year to 0.61 million. The decrease was largely due to the unfavorable market conditions for online games in Vietnam. Monthly average paying accounts (“APA”) for the Group's online games for the third quarter of 2012 increased 4% quarter-over-quarter and 29% year-over-year to 1.52 million. The sequential quarterly increase mainly reflected the success of expansion pack “Wakened Dragon of Erhai (洱海驚龍)” for JX Online III and the contribution from new game titles offset by the decrease in users from Vietnam market. The year-over-year quarterly increase was primarily attributable to the jumps in active paying accounts for JX Online III accompanied by continuous optimization through expansion packs.

The monthly ARPU for the Group's online games for the third quarter of 2012 decreased 2% quarter-over-quarter and held flat year-over-year to RMB46.

Revenue from the application software business for the third quarter of 2012 increased 35% quarter-over-quarter and 96% year-over-year to RMB151.8 million. The sequential and year-over-year quarterly double-digit increase was mainly due to the combination of: i) online advertising from Kingsoft Internet Security surged to another historical record driven by rapidly increasing traffic from our landing page navigation and enhanced market penetration of Kingsoft Internet Security; and ii) record sales from Kingsoft WPS Office benefiting from the favorable policy of “Legitimate Software Use in China” and improved product experience.

Cost of Revenue and Gross Profit

Cost of revenue for the third quarter of 2012 increased 9% quarter-over-quarter and 21% year-over-year to RMB44.5 million. The increase was mainly attributable to the higher bandwidth and server costs along with increasing user base of Kingsoft Internet Security and expansion of Kingsoft Cloud business.

Gross profit for the third quarter of 2012 increased 14% quarter-over-quarter and 56% year-over-year to RMB320.9 million. The Group's gross profit margin increased by one percentage point quarter-over-quarter and three percentage points year-over-year to 88%.

Research and Development (“R&D”) Costs

R&D costs, net of government grants, for the third quarter of 2012 increased 12% quarter-over-quarter and 22% year-over-year to RMB97.6 million. This mainly reflected: i) an increase in staff costs driven by higher salaries and benefits; and ii) increased R&D investment in mobile internet applications.

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

	For the three months ended		
	30 September 2012	June 30 2012	30 September 2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Staff costs	82,557	70,919	62,882
Depreciation & Amortisation	7,771	7,390	8,378
Others	10,792	10,942	11,569
	101,120	89,251	82,829
Less: Capitalised software costs (excluding share-based compensation costs)	(4,608)	(2,417)	(1,389)
Add: Amortisation of capitalised software costs	2,230	2,230	1,487
Less: Government grants for research and development activities	(1,136)	(2,091)	(3,058)
Total	97,606	86,973	79,869

Selling and Distribution Costs

Selling and distribution costs for the third quarter of 2012 increased 96% quarter-over-quarter and 134% year-over-year to RMB78.6 million. The sequential and year-over-year quarterly increase was mainly attributable to the combination of: i) promotion and advertising campaigns for the release of Legend of Moon and Legend of Holy World; ii) increased efforts for marketing of Kingsoft Internet Security in Mainland China; and iii) TV advertising activities for the free model of Kingsoft Internet Security in Japanese market.

Administrative Expenses

Administrative expenses for the third quarter of 2012 decreased 1% quarter-over-quarter and increased 16% year-over-year to RMB36.6 million.

Share-based Compensation Costs

Share-based compensation costs for the third quarter of 2012 decreased 12% quarter-over-quarter and increased 529% year-over-year to RMB12.4 million. The year-over-year increase in share-based compensation costs primarily reflected the granting of the Company's and certain subsidiary's shares to selected employees.

Other Income and Gains

Other income and gains for the third quarter of 2012 increased 113% quarter-over-quarter and decreased 44% year-over-year to RMB15.8 million. The sequential increase was primarily attributable to financial incentives received from the local government.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs for the third quarter of 2012 decreased 1% quarter-over-quarter and increased 46% year-over-year to RMB122.1 million as a result of the combination of above reasons. The operating profit margin excluding share-based compensation costs for the third quarter of 2012 decreased five percentage points quarter-over-quarter and decreased one percentage point year-over-year to 33%.

Finance Income

Finance income for the third quarter of 2012 increased 1% quarter-over-quarter and 45% year-over-year to RMB24.5 million.

Income Tax Expense

Income tax expense for the third quarter of 2012 increased 2% quarter-over-quarter and 34% year-over-year to RMB15.4 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) held flat quarter-over-quarter and decreased two percentage points 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 third quarter of 2012 decreased 3% quarter-over-quarter and increased 44% year-over-year to RMB108.1 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 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 for the third quarter of 2012 decreased 5% quarter-over-quarter and increased 55% year-over-year to RMB118.2 million. The net profit margin excluding the effect of share-based compensation costs was 32%, 38% and 31% for the three months ended 30 September 2012, 30 June 2012 and 30 September 2011, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 30 September 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 RMB534.6 million, RMB1,782.1 million, respectively, which totally represented 68% of the Group's total assets.

As at 30 September 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 September 2012, the Group had HKD530.0 million (equivalent of RMB433.4 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 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 arrange some expenses and expenditures denominated in foreign currencies.

As at 30 September 2012, RMB145.1 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 September 2012 was RMB183.3 million compared to RMB181.5 million as at 31 December 2011. The increase was primarily due to the increased sales of prepaid cards of online games in the third quarter of 2012.

Net Cash Generated from Operating Activities

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

Net cash generated by operating activities was RMB175.8 million, RMB105.4 million and RMB111.0 million for the three months ended 30 September 2012, 30 June 2012 and 30 September 2011, respectively.

Capital Expenditure

Capital expenditures represent cash payments for acquisition of properties, land use rights, fixed assets and intangible assets. Cash used for capital expenditures was RMB22.0 million, RMB25.3 million and RMB61.1 million for the three months ended 30 September 2012, 30 June 2012 and 30 September 2011, respectively.

Management Comments

Dr. Hongjiang Zhang, Kingsoft's chief executive officer, commented, "This is another solid quarter. The total revenue for the quarter reached a new record with an increase of 13% quarter-over-quarter and 51% year-over-year. The slight decrease in our bottom-line number over the quarter was primarily due to our planned intensive marketing and promotion activities to launch new games and products in the quarter. In July, we completed the restructuring of Kingsoft WPS Office subsidiary with MBO, which marks the completion of the restructuring of our three major subsidiaries. We believe this restructuring has and will continue to drive the management teams to focus on the long-term development of the Group, and further align their interest with that of our shareholders."

In the third quarter of 2012, advertising revenue from Kingsoft Internet Security in China had kept the momentum of fast growth and achieved three-digit increase both on quarter-over-quarter and year-over-year basis, driven by rapidly increasing traffic from our landing page navigation. Meanwhile, the monthly active user base of Kingsoft Internet Security expanded further to over 120 millions, driven by new service update and improved user experiences. In addition, in August, we officially launched Kingsoft Mobile Security, with the differentiation featuring mobile phone APP behavior analysis and management and the capability to intelligently prevent and intercept hidden malicious advertisements, and other malicious behaviors in APPs. Such APP management and privacy protection features have received very positive feedbacks from mobile users.

Benefiting from the government policy and product innovation, revenue from Kingsoft WPS Office continued to keep strong growth momentum in Q3. The monthly active users of WPS Personal Edition rose to over 40 million supported by the improved user experiences and improved copyright awareness. We are pleased to see the global monthly active users of WPS Mobile Office exceeded 7 millions. 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 Google Play in the business APPs category.

Our online game portfolio remained strong in this seasonally weaker quarter. We are pleased to see JX Online III continued strong growth in term of APA and revenue against the adverse impact of seasonality. Thanks to the success of our summer expansion pack “Wakened Dragon of Erhai (洱海驚龍)”, APA of JX Online III has jumped to a new record of over 75 million in September, with an increase of 13% quarter-over-quarter and 128% year-over-year. We will launch this year’s largest expansion pack “Nirvana of the Light (日月明尊)” for JX Online III in late November. The moderate decline of revenue from our 2.5D flagship game JX Online World for the third quarter primarily reflected the impact of the soft season. However, with the large expansion pack “New JX Online World” in October, the game is picking up in term of revenue and popularity. The open beta testing of our Q version of 3D role-playing game, “Ma La Jiang Hu (麻辣江湖)”, in October has indicated the high popularity of the game. Our 2.5D MMO “Legend of Moon (月影傳說)” and new 3D MMO, “Legend of the Holy World (聖道傳奇)” were commercially launched in September and October, respectively. We are confident the commercial launch of our new games and large expansion packs for JXs would further enrich our game portfolios and contribute to the top line growth in the coming quarters.

By Order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 30 November 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; the Independent Non-Executive Directors are Messrs. To Thomas HUI, Guangming George LU and Chuan WANG.