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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 31 MARCH 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 31 March 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 a majority of the independent non-executive directors of the Company.

FINANCIAL HIGHLIGHTS

	For the three months ended			YoY* Change %	QoQ* Change %
	31 March 2011 <i>RMB'000</i> (<i>unaudited</i>)	31 December 2011 <i>RMB'000</i> (<i>unaudited</i>)	31 March 2012 <i>RMB'000</i> (<i>unaudited</i>)		
Revenue	231,276	283,558	292,585	27	3
Profit attributable to owners of the parent**	66,894	79,026	87,526	31	11
	<i>RMB cents</i> (<i>unaudited</i>)	<i>RMB cents</i> (<i>unaudited</i>)	<i>RMB cents</i> (<i>unaudited</i>)		
Basic earnings per share	5.97	6.93	7.68	29	11
Diluted earnings per share	5.73	6.82	7.57	32	11

* 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 RMB95.0 million, RMB82.6 million and RMB74.4 million for the three months ended at 31 March 2012, 31 December 2011 and 31 March 2011, respectively. This represents a YoY increase of 28% and a QoQ increase of 15%.

OPERATIONAL HIGHLIGHTS

	For the three months ended			YoY change %	QoQ change %
	31 March 2011	31 December 2011	31 March 2012		
Online Games					
Daily Average Peak					
Concurrent Users	684,023	661,774	631,485	(8)	(5)
Monthly Average Paying					
Users	1,258,525	1,326,071	1,330,868	6	—
Monthly Average Revenue					
per Paying User (RMB)	43	47	47	9	—

The Board announces the unaudited results of the Group for the three months ended 31 March 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:

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the Three months ended		
	31 March 2011 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2011 <i>RMB'000</i> <i>(Unaudited)</i>	31 March 2012 <i>RMB'000</i> <i>(Unaudited)</i>
Revenue:			
Entertainment software	163,376	188,812	191,090
Application software	67,900	90,752	90,754
Others	—	3,994	10,741
	<u>231,276</u>	<u>283,558</u>	<u>292,585</u>
Cost of revenue	(32,790)	(43,644)	(49,654)
	<u>198,486</u>	<u>239,914</u>	<u>242,931</u>
Gross profit			
Research and development costs, net of government grants	(74,308)	(88,224)	(87,344)
Selling and distribution costs	(19,845)	(41,306)	(31,206)
Administrative expenses	(28,355)	(41,467)	(33,972)
Share-based compensation costs	(7,532)	(4,058)	(8,152)
Other income and gains	1,185	8,454	2,260
Other expenses	(190)	(2,263)	(713)
	<u>69,441</u>	<u>71,050</u>	<u>83,804</u>
Operating profit			
Fair value loss on a financial asset at fair value through profit or loss	—	(2,278)	—
Finance income	13,047	21,392	22,207
Finance costs	(118)	(1,310)	(1,945)
Share of profits and losses of:			
Jointly-controlled entities	(853)	(151)	1,965
Associates	(1,776)	(191)	(930)
	<u>79,741</u>	<u>88,512</u>	<u>105,101</u>
Profit before tax			
Income tax expense	(11,481)	(11,794)	(14,779)
	<u>68,260</u>	<u>76,718</u>	<u>90,322</u>
Profit for the period			
Attributable to:			
Owners of the parent	66,894	79,026	87,526
Non-controlling interests	1,366	(2,308)	2,796
	<u>68,260</u>	<u>76,718</u>	<u>90,322</u>
	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>
Earnings per share attributable to ordinary equity holders of the parent			
Basic	0.0597	0.0693	0.0768
Diluted	0.0573	0.0682	0.0757

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	31 March 2011 <i>RMB'000</i> <i>(Unaudited)</i>	December 31 2011 <i>RMB'000</i> <i>(Unaudited)</i>	31 March 2012 <i>RMB'000</i> <i>(Unaudited)</i>
Profit for the period	68,260	76,718	90,322
Other comprehensive income:			
Exchange differences on translation of foreign operations	(1,914)	(90)	(2,031)
Other comprehensive loss for the period, net of tax	(1,914)	(90)	(2,031)
Total comprehensive income for the period	66,346	76,628	88,291
Attributable to:			
Owners of the parent	65,920	78,230	86,360
Non-controlling interests	426	(1,602)	1,931
	66,346	76,628	88,291

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 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	388,877	395,328
Lease prepayments	43,906	44,142
Goodwill	14,559	14,559
Other intangible assets	61,082	68,170
Long-term prepayment	80,109	80,109
Investments in jointly-controlled entities	12,582	10,622
Investments in associates	—	930
Available-for-sale investments	4,990	4,990
Other financial asset	11,812	11,812
Loan receivables	4,003	4,500
Deferred tax assets	27,774	27,547
	649,694	662,709
Current assets		
Inventories	3,683	3,311
Trade receivables	100,044	80,366
Prepayments, deposits and other receivables	106,948	90,956
Due from related parties	130,591	137,502
Deferred cost	776	905
Pledged deposit	85,000	85,000
Cash and cash equivalents	2,010,105	1,953,770
	2,437,147	2,351,810
Current liabilities		
Trade payables	20,277	16,568
Interest-bearing bank loans	382,279	346,655
Other payables and accruals	179,187	219,400
Deferred revenue	157,167	161,210
Income tax payable	15,629	17,221
	754,539	761,054
Net current assets	1,682,608	1,590,756
Total assets less current liabilities	2,332,302	2,253,465

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31 March 2012 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2011 <i>RMB'000</i> <i>(Audited)</i>
Total assets less current liabilities	2,332,302	2,253,465
Non-current liabilities		
Deferred revenue	18,034	20,321
Deferred tax liabilities	13,173	20,024
	31,207	40,345
Net assets	2,301,095	2,213,120
Equity		
Equity attributable to owners of the parent		
Issued capital	4,686	4,677
Share premium account	449,091	440,974
Shares held for share award scheme	(92,692)	(93,754)
Statutory reserves	146,654	146,654
Employee share-based reserve	147,976	145,435
Capital reserve	253,895	253,914
Foreign currency translation reserve	(73,181)	(72,015)
Retained earnings	1,289,233	1,201,707
Proposed final dividend	92,241	92,241
	2,217,903	2,119,833
Non-controlling interests	83,192	93,287
Total equity	2,301,095	2,213,120

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	31 March 2011 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2011 <i>RMB'000</i> <i>(Unaudited)</i>	31 March 2012 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash flows from operating activities	61,531	149,462	43,048
Net cash flows from/(used in) investing activities	191,267	578	(537,923)
Net cash flows from financing activities	20,842	95,133	25,890
Net increase/(decrease) in cash and cash equivalents	273,640	245,173	(468,985)
Cash and cash equivalents at beginning of period	1,186,711	953,947	1,199,313
Effect of foreign exchange rate changes, net	(2,672)	193	(2,024)
Cash and cash equivalents at end of period	1,457,679	1,199,313	728,304
Time deposits with original maturity of over three months when acquired	224,714	754,457	1,281,801
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	1,682,393	1,953,770	2,010,105

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 as a tax exempted company with limited liability. On 15 November 2005, the Company 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 the research, development, operation and distribution of application software products and provision of games services, information security service, online advertising services and cloud services.

The interim condensed consolidated financial statements were approved and authorized for issue in accordance with a resolution of the board of directors of the Company on 24 May 2012.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the three months ended 31 March 2012 have been prepared in accordance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*” issued by the International Accounting Standards Board.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 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 was issued but is not yet effective.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED 31 MARCH 2012

Revenue

Revenue for the first quarter of 2012 increased 3% quarter-over-quarter and 27% year-over-year to RMB292.6 million. Revenue from entertainment software and application software business represented 65% and 31%, respectively, of the Group's total revenue for the first quarter of 2012.

Revenue from entertainment software business for the first quarter of 2012 increased 1% quarter-over-quarter and 17% year-over-year to RMB191.1 million. The quarter-over-quarter and year-over-year increase was primarily due to the climbing popularity of JX Online III.

Daily average peak concurrent users ("ADPCU") for the Company's online games for the first quarter of 2012 decreased 5% quarter-over-quarter and 8% year-over-year to 0.63 million. The sequential and year-over-year decrease was largely due to the declined gamers of JX Online Series in Vietnam. Monthly average paying users ("APU") for the Company's online games for the first quarter of 2012 held flat quarter-over-quarter and increased 6% year-over-year to 1.33 million. The year-over-year increase in APU was primarily attributable to the increased paying accounts for JX Online III.

The monthly ARPU for the Company's online games for the first quarter of 2012 held flat quarter-over-quarter and increased 9% year-over-year to RMB47.

Revenue from the application software business for the first quarter of 2012 held flat quarter-over-quarter and increased 34% year-over-year to RMB90.8 million. Revenue held flat quarter-over-quarter mainly due to the growing advertising revenue from Kingsoft Internet Security driven by enhanced user base, which was partly offset by the seasonal fluctuation of Kingsoft WPS Office. The year-over-year increase was primarily driven by the strong sales from Kingsoft WPS Office.

Cost of revenue and Gross profit

Cost of revenue for the first quarter of 2012 increased 14% quarter-over-quarter and 51% year-over-year to RMB49.7 million. The increase was mainly due to the amortization of capitalized production costs of "the Legend of Swordsman" based on the progress of the revenue recognized.

Gross profit for the first quarter of 2012 increased 1% quarter-over-quarter and 22% year-over-year to RMB242.9 million. The Group's gross profit margin decreased by two percentage points quarter-over-quarter and three percentage points year-over-year to 83% due to the amortization of capitalized television program production costs.

Research and Development ("R&D") Costs

R&D costs, net of government grants, for the first quarter of 2012 decreased 1% quarter-over-quarter and increased 18% year-over-year to RMB87.3 million. The year-over-year increase was primarily due to an increase in staff costs.

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

	For the three months ended		
	31 March 2011 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2011 <i>RMB'000</i> <i>(Unaudited)</i>	31 March 2012 <i>RMB'000</i> <i>(Unaudited)</i>
Staff Costs	52,229	71,936	70,282
Depreciation & Amortisation	8,492	7,206	7,629
Others	11,231	15,454	10,659
	<hr/>	<hr/>	<hr/>
	71,952	94,596	88,570
Less: Capitalised software costs (excluding share-based compensation costs)	(1,533)	(3,143)	(1,905)
Add: Amortisation of capitalised software costs	6,015	2,232	2,232
Less: Government grants for research and development activities	(2,126)	(5,461)	(1,553)
	<hr/>	<hr/>	<hr/>
Total	<u>74,308</u>	<u>88,224</u>	<u>87,344</u>

Selling and Distribution Costs

Selling and distribution costs for the first quarter of 2012 decreased 24% quarter-over-quarter and increased 57% year-over-year to RMB31.2 million. The quarter-over-quarter decline was mainly due to less advertising expenditure as micro-blogging marketing and in-game promotion activities were increasingly adopted. The year-over-year increase was primarily attributable to the marketing efforts for the launch of expansion packs for JX Online III and JX Online World.

Administrative Expenses

Administrative expenses for the first quarter of 2012 decreased 18% quarter-over-quarter and increased 20% year-over-year to RMB34.0 million.

Share-based Compensation Costs

Share-based compensation costs for the first quarter of 2012 increased 101% quarter-over-quarter and 8% year-over-year to RMB8.2 million. This quarter-over-quarter increase was mainly due to the full quarter impact of expenses related to the restricted shares and options granted to the directors at the end of the fourth quarter of 2011.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs for the first quarter of 2012 increased 22% quarter-over-quarter and 19% year-over-year to RMB92.0 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs increased five percentage points quarter-over-quarter and decreased two percentage points year-over-year to 31%.

Finance Income

Finance income for the first quarter of 2012 increased 4% quarter-over-quarter and 70% year-over-year to RMB22.2 million.

Income Tax Expense

Income tax expense for the first quarter of 2012 increased 25% quarter-over-quarter and 29% year-over-year to RMB14.8 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) held flat quarter-over-quarter and year-over-year to 13%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent increased 11% quarter-over-quarter and 31% year-over-year to RMB87.5 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 increased 15% quarter-over-quarter and 28% year-over-year to RMB95.0 million. The net profit margin excluding the effect of share-based compensation costs was 32%, 29% and 32% for the three months ended 31 March 2012, 31 December 2011 and 31 March 2011, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at 31 March 2012, the group had major financial resources in the forms of cash and cash equivalents, time deposits with initial term of over three months amounting to RMB728.3 million, RMB1,281.8 million, respectively, which totally represented 65% of the Group's total assets.

As at 31 March 2012, the Group's gear ratio, which represents total liabilities divided by total assets, was 25%, decreased from 27% as at 31 December 2011. As at 31 March 2012 the Group had USD22.0 million (equivalent to RMB139.1 million) and HKD300.0 million (equivalent to RMB243.2 million) bank loans.

Foreign Currency Risk Management

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

As at 31 March 2012, RMB390.7 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Deferred Revenue

Deferred revenue (including current and non-current portion) as at 31 March 2012 decreased 3% quarter-over-quarter and increased 1% year-over-year to RMB175.2 million.

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 RMB43.0 million, RMB149.5 million and RMB61.5 million for the three months ended 31 March 2012, 31 December 2011 and 31 March 2011, respectively.

Capital Expenditure

Capital expenditures represent cash payments for acquisition of property, land use right, fixed assets and intangible assets. Cash used for capital expenditures was RMB22.7 million, RMB21.9 million and RMB52.1 million for the three months ended 31 March 2012, 31 December 2011 and 31 March 2011, respectively.

Management Comments

“We are pleased to report a solid first quarter of 2012 with revenue posted a steady growth of 3% quarter-over-quarter and a year-over-year growth of 27%,” commented Mr. Hongjiang Zhang, our CEO, “our operating profit margin continued to improve from 25% in last quarter to 29% this quarter end and our quarterly bottom line also recorded a quarter-over-quarter growth of 18% and year-over-year growth of 32%, respectively.”

“The first quarter continued to show enhanced performance of the existing games, particularly our major 3D MMO JX Online III, which has been ramping up since the launch of the expansion pack “The Grand Master” (一代宗師) in November, 2011. The new expansion pack, “Light Up The Fire” (燭火燎天), for JX Online III with expanded and fun-to-play dodge features was launched on 19 April 2012, which has stimulated the popularity of the game. Also, the expansion pack “Hedric-Western Dragon” (西域龍魂) for JX Online World was launched on 21 March 2012 to retain the existing gamers and attract former players back. New servers of Legend of Moon were opened in April and the new game title is now under its tight and last-round unlimited closed beta test.”

“The active users of Kingsoft Internet Security continued to grow. The advertising revenue from Kingsoft Internet Security was gaining momentum in the first quarter. On 2 May, the first internet browser from Kingsoft, Cheetah, was released for beta test. The dual-core internet browser differentiates itself from its competitors by speed, security, and UI design. It integrates both Chrome and IE cores, and for the first time introduces intrusion prevention system supported by our proprietary cloud-based internet security technology. It has received overwhelmingly positive feedbacks since its beta release. We believe the release of the browser will further enrich the product line of Kingsoft and help to cultivate our broad and active user base, and enable us to further improve our monetization capability.”

“The active user base of Kingsoft WPS Office continued to expand in the first quarter. Due to the seasonality effect, the top line of Kingsoft WPS Office reported quarter-over-quarter decrease of 16% but with year-over-year increase of 190% to RMB41.1 million. The year-over-year growth has demonstrated the strong momentum of Kingsoft WPS Office, benefiting from the improved awareness of copyright protection and the continued improvement of WPS Office product.”

“In the past quarter, we have also announced the establishment of Kingsoft Cloud, a new business division that focuses on providing cloud storage services to consumers and enterprises. This will be a long term investment for Kingsoft. I am very pleased to see the users of our services have grown to over ten million as we continue to improve our products and user experiences.”

“In February, Kingsoft Japan launched Android pad in the Japanese market and gained positive feedbacks. We believe this move will be conducive to the expansion of Kingsoft Software’s market share in Japan.”

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 24 May 2012

As at the date of this announcement, the Executive Directors are Messrs. HongJiang ZHANG, Shun Tak WONG 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. Tat Joel, CHANG, Guangming George LU and Chuan WANG.