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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 2011

The Board (“Board”) of directors (the “Directors”) of Kingsoft Corporation Limited (the “Company”) announces the annual results of the Company and its subsidiaries (the “Group” or “Kingsoft”) for the year ended 31 December 2011. 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

	31 December 2010 RMB'000	For the year ended		Year over Year change %
		31 December 2011 RMB'000	31 December 2011** HKD'000	
Revenue	971,397	1,020,508	1,258,799	5%
Profit attributable to owners of the parent*	372,480	324,729	400,554	(13%)
	RMB cent	RMB cent	HKD cent	
Basic earnings per share	34.16	28.86	35.60	(16%)
Diluted earnings per share	32.13	27.90	34.41	(13%)

\* Profit attributable to owners of the parent excluding the effect of share-based compensation costs is RMB340.6 million and RMB414.6 million for the years ended 31 December 2011 and 31 December 2010, respectively, representing a decrease of 18% year-over-year.

\*\* The conversion of Renminbi (“RMB”) into Hong Kong Dollar (“HKD”) in this release is based on RMB0.8107 to HKD1.00 as published by the Bank of China on 31 December 2011. 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, realised, or settled into HKD at that rate on 31 December 2011, or at any other rate.

## DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.10 per share for the year ended 31 December 2011 (2010: HKD0.15 per share and a special dividend of HKD0.25 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 2012, will be payable on 19 June 2012 to the shareholders whose names appear on the register of members of the Company on 1 June 2012.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Notes	2011 RMB'000	2010 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		395,328	392,767
Lease prepayments		44,142	45,083
Goodwill		14,559	11,710
Other intangible assets		68,170	69,045
Long-term prepayment	10	80,109	—
Investments in jointly-controlled entities		10,622	18,793
Investments in associates		930	—
Available-for-sale investments		4,990	18,675
Other financial asset		11,812	13,785
Loan receivables		4,500	3,542
Deferred tax assets		27,547	25,670
Deferred cost		—	461
		<u>662,709</u>	<u>599,531</u>
<b>Current assets</b>			
Inventories		3,311	2,856
Trade receivables	11	80,366	98,939
Prepayments, deposits and other receivables		90,956	71,518
Due from related parties		137,502	13,607
Deferred cost		905	2,205
Pledged deposit	13	85,000	—
Cash and cash equivalents		1,953,770	1,656,157
		<u>2,351,810</u>	<u>1,845,282</u>

	Notes	2011 RMB'000	2010 RMB'000
<b>Current liabilities</b>			
Trade payables	12	16,568	15,571
Interest-bearing bank loans	13	346,655	102,108
Other payables and accruals		219,400	163,461
Deferred revenue		161,210	161,570
Income tax payable		17,221	3,765
		<u>761,054</u>	<u>446,475</u>
<b>Net current assets</b>		<u>1,590,756</u>	<u>1,398,807</u>
<b>Total assets less current liabilities</b>		<u>2,253,465</u>	<u>1,998,338</u>
<b>Non-current liabilities</b>			
Deferred revenue		20,321	29,139
Deferred tax liabilities		20,024	35,138
		<u>40,345</u>	<u>64,277</u>
<b>Net assets</b>		<u>2,213,120</u>	<u>1,934,061</u>
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		4,677	4,527
Share premium account		440,974	408,241
Shares held for share award scheme		(93,754)	(57,773)
Statutory reserves		146,654	140,057
Employee share-based reserve		145,435	207,646
Capital reserve		253,914	16,230
Foreign currency translation reserve		(72,015)	(68,625)
Retained earnings		1,201,707	883,575
Proposed final and special dividends		92,241	376,000
		<u>2,119,833</u>	<u>1,909,878</u>
<b>Non-controlling interests</b>		<u>93,287</u>	<u>24,183</u>
<b>Total equity</b>		<u>2,213,120</u>	<u>1,934,061</u>

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 RMB'000	2010 RMB'000
<b>Revenue:</b>			
Entertainment software		689,519	640,917
Application software		326,098	330,480
Others		4,891	—
		<u>1,020,508</u>	<u>971,397</u>
Cost of revenue		<u>(147,812)</u>	<u>(130,998)</u>
<b>Gross profit</b>		<b>872,696</b>	<b>840,399</b>
Research and development costs, net of government grants		(303,848)	(271,046)
Selling and distribution costs		(125,873)	(129,216)
Administrative expenses		(127,498)	(111,143)
Share-based compensation costs		(17,266)	(42,119)
Other income and gains		44,051	31,528
Other expenses		(10,747)	(38,203)
Fair value gain/(loss) on a financial asset at fair value through profit or loss		(1,973)	13,785
Gain on disposal of an associate		—	105,189
Finance income		65,130	33,162
Finance costs		(3,461)	(721)
Share of profits and losses of:			
Jointly-controlled entities		(1,945)	(6,360)
Associates		(4,070)	14,433
		<u>385,196</u>	<u>439,688</u>
<b>Profit before tax</b>	5	<b>385,196</b>	<b>439,688</b>
Income tax expense	7	(50,162)	(65,155)
		<u>335,034</u>	<u>374,533</u>
<b>Profit for the year</b>		<b>335,034</b>	<b>374,533</b>
Attributable to:			
Owners of the parent		324,729	372,480
Non-controlling interests		10,305	2,053
		<u>335,034</u>	<u>374,533</u>
		<b>RMB</b>	<b>RMB</b>
<b>Earnings per share attributable to ordinary equity holders of the parent</b>	9		
Basic		0.2886	0.3416
Diluted		0.2790	0.3213

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	2011 RMB'000	2010 RMB'000
<b>Profit for the year</b>	<b>335,034</b>	374,533
<b>Other comprehensive income:</b>		
Exchange differences on translation of foreign operations	<u>(3,885)</u>	<u>(498)</u>
<b>Other comprehensive loss for the year, net of tax</b>	<u>(3,885)</u>	<u>(498)</u>
<b>Total comprehensive income for the year</b>	<u><u>331,149</u></u>	<u><u>374,035</u></u>
Attributable to:		
Owners of the parent	<b>321,339</b>	370,319
Non-controlling interests	<u>9,810</u>	<u>3,716</u>
	<u><u>331,149</u></u>	<u><u>374,035</u></u>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Attributable to owners of the parent											
	Issued capital	Share premium account	Shares held for share award scheme	Statutory reserves	Employee share-based reserve	Capital reserve	Foreign currency translation reserve	Retained earnings	Proposed final and special dividends	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2010</b>	4,434	525,349	(72,365)	107,817	225,011	—	(66,464)	723,335	141,575	1,588,692	15,618	1,604,310
Profit for the year	—	—	—	—	—	—	—	372,480	—	372,480	2,053	374,533
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(2,161)	—	—	(2,161)	1,663	(498)
Total comprehensive income for the year	—	—	—	—	—	—	(2,161)	372,480	—	370,319	3,716	374,035
Approved and paid final dividend in respect of the previous year	—	(1,578)	—	—	—	—	—	—	(141,575)	(143,153)	—	(143,153)
Share-based compensation costs	—	—	—	—	35,560	—	—	—	—	35,560	1,079	36,639
Profit appropriations	—	—	—	32,240	—	—	—	(32,240)	—	—	—	—
Exercise of share options	93	80,470	—	—	(38,333)	—	—	—	—	42,230	—	42,230
Vested awarded shares transferred to employees	—	—	14,592	—	(14,592)	—	—	—	—	—	—	—
Proposed final 2010 and special dividends	—	(196,000)	—	—	—	—	—	(180,000)	376,000	—	—	—
Changes in the ownership interest in a subsidiary	—	—	—	—	—	16,230	—	—	—	16,230	3,770	20,000
<b>At 31 December 2010 and 1 January 2011</b>	<b>4,527</b>	<b>408,241</b>	<b>(57,773)</b>	<b>140,057</b>	<b>207,646</b>	<b>16,230</b>	<b>(68,625)</b>	<b>883,575</b>	<b>376,000</b>	<b>1,909,878</b>	<b>24,183</b>	<b>1,934,061</b>
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
<b>At 31 December 2011</b>	<b>4,677</b>	<b>440,974</b>	<b>(93,754)</b>	<b>146,654</b>	<b>145,435</b>	<b>253,914</b>	<b>(72,015)</b>	<b>1,201,707</b>	<b>92,241</b>	<b>2,119,833</b>	<b>93,287</b>	<b>2,213,120</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	2011 RMB'000	2010 RMB'000
<b>Net cash flows from operating activities</b>	<b>451,768</b>	391,336
<b>Net cash flows from/(used in) investing activities</b>	<b>(616,353)</b>	390,305
<b>Net cash flows from financing activities</b>	<b>179,199</b>	464
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>14,614</b>	782,105
Cash and cash equivalents at beginning of year	1,186,711	405,595
Effect of foreign exchange rate changes, net	(2,012)	(989)
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	<b>1,199,313</b>	1,186,711
Time deposits with original maturity of over three months when acquired	754,457	469,446
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<b>Cash and cash equivalents as stated in the consolidated statement of financial position</b>	<b>1,953,770</b>	1,656,157
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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 as a tax exempted company with limited liability. 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.

## 2. Basis of preparation

These financial statements have been prepared under the historical cost conventions, except for other financial asset, which have been measured at fair value. 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 new and amended IFRSs for the first time for the current year's financial statements.

IAS 24 (Revised)	<i>Related Party Disclosures</i>
IAS 32 Amendment	<i>Amendment to IAS 32 Financial Instruments: Presentation — Classification of Rights Issues</i>
IFRIC-Int 14 Amendments	<i>Amendments to IFRIC-Int 14 Prepayments of a Minimum Funding Requirement</i>
IFRIC-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
<i>Improvements to IFRS 2010</i>	<i>Amendments to a number of IFRS issued in May 2010</i>

The adoption of the new and amended IFRSs 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 online games, and provision of online games, mobile games and casual game services;
- (b) The information security software segment engages in the research, development of information security software and provision of information security service across devices; and
- (c) The other application software segment engages in the research, development and distribution of office application software and the provision of the related cloud service, and the research, development and distribution of other software including dictionary.

During the year ended 31 December 2011, the Group has separated the application software business line into two segments: information security software and other application software, as a result of the Group's restructuring of its application software business since last quarter of 2010. In order to provide a more appropriate presentation for the operating segment information, the Group restated the related results of the comparative period of 2010.

Year ended 31 December 2011	Entertainment software RMB'000	Information security software RMB'000	Other application software RMB'000	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	<u>694,410</u>	<u>194,548</u>	<u>131,550</u>	<u>1,020,508</u>
<b>Segment results</b>	<b>352,798</b>	<b>15,976</b>	<b>74,201</b>	<b>442,975</b>
<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)
<b>Profit before tax</b>				<u><u>385,196</u></u>
<b>Other segment information:</b>				
Depreciation and amortisation	<u>37,732</u>	<u>19,306</u>	<u>20,452</u>	<u>77,490</u>

#### 4. Segment information (continued)

<b>Year ended 31 December 2010</b>	Entertainment software RMB'000	Information security software RMB'000 (Restated)	Other application software RMB'000 (Restated)	Total RMB'000
<b>Segment revenue:</b>				
Sales to external customers	<u>640,917</u>	<u>238,309</u>	<u>92,171</u>	<u>971,397</u>
<b>Segment results</b>	327,300	91,026	21,811	440,137
<i>Reconciliation:</i>				
Administrative expenses				(111,143)
Share-based compensation costs				(42,119)
Other income and gains				31,528
Other expenses				(38,203)
Fair value gain on a financial asset at fair value through profit or loss				13,785
Gain on disposal of an associate				105,189
Finance income				33,162
Finance costs				(721)
Share of profits and losses of:				
Jointly-controlled entities				(6,360)
Associates				<u>14,433</u>
<b>Profit before tax</b>				<u><u>439,688</u></u>
<b>Other segment information:</b>				
Depreciation and amortisation	<u>30,625</u>	<u>11,197</u>	<u>28,512</u>	<u>70,334</u>

#### 4. Segment information (continued)

##### Geographical information

(a) Revenue from external customers:

	2011 RMB'000	2010 RMB'000
Mainland China	826,147	852,482
Hong Kong	54,229	20,572
Japan	83,294	72,646
Other countries	56,838	25,697
Total	<u>1,020,508</u>	<u>971,397</u>

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

(b) Non-current assets:

	2011 RMB'000	2010 RMB'000
Mainland China	601,228	516,138
Japan	1,540	2,030
Other countries	11,092	19,691
Total	<u>613,860</u>	<u>537,859</u>

The non-current assets information above is based on the location of assets and excludes financial instruments and deferred tax assets.

##### Information about a major customer

Revenue of approximately RMB95.9 million (2010: RMB106.6 million) was derived by entertainment software segment from royalties from a single customer.

## 5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2011 RMB'000	2010 RMB'000
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		286,238	253,964
Social insurance costs and staff welfare		57,047	54,442
Share-based compensation costs		17,266	42,119
Pension plan contributions		26,538	21,610
		<u>387,089</u>	<u>372,135</u>
Minimum lease payments under operating leases:			
Bandwidth and server		34,218	29,487
Buildings		19,542	13,616
		<u>53,760</u>	<u>43,103</u>
Depreciation	(a)	63,547	57,652
Amortisation of lease prepayments	(a)	941	627
Amortisation of other intangible assets:			
Capitalised software costs*	(a)	14,399	17,158
Capitalised television program production cost	(a)	4,891	—
Purchased software	(a)	7,250	6,393
Others	(a)	1,400	1,373
Write-down of inventories***		1,527	3,223
Loss on disposal of items of property, plant and equipment***		899	299
Foreign exchange differences, net		(2,807)	1,006
Impairment of goodwill***		—	2,377
Impairment of other intangible assets***		—	5,160
Impairment of investments in jointly-controlled entities***		5,000	13,974
Impairment of loans to shareholders of jointly-controlled entities***		2,000	10,250
Donation***		500	1,000
Auditors' remuneration		9,268	9,450
Interest on bank loans		3,461	721

## 5. Profit before tax (continued)

	2011 RMB'000	2010 RMB'000
Government grants:		
Recorded as a reduction to research and development cost**	(21,781)	(17,075)
Recorded in other income and gains	(35,497)	(30,048)
	<u>(57,278)</u>	<u>(47,123)</u>
Gain on disposal of an associate	—	(105,189)
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 other financial asset	1,973	(13,785)
Interest income from loans to related parties	(2,040)	—
Bank interest income	(63,090)	(33,162)

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

\*\* Government grants which were granted to support the development of software and online game technology are recorded as a reduction to “research and development cost” 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, amortisation of lease prepayments and other intangible assets

	2011 RMB'000	2010 RMB'000
Included in:		
Cost of revenue	26,558	20,636
Research and development costs	46,979	46,151
Selling and distribution costs	3,953	3,547
Administrative expenses	14,938	12,869
	<u>92,428</u>	<u>83,203</u>

## 6. Share-based compensation costs

### (a) Share options

#### *2004 and 2007 Pre-IPO Share Option Schemes*

The 2004 Scheme and the 2007 Scheme were terminated on 3 September 2007. No share options under these two schemes have been granted since then. The following table illustrates the numbers and weighted average exercise prices (“WAEF”) of, and movements in, the Company’s share options under these two schemes for the years ended 31 December 2011 and 2010.

	<b>Group and Company</b>			
	<b>2011</b>	<b>2011</b>	2010	2010
	<b>Number of</b>	<b>WAEF</b>	Number of	WAEF
	<b>share options</b>	<b>USD per share</b>	share options	USD per share
<b>2004 Scheme</b>				
Outstanding at 1 January	<b>12,480,500</b>	<b>0.0789</b>	17,525,500	0.1078
Forfeited during the year	—	—	(54,000)	0.2379
Exercised during the year	<u>(7,337,000)</u>	<b>0.0680</b>	<u>(4,991,000)</u>	0.1788
Outstanding at 31 December	<u><b>5,143,500</b></u>	<b>0.0945</b>	<u>12,480,500</u>	0.0789
Exercisable at 31 December	<u><b>5,143,500</b></u>	<b>0.0945</b>	<u>12,480,500</u>	0.0789
<b>2007 Scheme</b>				
Outstanding at 1 January	<b>57,017,100</b>	<b>0.2411</b>	80,619,600	0.2410
Forfeited during the year	<b>(104,000)</b>	<b>0.2400</b>	(1,551,000)	0.2432
Exercised during the year	<u><b>(39,136,300)</b></u>	<b>0.2401</b>	<u>(22,051,500)</u>	0.2407
Outstanding at 31 December	<u><b>17,776,800</b></u>	<b>0.2432</b>	<u>57,017,100</u>	0.2411
Exercisable at 31 December	<u><b>17,776,800</b></u>	<b>0.2432</b>	<u>46,882,720</u>	0.2409
Total outstanding at 31 December	<u><b>22,920,300</b></u>	<b>0.2099</b>	<u>69,497,600</u>	0.2120
Total exercisable at 31 December	<u><b>22,920,300</b></u>	<b>0.2099</b>	<u>59,363,220</u>	0.2069

## 6. Share-based compensation costs (continued)

### (a) Share options (continued)

#### *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.

The following share options were outstanding under the 2011 Scheme during the year:

	2011	2011 WAEP HKD per share
	Number of share options	
Outstanding at 1 January	—	—
Granted during the year	12,500,000	2.89
Forfeited during the year	—	—
Exercised during the year	—	—
	<hr/>	
Outstanding at 31 December	<u>12,500,000</u>	2.89
	<hr/>	
Exercisable at 31 December	<u>—</u>	—

During the year ended 31 December 2011, 12,500,000 share options under the 2011 Scheme were granted to executive directors of the Company.

### (b) Share Award Scheme

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

## 6. Share-based compensation costs (continued)

### (b) Share Award Scheme (continued)

The following table illustrates the numbers of and movements in the Company's Awarded Shares for the years ended 31 December 2011 and 2010.

	<b>2011</b>	2010
	<b>Number of Awarded Shares</b>	Number of Awarded Shares
Outstanding as at 1 January	<b>16,596,801</b>	21,350,000
Granted during the year	<b>11,870,000</b>	8,764,600
Forfeited during the year	<b>(4,214,202)</b>	(6,988,000)
Cancelled during the year	<b>(1,440,600)</b>	—
Exercised and transferred during the year	<b>(6,604,995)</b>	(6,529,799)
	<u><b>16,207,004</b></u>	<u>16,596,801</u>
Outstanding as at 31 December		
	<u><b>1,024,000</b></u>	<u>864,000</u>
Exercisable as at 31 December		

During the year ended 31 December 2011, the Share Award Scheme Trust acquired 20,000,000 shares (2010: Nil) of the Company through purchases on the open market at a total cost (including related transaction costs) of approximately RMB47.4 million (2010: nil). As at 31 December 2011, 13,882,002 (2010: 97,200) unawarded or forfeited shares were held by the Share Award Scheme Trust and would be granted in future.

During the year ended 31 December 2011, 9,500,000 awarded shares (2010: 135,000) were granted to executive directors of the Company.

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

On 26 May 2011 (the “KIS Adoption Date”), the board of directors of KIS Holdings, a subsidiary of the Company, approved and adopted a share award scheme (the “KIS Share Award Scheme”), in which selected employees of KIS Holdings and its subsidiaries (“KIS Group”) are entitled to participate. KIS Holdings has set up a trust (the “KIS Share Award Scheme Trust”) for the purpose of administering the KIS Share Award Scheme and holding shares awarded to the employees (the “KIS Awarded Shares”) before they vest. Unless early terminated by the board of 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 board of directors of KIS Holdings will not grant any award of shares which would result in the total number of shares which are subject of awards granted by the board of directors of KIS Holdings under the KIS Share Award Scheme (but not counting any which have lapsed or have been forfeited) being greater than 100,000,000 shares, as at the date of such grant.

During the year ended 31 December 2011, 51,550,000 shares were awarded to a number of employees, of which 2,350,000 shares were vested and 1,680,000 shares were forfeited.



## 7. Income tax

PRC corporate income tax represents the tax charged on the estimated assessable profits arising in Mainland China for 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% (2010: 16.5%) on estimated assessable profits arising in Hong Kong during the year ended 31 December 2011.

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 2011 (2010: 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 2011 and 2010 are:

	2011 RMB'000	2010 RMB'000
Current — Mainland China	52,689	34,003
Current — Hong Kong	4,907	2,460
Current — Elsewhere	9,557	9,303
Deferred	<u>(16,991)</u>	<u>19,389</u>
Total tax charge for the year	<u><u>50,162</u></u>	<u><u>65,155</u></u>

## 8. Dividends

	2011 RMB'000	2010 RMB'000
Final dividend proposed: HKD0.10 (2010: HKD0.15) per share based on issued share capital as at year end	94,680	143,131
Special dividend proposed: Nil (2010: HKD0.25) per share based on issued share capital as at year end	—	238,551
Less: Dividend for shares held for share award scheme as at year end	<u>(2,439)</u>	<u>(5,682)</u>
	<u><u>92,241</u></u>	<u><u>376,000</u></u>

## 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 1,125,104,224 (2010: 1,090,540,697) 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:

	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent	<u><b>324,729</b></u>	<u>372,480</u>
<b>Number of shares</b>		
	<b>2011</b>	2010
<b>Shares</b>		
Weighted average number of ordinary shares in issue less shares held for the Share Award Scheme	<b>1,125,104,224</b>	1,090,540,697
Effect of dilution — weighted average number of ordinary shares:		
Share options	<b>29,717,895</b>	53,925,574
Awarded Shares	<u><b>8,934,331</b></u>	<u>14,759,825</u>
	<u><b>1,163,756,450</b></u>	<u>1,159,226,096</u>

## 10. Long-term prepayment

	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Payment for acquisition of land use right	<u><b>80,109</b></u>	<u>—</u>

## 11. Trade receivables

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

	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
0 to 30 days	<b>39,090</b>	37,948
31 to 60 days	<b>15,742</b>	24,233
61 to 90 days	<b>13,339</b>	14,966
91 to 365 days	<b>8,380</b>	15,749
Over one year	<b>3,815</b>	6,043
	<u><b>80,366</b></u>	<u>98,939</u>

## 12. Trade payables

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

	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
0 to 30 days	<b>5,557</b>	6,357
31 to 60 days	<b>1,794</b>	1,834
61 to 90 days	<b>2,022</b>	2,118
91 to 365 days	<b>4,976</b>	2,631
Over one year	<b>2,219</b>	2,631
	<u><b>16,568</b></u>	<u>15,571</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
<b>At 31 December 2011</b>			
Current			
Bank loan-unsecured	(a)	June 2012	265,585
Bank loan-secured	(b)	June 2012	81,070
			<u>346,655</u>

#### At 31 December 2010

Current			
Bank loan-unsecured		June 2011	102,108
			<u>102,108</u>

- (a) The interest-bearing bank loan represented a drawdown of USD42.0 million (equivalent to RMB265.6 million) from the Group's banking facility of USD42.0 million in June 2011. As an undertaking of such banking facility, the Group provided a RMB deposit of amount not less than the bank loan outstanding from time to time.
- (b) The interest-bearing bank loan represented a drawdown of HKD100.0 million (equivalent to RMB81.1 million) from the Group's banking facilities of HKD200.0 million in June 2011. The bank loan was secured by the Group's time deposit amounting to RMB85.0 million.

### 14. Events after the reporting period

Pursuant to the term loan agreement dated 4 January 2012, the Company withdrew HKD156.0 million from the Group's banking facility of HKD200.0 million on 5 January 2012 for early repayment of a term loan of USD20.0 million.

# OPERATIONAL HIGHLIGHTS

	31 March 2010	30 June 2010	30 September 2010	For the three months ended				
				31 December 2010	31 March 2011	30 June 2011	30 September 2011	31 December 2011
<b>Online Games</b>								
Daily Average Peak								
Concurrent Users	915,212	817,835	773,349	771,352	<b>684,023</b>	<b>653,085</b>	<b>608,607</b>	<b>661,774</b>
Monthly Average Paying Users	1,457,101	1,276,351	1,325,056	1,347,806	<b>1,258,525</b>	<b>1,250,771</b>	<b>1,186,481</b>	<b>1,326,071</b>
Monthly Average Revenue per Paying User (RMB)	36	41	39	41	<b>43</b>	<b>46</b>	<b>46</b>	<b>47</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## For the Three Months Ended 31 December 2011

The following table sets forth the comparative numbers for the three months ended 31 December 2011, 30 September 2011 and 31 December 2010, respectively.

	<b>For the Three months ended</b>		
	31 December 2010 RMB'000 (Unaudited)	30 September 2011 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Unaudited)
<b>Revenue:</b>			
Entertainment software	165,048	164,327	188,812
Application software	85,100	77,483	90,752
Others	—	897	3,994
	<u>250,148</u>	<u>242,707</u>	<u>283,558</u>
Cost of revenue	(36,635)	(36,770)	(43,644)
	<u>213,513</u>	<u>205,937</u>	<u>239,914</u>
<b>Gross profit</b>			
Research and development costs, net of government grants	(87,153)	(79,869)	(88,224)
Selling and distribution costs	(33,518)	(33,546)	(41,306)
Administrative expenses	(28,901)	(31,588)	(41,467)
Share-based compensation costs	(7,182)	(1,977)	(4,058)
Other income and gains	4,171	28,062	8,454
Other expenses	(27,243)	(5,374)	(2,263)
	<u>33,687</u>	<u>81,645</u>	<u>71,050</u>
<b>Operating profit</b>			
Fair value gain/(loss) on a financial asset at fair value through profit or loss	2,172	—	(2,278)
Gain on disposal of an associate	105,189	—	—
Finance income	9,862	16,900	21,392
Finance costs	(348)	(1,227)	(1,310)
Share of profits and losses of:			
Jointly-controlled entities	(1,522)	(316)	(151)
Associates	3,040	(1,288)	(191)
	<u>152,080</u>	<u>95,714</u>	<u>88,512</u>
<b>Profit before tax</b>			
Income tax expense	(20,793)	(11,553)	(11,794)
	<u>131,287</u>	<u>84,161</u>	<u>76,718</u>
<b>Profit for the period</b>			
Attributable to:			
Owners of the parent	130,833	74,894	79,026
Non-controlling interests	454	9,267	(2,308)
	<u>131,287</u>	<u>84,161</u>	<u>76,718</u>
	RMB	RMB	RMB
<b>Earnings per share attributable to ordinary equity holders of the parent</b>			
Basic	0.1187	0.0663	0.0693
Diluted	0.1100	0.0642	0.0682

	<b>For the Three months ended</b>		
	31 December 2010 RMB'000 (Unaudited)	30 September 2011 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Unaudited)
<b>Profit for the period</b>	131,287	84,161	<b>76,718</b>
<b>Other comprehensive income:</b>			
Exchange differences on translation of foreign operations	(863)	(2,380)	<b>(90)</b>
<b>Other comprehensive loss for the period, net of tax</b>	<b>(863)</b>	<b>(2,380)</b>	<b>(90)</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>130,424</b>	<b>81,781</b>	<b>76,628</b>
Attributable to:			
Owners of the parent	129,565	72,822	<b>78,230</b>
Non-controlling interests	859	8,959	<b>(1,602)</b>
	<b>130,424</b>	<b>81,781</b>	<b>76,628</b>

## Revenue

Revenue for the fourth quarter of 2011 increased 17% quarter-over-quarter and 13% year-over-year to RMB283.6 million. Revenue from the entertainment and application software businesses represented 67% and 32%, respectively, of the Group's total revenue.

Revenue from the entertainment software business for the fourth quarter of 2011 increased 15% quarter-over-quarter and 14% year-over-year to RMB188.8 million. The increase was mainly due to (i) the success of the expansion pack "The Grand Master" (一代宗師) of JX Online III; and (ii) the continuously stable and improved performance of our existing games.

Daily average peak concurrent users ("ADPCU") for the Company's online games for the fourth quarter of 2011 increased 9% quarter-over-quarter and decreased 14% year-over-year to 0.66 million. Monthly average paying users ("APU") for the Company's online games increased 12% quarter-over-quarter and decreased 2% year-over-year to 1.3 million. The quarter-over-quarter increase both in ADPCU and APU was primarily attributable to the enhanced popularity of JX Online III.

The monthly average revenue per paying user ("monthly ARPU") for the Group's online game increased 2% quarter-over-quarter and increased by 15% year-over-year to RMB47.

Revenue from the applications software business for the fourth quarter of 2011 increased 17% quarter-over-quarter and 7% year-over-year to RMB90.8 million. This mainly reflected (i) Kingsoft WPS Office received strong sales orders both from enterprises and government agencies; and (ii) the growing advertising revenue from Kingsoft Internet Security driven by enhanced user base.

### Cost of Revenue and Gross Profit

Cost of revenue for the fourth quarter of 2011 increased 19% quarter-over-quarter and year-over-year to RMB43.6 million. This mainly reflected the expanded user base of our business.

Gross profit for the fourth quarter of 2011 increased 16% quarter-over-quarter and 12% year-over-year to RMB239.9 million. The Group's gross profit margin held flat quarter-over-quarter and year-over-year to 85%.

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

R&D costs, net of government grants, for the fourth quarter of 2011 increased 10% quarter-over-quarter and 1% year-over-year to RMB88.2 million. The sequential increase in R&D expenses was mainly due to the recognition of discretionary year-end bonuses. The year-over-year increase was primarily attributable to increased R&D investment in cloud-based storage, security and other mobile applications.

The following table sets forth a breakdown of our research and development costs for the three months ended 31 December 2011, 30 September 2011 and 31 December 2010:

	<b>For the three months ended</b>		
	31 December 2010 RMB'000 (Unaudited)	30 September 2011 RMB'000 (Unaudited)	<b>31 December 2011 RMB'000 (Unaudited)</b>
Staff costs	66,554	62,882	<b>71,936</b>
Depreciation & Amortisation	8,190	8,378	<b>7,206</b>
Others	13,201	11,569	<b>15,454</b>
	<u>87,945</u>	<u>82,829</u>	<b><u>94,596</u></b>
Less: Capitalised software costs (excluding share-based compensation costs)	(1,436)	(1,389)	<b>(3,143)</b>
Add: Amortisation of capitalised software costs	6,854	1,487	<b>2,232</b>
Less: Government grants for research and development activities	(6,210)	(3,058)	<b>(5,461)</b>
Total	<u><u>87,153</u></u>	<u><u>79,869</u></u>	<b><u><u>88,224</u></u></b>



## **Selling and Distribution Costs**

Selling and distribution costs for the fourth quarter of 2011 increased 23% quarter-over-quarter and year-over-year to RMB41.3 million. The increase was largely due to increased advertising and promotional expenses for JX Series.

## **Administrative Expenses**

Administrative expenses for the fourth quarter of 2011 increased 31% quarter-over-quarter and 43% year-over-year to RMB41.5 million. The sequential and year-over-year increase in administrative expenses was mainly due to the increase in staff costs and professional fees.

## **Share-based Compensation Costs**

Share-based compensation costs for the fourth quarter of 2011 increased 105% quarter-over-quarter and decreased 43% year-over-year to RMB4.1 million. The quarter-over-quarter increase was mainly due to the awarded shares and options granted to executive directors.

## **Other Income and Gains**

Other income and gains for the fourth quarter of 2011 decreased 70% quarter-over-quarter and increased 103% year-over-year to RMB8.5 million.

## **Other Expenses**

Other expenses for the fourth quarter of 2011 decreased 58% quarter-over-quarter and 92% year-over-year to RMB2.3 million.

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

Operating profit excluding share-based compensation costs for the fourth quarter of 2011 decreased 10% quarter-over-quarter and increased 84% year-over-year to RMB75.1 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs for the fourth quarter of 2011 decreased eight percentage points quarter-over-quarter and increased ten percentage points year-over-year to 26%.

## **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 loss of RMB2.3 million, compared to nil for the third quarter of 2011 and a gain of RMB2.2 million for the fourth quarter of 2010.

## **Gain on Disposal of an Associate**

Gain on disposal of an associate recorded nil compared to nil last quarter and RMB105.2 million for the fourth quarter of 2010.

## **Financial Income**

Financial income for the fourth quarter of 2011 increased 27% quarter-over-quarter and 117% year-over-year to RMB21.4 million. The increase in financial income was primarily driven by the higher interest rate.

## **Income Tax Expense**

Income tax expense for the fourth quarter of 2011 increased 2% quarter-over-quarter and decreased 43% year-over-year to RMB11.8 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) increased by one percentage point quarter-over-quarter and held flat 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 6% quarter-over-quarter and decreased 40% year-over-year to RMB79.0 million.

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

Profit attributable to owners of the parent before share-based compensation costs, which is defined as profit attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent, a measure supplementary to the consolidated financial statements presented in accordance with IFRSs.

We believe the profit attributable to owners of the parent before share-based compensation costs will enhance investors' overall understanding of the Company's operating performance. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our profit or any other operating performance measure that is calculated in accordance with IFRSs. In addition, our profit attributable to owners of the parent before share-based compensation costs may not be comparable to similarly titled measures utilized by other companies.

Profit attributable to owners of the parent before share-based compensation costs for the fourth quarter of 2011 increased 8% quarter-over-quarter and decreased 40% year-over-year to RMB82.6 million. The net profit margin excluding the effect of share-based compensation costs was 29%, 31% and 55% for the three months ended 31 December 2011, 30 September 2011 and 31 December 2010, respectively.

## **Liquidity and Financial Resource**

The Group had a strong cash position towards the end of the reporting period. As at 31 December 2011, the Group had major financial resources in the forms of cash and cash equivalent, time deposits with initial term of over three months amounting to RMB1,199.3 million and RMB754.5 million, respectively, which totally represented 65% of the Group's total assets.

As at 31 December 2011, the Group's gearing ratio, which represents total liabilities divided by total assets, was 27%, increased from 21% as at 31 December 2010. As at 31 December 2011, the Group had USD42.0 million (equivalent to RMB265.6 million) and HKD100.0 million (equivalent to RMB81.1 million) 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 2011, RMB163.8 million of the Group's financial assets were held in deposits and investments 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 2011 decreased 3% quarter-over-quarter and 5% year-over-year to RMB181.5 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 RMB149.5 million, RMB111.0 million and RMB171.1 million for the three months ended 31 December 2011, 30 September 2011 and 31 December 2010, respectively.

### **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 RMB21.9 million, RMB61.1 million and RMB34.9 million for the three months ended 31 December 2011, 30 September 2011 and 31 December 2010, respectively.

## For the Year Ended 31 December 2011

The following table sets forth the comparative numbers for the years ended 31 December 2010 and 31 December 2011, respectively.

	2011 RMB'000	2010 RMB'000
<b>Revenue:</b>		
Entertainment software	689,519	640,917
Application software	326,098	330,480
Others	4,891	—
	<u>1,020,508</u>	<u>971,397</u>
Cost of revenue	(147,812)	(130,998)
<b>Gross profit</b>	<b>872,696</b>	840,399
Research and development costs, net of government grants	(303,848)	(271,046)
Selling and distribution costs	(125,873)	(129,216)
Administrative expenses	(127,498)	(111,143)
Share-based compensation costs	(17,266)	(42,119)
Other income and gains	44,051	31,528
Other expenses	(10,747)	(38,203)
	<u>331,515</u>	<u>280,200</u>
<b>Operating profit</b>	<b>331,515</b>	280,200
Fair value gain/(loss) on a financial asset at fair value through profit or loss	(1,973)	13,785
Gain on disposal of an associate	—	105,189
Finance income	65,130	33,162
Finance costs	(3,461)	(721)
Share of profits and losses of:		
Jointly-controlled entities	(1,945)	(6,360)
Associates	(4,070)	14,433
	<u>385,196</u>	<u>439,688</u>
<b>Profit before tax</b>	<b>385,196</b>	439,688
Income tax expense	(50,162)	(65,155)
	<u>335,034</u>	<u>374,533</u>
<b>Profit for the year</b>	<b>335,034</b>	374,533
Attributable to:		
Owners of the parent	324,729	372,480
Non-controlling interests	10,305	2,053
	<u>335,034</u>	<u>374,533</u>
	<b>RMB</b>	<b>RMB</b>
<b>Earnings per share attributable to ordinary equity holders of the parent</b>		
Basic	0.2886	0.3416
Diluted	0.2790	0.3213

	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
<b>Profit for the year</b>	<b>335,034</b>	374,533
<b>Other comprehensive income:</b>		
Exchange differences on translation of foreign operations	<u>(3,885)</u>	<u>(498)</u>
<b>Other comprehensive loss for the year, net of tax</b>	<u>(3,885)</u>	<u>(498)</u>
<b>Total comprehensive income for the year</b>	<u><u>331,149</u></u>	<u><u>374,035</u></u>
Attributable to:		
Owners of the parent	<b>321,339</b>	370,319
Non-controlling interests	<u>9,810</u>	<u>3,716</u>
	<u><u>331,149</u></u>	<u><u>374,035</u></u>

## Revenue

Revenue for the year of 2011 increased 5% year-over-year to RMB1,020.6 million. Approximately 68% of the revenue was generated from the entertainment software and 32% of the revenue was generated from the applications software.

### — *Entertainment Software*

Revenue from the entertainment software for the year of 2011 increased 8% year-over-year to RMB689.5 million. This was primarily due to the stable and enhanced performance of our existing games as we focus on enhancing the gamer experience.

### — *Application Software*

Revenue from the application software business for the year of 2011 decreased 1% year-over-year to RMB326.1 million. The decrease was mainly the result of the combination of (i) the temporary adverse impact on revenue of the free policy of Kingsoft Internet Security; and (ii) the robust growth of sales from Kingsoft WPS Office.

## Cost of Revenue and Gross Profit

Cost of revenue for the year of 2011 increased 13% year-over-year to RMB147.8 million. This was mainly due to higher bandwidth costs and server depreciation expenses as the user base of our services and products expanded.

Gross profit for the year of 2011 increased 4% year-over-year to RMB872.7 million. The Group's gross profit margin decreased one percentage point year-over-year to 86%.

## R&D Costs

R&D costs, net of government grants, for the year of 2011 increased 12% year-over-year to RMB303.8 million. This was primarily attributable to (i) the increased R&D investments in cloud-based security products and new game titles; and (ii) the decreased capitalised R&D costs as well.

The following table sets forth a breakdown of R&D costs for the year ended 31 December 2011 and 2010.

	For the year ended	
	31 December	
	2011	2010
	RMB'000	RMB'000
Staff costs	239,491	215,616
Depreciation & Amortisation	32,580	29,006
Others	46,677	45,793
	<u>318,748</u>	<u>290,415</u>
Less: Capitalised software costs (excluding share-based compensation costs)	(7,518)	(19,452)
Add: Amortisation of capitalised software costs	14,399	17,158
Less: Government Grants for research and development activities	(21,781)	(17,075)
Total	<u>303,848</u>	<u>271,046</u>

## Selling and Distribution Costs

Selling and distribution costs for the year of 2011 decreased 3% year-over-year to RMB125.9 million.

## Administrative Expenses

Administrative expenses for the year of 2011 increased by 15% year-over-year to RMB127.5 million. The increase was largely attributable to the higher staff costs.

## Share-based Compensation Costs

Share-based compensation costs for the year of 2011 decreased 59% year-over-year to RMB17.3 million. The decrease was mainly due to the full vest of most of the options and awarded shares in the early of 2011.

## Other Income and Gains

Other income and gains for the year of 2011 increased 40% year-over-year to RMB44.1 million.

## **Other Expenses**

Other expenses for the year of 2011 decreased 72% year-over-year to 10.7 million. The year-over-year decrease was mainly due to higher impairment losses provided in the year of 2010.

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

Operating profit excluding share-based compensation costs for the year of 2011 increased 8% year-over-year to RMB348.8 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs increased one percentage point to 34% in the year of 2011.

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

Fair value gain/(loss), which reflected the change of fair value of an option granted by VNG Corporation, recorded a loss of RMB2.0 million for the year of 2011, compared to a gain of RMB13.8 million for the year of 2010.

## **Gain on Disposal of an Associate**

Gain on disposal of an associate recorded nil compared to RMB105.2 million for the year of 2010.

## **Finance Income**

Finance income for the year of 2011 increased 96% year-over-year to RMB65.1 million. This was mainly due to the rising market interest rate and higher cash and term deposits balances in the year of 2011.

## **Income Tax Expense**

Income tax expenses for the year of 2011 decreased 23% year-over-year to RMB50.2 million. The Group’s effective tax rate (excluding the impact of share-based compensation costs) decreased by two percentage points year-over-year to 12%.

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

For the reasons described above, especially the gain on disposal of an associate for the year of 2010, profit attributable to owners of the parent for the year of 2011 decreased 13% year-over-year to RMB324.7 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 2011 decreased 18% year-over-year to RMB340.6 million.

The profit margin excluding the effect of share-based compensation costs for the year of 2011 decreased ten percentage points year-over-year to 33%.

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

Cash generated by our operating activities reflects our profit for reporting year, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalised software costs, and share-based compensation costs, as well as the effect of changes in certain items of statement of financial position, such as deferred revenue and accrued expenses and accruals.

Net cash generated by operating activities increased 15% year-over-year to RMB451.8 million for the year ended 31 December 2011.

## **Capital Expenditures**

Capital expenditures represent cash payments for acquisition of property, land use right, fixed assets and intangible assets. Cash used for capital expenditures increased by 67% year-over-year to RMB 168.0 million, as the group incurred payments for acquisition of land use right in Chengdu in 2011.

## **BUSINESS REVIEW AND PROSPECTS**

Mr. Jun LEI, Chairman of Kingsoft, commented, “2011 was an important and turning year for Kingsoft. During the year, we completed the restructuring of Westhouse in April and introduced Tencent Holdings Limited (“Tencent”) to be our strategic shareholder in July. Dr. Hongjiang ZHANG and Mr. Shun Tak WONG were appointed as the chief executive officer and chief financial officer of Kingsoft in late 2011, respectively. We are well positioned for opportunities ahead of us brought by cloud technology and mobile internet as well.”

Hongjiang ZHANG, CEO of Kingsoft, added, “we have had a relatively satisfying fourth quarter and 2011 with revenue posted a quarter-over-quarter growth of 17% and full year revenue recorded a year-over-year growth of 5% . If we take out the one-off disposal gain of Kingsoft Guangzhou in 2010, our profitability actually picked up in 2011. The performance of our existing games in particular JX Online III, demonstrated a strong momentum of growth as we continued to optimize the gamer experience. During the year, we carefully examined the potential needs of gamers of our existing games and successfully launched a number of expansion packs for JX series. The release of the expansion pack, “The Grand Master”, for our 3D MMO JX Online III in November brought new excitements to the players and further stimulated the popularity of the game. The user base of JX Online III increased nearly 60% year-over-year after the release of expansion packs. We are also actively pursuing the development of web games and mobile games and targeting it as the next growth catalyst. ”

“For Kingsoft Internet Security Software business, we have achieved tremendous growth in user base as we continued to improve the cloud-based version of Kingsoft Antivirus 2012, code named *Cheetah*, and Kingsoft Security Defender. Leveraging the momentum of mobile internet, we launched Kingsoft Mobile Defender for Android in the first half of 2011. To enhance the mobile user experiences, new features such as one-key examination, protection of privacy, anti-theft of mobile phone, anti-harassment and anti-virus were added. ”

“Kingsoft WPS Office reached a new milestone with sales in domestic market and Japan exceeded RMB120 million during 2011. Benefiting from the continued improvement in copyright protection



in China, WPS has been the choice of office solution by more and more government agencies and enterprises. In the second half of 2011, we launched Kingsoft Kuaipan and Kingsoft WPS Office for Android in both China and Japan.”

“Looking forward, Legend of Moon, Ma La Jiang Hu and other new games are in the pipeline of new game release. The open beta of Legend of Moon is expected to be started in the mid of 2012. For the coming year, we will continue optimizing gamer experience and improving our planning, marketing and promotion activities. We believe that the revenue from our online game business will resume a steady growth.”

“We will continue to invest in Kingsoft cloud-based security solutions and expand our investment in mobile security. We are committed to deliver the most easy-to-use and trustworthy cloud-based security products in China. To enhance the user experience of our products, we have adopted a fast development model and will release a new update weekly. By doing so we believe our active user base will be able to expand further. Although the advertising revenue from Kingsoft Security was small in 2011, it has gained momentum as our user base expansion accelerates to a historical level.”

“The accelerated growth of mobile internet user basis and smart devices in China opens new opportunities for Kingsoft. We will provide cloud-based, cross platform office service and further improve the user experience of document reading, document conversion, file synchronization and file sharing across devices.”

“Leveraging the rapid development of mobile internet, cloud-based services and our R&D capabilities, we have announced the establishment of a new subsidiary of cloud computing by integrating Kingsoft Kuai Pan and Kingsoft T Pan as the first step. We have recently entered into strategic partnership with Konka and Xiaomi to provide cloud storage to TV and mobile phone users. This will be a long term strategic investment and will better position us in the coming years.”

“We are committed to deliver long term results to our shareholders by focusing on innovation and R&D to continue improving our products and services and providing better experience to our users.”, Dr. Zhang concluded.

## **OTHER INFORMATION**

### **Employee and Remuneration Policies**

As at 31 December 2011, the Group employed approximately 2,782 full-time employees (2010: 2,472) 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 remuneration policy and package of the Group’s employees are periodically reviewed. The principle of the Group’s remuneration policy 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.

The staff costs of the Group including Directors' and senior management's emoluments in 2011 and 2010 were approximately RMB387.1 million and RMB372.1 million, respectively.

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

During the year ended 31 December 2011, the trustee of the Share Award Scheme of the Company had purchased from the market a total of 20,000,000 shares for award to employees upon vesting. Details of the Share Award Scheme will be set out in the 2011 Annual Report of the Company. The total amount paid to acquire these 20,000,000 shares inclusive transaction cost during the year was about HKD58.0 million. Details of awarded shares purchased are as follows:

<b>Month of purchase in 2011</b>	<b>No. of shares Purchased</b>	<b>Purchase consideration per share</b>		<b>Aggregate consideration Paid</b>
		<b>Highest price paid</b>	<b>Lowest price paid</b>	
		<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
September	9,685,000	3.00	2.80	28,310,274
October	6,583,000	2.98	2.72	18,769,358
December	3,732,000	2.98	2.86	10,945,589

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 2011.

### **Compliance with Model Code for Securities Transactions by Directors**

The Company has adopted 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 2011.

### **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	4:30pm on Thursday, 17 May 2012
Closure of the register of members of the Company	Friday, 18 May 2012 to Wednesday, 23 May 2012 (both dates inclusive)
Record date	Wednesday, 23 May 2012

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30pm on Monday, 28 May 2012
Closure of the register of members of the Company	Tuesday, 29 May 2012 to Friday, 1 June 2012 (both dates inclusive)
Record date	Friday, 1 June 2012

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 comprises three independent non-executive directors. The Audit Committee has reviewed with the management, and the Company's internal and external auditors the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters. The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2011, 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**

Throughout the year ended 31 December 2011, save as disclosed below, the Company complied with the code provisions set out in the code on Corporate Governance Practices (the "Code") in Appendix 14 to the Listing Rules.

Code A.2.1 of the Code provides that the roles of the chairman (the "Chairman") and chief executive officer (the "CEO") should be separated and should not be performed by the same individual. During the year 2011, up until 5 July 2011, Mr. Pak Kwan Kau was both the Chairman and CEO of the Company. The Board considered that through the Company's effective internal control mechanism, and the supervision of the Board and the independent non-executive directors, this arrangement would not impair the balance of power and authority between the Board and the management of the Company. Due to Mr. Kau's personal development plan, Mr. Kau resigned the post of Chairman on 5 July 2011 and resigned the post of CEO on 24 October 2011. After considering Mr. Kau's recommendation, the Board appointed Mr. Jun Lei to be the Chairman of the Company on 5 July 2011. With effect from 24 October 2011, Mr. HongJiang Zhang was appointed to be the CEO of the Company. With Mr. Jun Lei being the Chairman and Mr. HongJiang Zhang being the CEO of the Company, the roles of the Chairman and CEO of the Company are separated and performed by different persons, thus the Company complies with code A.2.1 of the Code.

## **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](http://www.hkexnews.hk)) and the Company's website ([www.kingsoft.com](http://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*

Hong Kong, 27 March 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.*