



(continued into the Cayman Islands with limited liability)

Stock Code:03888

KINGSOFT CORPORATION LIMITED

2012 Interim Report





# Kingsoft Corporation Limited

Interim Report 2012 | KINGSOFT CORPORATION LIMITED

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# CORPORATE INFORMATION

## **Legal Name of the Company**

Kingsoft Corporation Limited

## **Stock Code**

03888

## **Date of Listing**

9 October 2007

## **Head Office and Principal Place of Business**

Kingsoft Tower

No.33, Xiaoying West Road

Haidian District

Beijing 100085

PRC

## **Principal Place of Business in Hong Kong**

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

## **Registered Office**

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman KY1-1108

Cayman Islands

## **Executive Directors**

Mr. HongJiang Zhang

Mr. Tao Zou

## **Non-executive Directors**

Mr. Jun Lei (Chairman)

Mr. Pak Kwan Kau

Mr. Chi Ping Lau

## **Independent Non-executive Directors**

Mr. To Thomas Hui

Mr. Guangming George Lu

Mr. Chuan Wang

## **Audit Committee**

Mr. To Thomas Hui (Chairman)

Mr. Guangming George Lu

Mr. Chuan Wang

## **Remuneration Committee**

Mr. Guangming George Lu (Chairman)

Mr. Jun Lei

Mr. To Thomas Hui

Mr. Chuan Wang

## **Nomination Committee**

Mr. Guangming George Lu (Chairman)

Mr. Chi Ping Lau

Mr. Chuan Wang

## **Board Secretary/Company Secretary**

Ms. Michelle Feng Harnett

## CORPORATE INFORMATION (continued)

### Authorised Representatives

Mr. Pak Kwan Kau

Ms. Michelle Feng Harnett

### Principal Share Registrar and Transfer Office

Appleby Trust (Cayman) Ltd.

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman KY1-1108

Cayman Islands

### Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17/F.

Hopewell Centre

183 Queen's Road East

Hong Kong

### Auditors

Ernst & Young

Certified Public Accountants

22th Floor, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

### Legal Advisers on Hong Kong law

Hui & Lam

Rooms 1505-6, 15/F

The Center

99 Queen's Road Central

Hong Kong

### Principal Bankers

Industrial and Commercial Bank of China (Asia) Limited

DBS Bank Limited

DBS Bank (China) Limited — Beijing Branch

The Bank of East Asia, Limited

The Bank of East Asia (China) Limited — Beijing Branch

Standard Chartered Bank (China) Limited

Bank of Beijing — Zhongguancun Branch

China Merchants Bank Beijing — Beijing Dayuncun  
sub-branch

Bank of Communications — Zhuhai Jida Branch

### Investor and Media Relations

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# UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended 30 June 2012

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)
Revenue	4	<b>322,467</b>	262,967	<b>615,052</b>	494,243
Cost of revenue		<b>(40,877)</b>	(34,608)	<b>(90,531)</b>	(67,398)
Gross profit		<b>281,590</b>	228,359	<b>524,521</b>	426,845
Research and development costs, net of government grants		<b>(86,973)</b>	(61,447)	<b>(174,317)</b>	(135,755)
Selling and distribution costs		<b>(40,104)</b>	(31,176)	<b>(71,310)</b>	(51,021)
Administrative expenses		<b>(36,753)</b>	(26,088)	<b>(70,725)</b>	(54,443)
Share-based compensation costs	15	<b>(14,092)</b>	(3,699)	<b>(22,244)</b>	(11,231)
Other income and gains	4	<b>7,418</b>	6,655	<b>9,678</b>	7,840
Other expenses		<b>(2,305)</b>	(2,920)	<b>(3,018)</b>	(3,110)
Finance income		<b>24,152</b>	13,791	<b>46,359</b>	26,838
Finance costs		<b>(1,997)</b>	(806)	<b>(3,942)</b>	(924)
Share of profits and losses of:					
Jointly-controlled entities		<b>2,681</b>	(625)	<b>4,646</b>	(1,478)
Associates		<b>—</b>	(815)	<b>(930)</b>	(2,591)
<b>PROFIT BEFORE TAX</b>	5	<b>133,617</b>	121,229	<b>238,718</b>	200,970
Income tax expense	6	<b>(15,197)</b>	(15,334)	<b>(29,976)</b>	(26,815)
<b>PROFIT FOR THE PERIOD</b>		<b>118,420</b>	105,895	<b>208,742</b>	174,155
Attributable to:					
Owners of the parent		<b>111,897</b>	103,915	<b>199,423</b>	170,809
Non-controlling interests		<b>6,523</b>	1,980	<b>9,319</b>	3,346
		<b>118,420</b>	105,895	<b>208,742</b>	174,155
		<b>RMB (UNAUDITED)</b>	<b>RMB (UNAUDITED)</b>	<b>RMB (UNAUDITED)</b>	<b>RMB (UNAUDITED)</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	7				
Basic		<b>9.79 cents</b>	9.27 cents	<b>17.48 cents</b>	15.32 cents
Diluted		<b>9.64 cents</b>	8.93 cents	<b>17.20 cents</b>	14.71 cents

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2012

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)
<b>PROFIT FOR THE PERIOD</b>	<b>118,420</b>	105,895	<b>208,742</b>	174,155
<b>OTHER COMPREHENSIVE INCOME:</b>				
Exchange differences on translation of foreign operations	(2,425)	499	(4,456)	(1,415)
<b>OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX</b>	<b>(2,425)</b>	499	<b>(4,456)</b>	(1,415)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>115,995</b>	106,394	<b>204,286</b>	172,740
<b>ATTRIBUTABLE TO:</b>				
Owners of the parent	<b>109,632</b>	104,367	<b>195,992</b>	170,287
Non-controlling interests	<b>6,363</b>	2,027	<b>8,294</b>	2,453
	<b>115,995</b>	106,394	<b>204,286</b>	172,740

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	NOTES	30 JUNE 2012 RMB'000 (UNAUDITED)	31 DECEMBER 2011 RMB'000 (AUDITED)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	386,142	395,328
Lease prepayments		43,671	44,142
Goodwill		14,559	14,559
Other intangible assets	9	56,862	68,170
Long-term prepayment		80,109	80,109
Investments in jointly-controlled entities		15,422	10,622
Investments in associates		—	930
Available-for-sale investments		4,990	4,990
Other financial asset		11,878	11,812
Loan receivables		4,339	4,500
Deferred tax assets		29,552	27,547
Total non-current assets		647,524	662,709
<b>CURRENT ASSETS</b>			
Inventories		15,359	3,311
Trade receivables	10	129,112	80,366
Prepayments, deposits and other receivables		97,529	90,956
Due from related parties		131,979	137,502
Deferred cost		647	905
Pledged deposit	11	—	85,000
Cash and cash equivalents	11	2,131,967	1,953,770
Total current assets		2,506,593	2,351,810
<b>CURRENT LIABILITIES</b>			
Trade payables	12	17,596	16,568
Interest-bearing bank loans	13	415,752	346,655
Other payables and accruals		192,783	219,400
Deferred revenue		137,242	161,210
Income tax payable		12,024	17,221
Total current liabilities		775,397	761,054
<b>NET CURRENT ASSETS</b>		<b>1,731,196</b>	1,590,756
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,378,720</b>	2,253,465
<b>NON-CURRENT LIABILITIES</b>			
Deferred revenue		17,555	20,321
Deferred tax liabilities		16,419	20,024
Total non-current liabilities		33,974	40,345
<b>NET ASSETS</b>		<b>2,344,746</b>	2,213,120

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2012

	NOTES	30 JUNE 2012 RMB'000 (UNAUDITED)	31 DECEMBER 2011 RMB'000 (AUDITED)
<b>EQUITY</b>			
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT</b>			
Issued capital	14	4,689	4,677
Share premium account	14	451,062	440,974
Shares held for share award scheme	14	(85,860)	(93,754)
Statutory reserves		146,654	146,654
Employee share-based reserve	15	146,351	145,435
Capital reserve	16	254,209	253,914
Foreign currency translation reserve		(75,446)	(72,015)
Retained earnings		1,401,130	1,201,707
Proposed final dividend	17	—	92,241
		<b>2,242,789</b>	2,119,833
<b>NON-CONTROLLING INTERESTS</b>			
		<b>101,957</b>	93,287
<b>TOTAL EQUITY</b>			
		<b>2,344,746</b>	2,213,120

**Jun Lei**  
Director

**HongJiang Zhang**  
Director



# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	ATTRIBUTABLE TO OWNERS OF THE PARENT											
	SHARES HELD			EMPLOYEE	FOREIGN		PROPOSED		NON-	TOTAL	TOTAL	TOTAL
	ISSUED	SHARE	FOR SHARE		STATUTORY	SHARE-BASED	CAPITAL	CURRENCY				
	CAPITAL	ACCOUNT	AWARD	RESERVES	RESERVE	RESERVE	RESERVE	EARNINGS	DIVIDENDS	INTERESTS	INTERESTS	EQUITY
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	
<b>AT 1 JANUARY 2012</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>
Profit for the period	—	—	—	—	—	—	—	199,423	—	199,423	9,319	208,742
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(3,431)	—	—	(3,431)	(1,025)	(4,456)
Total comprehensive income for the period	—	—	—	—	—	—	(3,431)	199,423	—	195,992	8,294	204,286
Approved and paid final dividend in respect of the previous year	—	(830)	—	—	—	—	—	—	(92,241)	(93,071)	—	(93,071)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(13,027)	(13,027)
Share-based compensation costs	—	—	—	—	14,068	—	—	—	—	14,068	2,510	16,578
Exercise of share options	12	10,918	—	—	(5,258)	—	—	—	—	5,672	—	5,672
Vested awarded shares transferred to employees	—	—	7,894	—	(7,894)	—	—	—	—	—	—	—
Capital contributions from non-controlling interests	—	—	—	—	—	—	—	—	—	—	11,195	11,195
Changes in the ownership interests in subsidiaries	—	—	—	—	—	295	—	—	—	295	(302)	(7)
<b>AT 30 JUNE 2012</b>	<b>4,689</b>	<b>451,062</b>	<b>(85,860)</b>	<b>146,654</b>	<b>146,351</b>	<b>254,209</b>	<b>(75,446)</b>	<b>1,401,130</b>	<b>—</b>	<b>2,242,789</b>	<b>101,957</b>	<b>2,344,746</b>
<b>AT 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 period	—	—	—	—	—	—	—	170,809	—	170,809	3,346	174,155
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(522)	—	—	(522)	(893)	(1,415)
Total comprehensive income for the period	—	—	—	—	—	—	(522)	170,809	—	170,287	2,453	172,740
Approved and paid final and special dividends in respect of the previous year	—	1,043	—	—	—	—	—	—	(376,000)	(374,957)	—	(374,957)
Share-based compensation costs	—	—	—	—	4,344	—	—	—	—	4,344	516	4,860
Exercise of share options	54	47,992	—	—	(23,233)	—	—	—	—	24,813	—	24,813
Vested awarded shares transferred to employees	—	—	5,744	—	(5,744)	—	—	—	—	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	164,882	—	—	—	164,882	10,614	175,496
<b>AT 30 JUNE 2011</b>	<b>4,581</b>	<b>457,276</b>	<b>(52,029)</b>	<b>140,057</b>	<b>183,013</b>	<b>181,112</b>	<b>(69,147)</b>	<b>1,054,384</b>	<b>—</b>	<b>1,899,247</b>	<b>37,766</b>	<b>1,937,013</b>

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>			
<b>NOTE</b>	<b>2012 RMB'000 (UNAUDITED)</b>	<b>2011 RMB'000 (UNAUDITED)</b>	
	<b>148,470</b>	191,259	
	<b>(506,038)</b>	(431,136)	
	<b>(32,128)</b>	(57,578)	
	<b>(389,696)</b>	(297,455)	
	<b>1,199,313</b>	1,186,711	
	<b>(2,686)</b>	(505)	
	<b>806,931</b>	888,751	

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of Kingsoft Corporation Limited (the "Company") were approved and authorised for issue in accordance with a resolution of the board of directors of the Company (the "Board") on 23 August 2012.

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

The Company and its subsidiaries (collectively referred to as the "Group") are principally involved in research, development and operation of games, information security services and other application services across devices.

## 2. BASIS OF PREPARATION AND 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)

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### Significant accounting policies (continued)

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

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

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

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

- (a) the entertainment software segment engages in research and development of games, and provision of online games, mobile games and casual game services;
- (b) the information security software segment engages in the research, development and operation of information security software, provision of information security service across devices, and provision of online advertising services; and
- (c) the other application software segment engages in the research, development and distribution of office application software, provision of office, cloud storage, cloud computation and dictionary services across devices, and provision of online advertising services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance income, finance costs, administrative expenses, share-based compensation costs, share of profits and losses of jointly-controlled entities and associates, other expenses and other income and gains are excluded from such measurement.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. OPERATING SEGMENT INFORMATION (continued)

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

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and the royalties derived from licensing arrangements.

An analysis of the Group's revenue, other income and gains is as follows:

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)
<i>Revenue</i>				
Sales of packaged software	<b>52,789</b>	39,695	<b>102,601</b>	57,080
Rendering of services	<b>236,652</b>	191,829	<b>437,914</b>	373,971
Royalties	<b>32,616</b>	31,443	<b>66,091</b>	63,192
Others	<b>410</b>	—	<b>8,446</b>	—
	<b>322,467</b>	262,967	<b>615,052</b>	494,243
<i>Other income and gains</i>				
Government grants	<b>5,704</b>	4,825	<b>6,105</b>	5,930
Gain on deemed disposal of an associate	—	1,500	—	1,500
Fair value gain on a financial asset at fair value through profit or loss	—	305	—	305
Foreign exchange differences	<b>1,299</b>	—	<b>1,299</b>	—
Others	<b>415</b>	25	<b>2,274</b>	105
	<b>7,418</b>	6,655	<b>9,678</b>	7,840

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5. PROFIT BEFORE TAX

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

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

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

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

## 6. INCOME TAX EXPENSE

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

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)
Current income tax	13,729	17,528	35,586	31,065
Deferred income tax	1,468	(2,194)	(5,610)	(4,250)
Income tax expense	15,197	15,334	29,976	26,815

The People's Republic of China (the "PRC") corporate income tax represents the tax charged on the estimated assessable profits arising in the Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to tax holiday and preferential tax rates.

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

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

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

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares relating to the Group's share option schemes and share award scheme into ordinary shares.

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

	<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>	
	<b>2012</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(UNAUDITED)</b>	<b>(UNAUDITED)</b>
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent	<b>199,423</b>	170,809

	<b>NUMBER OF SHARES FOR THE SIX MONTHS ENDED 30 JUNE</b>	
	<b>2012</b>	<b>2011</b>
	<b>(UNAUDITED)</b>	<b>(UNAUDITED)</b>
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme	<b>1,141,171,733</b>	1,115,111,918
Effect of dilution — weighted average number of ordinary shares:		
Share options	<b>10,672,345</b>	37,977,252
Awarded shares	<b>7,566,372</b>	7,731,246
	<b>1,159,410,450</b>	1,160,820,416

## 8. PROPERTY, PLANT AND EQUIPMENT

	<b>2012</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(UNAUDITED)</b>	<b>(UNAUDITED)</b>
Net carrying amount at 1 January	<b>395,328</b>	392,767
Additions	<b>22,390</b>	20,594
Acquisition from business combination (note 18)	—	105
Disposals	<b>(136)</b>	(93)
Depreciation charge for the period	<b>(31,440)</b>	(30,608)
Net carrying amount at 30 June	<b>386,142</b>	382,765



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 9. OTHER INTANGIBLE ASSETS

	<b>2012 RMB'000 (UNAUDITED)</b>	<b>2011 RMB'000 (UNAUDITED)</b>
Net carrying amount at 1 January	68,170	69,045
Additions	9,815	3,698
Acquisition from business combination (note 18)	—	15,046
Amortisation charge for the period	(19,123)	(14,970)
Impairment during the period	(2,000)	—
Net carrying amount at 30 June	<b>56,862</b>	72,819

## 10. TRADE RECEIVABLES

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

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

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

## 11. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSIT

	<b>30 JUNE 2012 RMB'000 (UNAUDITED)</b>	<b>31 DECEMBER 2011 RMB'000 (AUDITED)</b>
Cash and bank balances	339,310	296,853
Time deposits with original maturity of three months or less when acquired	467,621	902,460
	<b>806,931</b>	1,199,313
Time deposits with original maturity of over three months when acquired	1,325,036	839,457
Less: pledged time deposit for bank loan (note 13(c))	—	(85,000)
	<b>2,131,967</b>	1,953,770

For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents consist of cash at bank and in hand and time deposits with an original maturity of three months or less when acquired.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 12. TRADE PAYABLES

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

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

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

## 13. INTEREST-BEARING BANK LOANS

	<b>EFFECTIVE INTEREST RATE</b>	<b>MATURITY</b>	<b>PRINCIPAL AMOUNT RMB'000</b>
30 June 2012			<b>(UNAUDITED)</b>
Current Bank loan — unsecured	<b>2.20%–2.90%</b>	<b>2012–2013</b>	<b>415,752</b>
31 December 2011			(AUDITED)
Current Bank loan — unsecured	1.37%–1.62%	2012	265,585
Bank loan — secured	1.44%–1.58%	2012	81,070
			346,655

- (a) The Group provided a RMB deposit of amount not less than 50% or 100% of the bank loans outstanding from time to time as an undertaking of banking facilities from which the above unsecured bank loans were drawn down.
- (b) As at 31 December 2011, one of the Group's bank loans was secured by the Group's time deposit of RMB85,000,000.
- (c) As at 30 June 2012, all bank loans were denominated in Hong Kong dollars (31 December 2011: bank loan of RMB265,585,000 denominated in US dollars and of RMB81,070,000 denominated in Hong Kong dollars).

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 14. ISSUED CAPITAL, SHARE PREMIUM ACCOUNT AND SHARES HELD FOR SHARE AWARD SCHEME

The movement of the Company's issued capital is as follows:

	NUMBER OF SHARES IN ISSUE (UNAUDITED)	ISSUED SHARE CAPITAL RMB'000 (UNAUDITED)	SHARE PREMIUM ACCOUNT RMB'000 (UNAUDITED)	SHARES HELD FOR SHARE AWARD SCHEME RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
At 1 January 2012	<b>1,137,791,927</b>	<b>4,677</b>	<b>440,974</b>	<b>(93,754)</b>	<b>351,897</b>
Exercise of share options	<b>3,870,000</b>	<b>12</b>	<b>10,918</b>	—	<b>10,930</b>
Approved and paid final dividend in respect of the previous year	—	—	<b>(830)</b>	—	<b>(830)</b>
Vested awarded shares transferred to employees	<b>2,596,332</b>	—	—	<b>7,894</b>	<b>7,894</b>
<b>At 30 June 2012</b>	<b>1,144,258,259</b>	<b>4,689</b>	<b>451,062</b>	<b>(85,860)</b>	<b>369,891</b>
At 1 January 2011	1,104,713,632	4,527	408,241	(57,773)	354,995
Exercise of share options	16,360,870	54	47,992	—	48,046
Approved and paid final and special dividends in respect of the previous year	—	—	1,043	—	1,043
Vested awarded shares transferred to employees	3,503,664	—	—	5,744	5,744
<b>At 30 June 2011</b>	<b>1,124,578,166</b>	<b>4,581</b>	<b>457,276</b>	<b>(52,029)</b>	<b>409,828</b>

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 15. SHARE-BASED COMPENSATION COSTS

### (a) Share options

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

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

	<b>2012 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>	<b>2011 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>
Outstanding at 1 January	<b>22,920,300</b>	69,497,600
Forfeited during the period	—	(98,000)
Exercised during the period	<b>(3,870,000)</b>	(16,360,870)
Outstanding at 30 June	<b>19,050,300</b>	53,038,730

#### 2011 Share Option Scheme

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

	<b>2012 NUMBER OF SHARE OPTIONS (UNAUDITED)</b>
Outstanding at 1 January	<b>12,500,000</b>
Forfeited during the period	—
Exercised during the period	—
Outstanding at 30 June	<b>12,500,000</b>

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 15. SHARE-BASED COMPENSATION COSTS (continued)

### (b) Share Award Scheme

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

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

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

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

\* During the six months ended 30 June 2011, 1,440,600 Awarded Shares granted to certain directors and employees on 26 March 2010 were cancelled with cash compensation of RMB7,520,000.

\*\* During the six months ended 30 June 2011, 500,000 Awarded Shares were granted to a director of the Company.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 15. SHARE-BASED COMPENSATION COSTS (continued)

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

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

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

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

	<b>2012 NUMBER OF KIS AWARDED SHARES (UNAUDITED)</b>	<b>2011 NUMBER OF KIS AWARDED SHARES (UNAUDITED)</b>
Outstanding at 1 January	<b>49,870,000</b>	—
Awarded during the period	<b>23,060,000</b>	51,550,000
Forfeited during the period	<b>(3,087,500)</b>	—
Vested and transferred during the period	—	—
Outstanding at 30 June	<b>69,842,500</b>	51,550,000

## 16. CAPITAL RESERVE

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amount of the non-controlling interests are adjusted to reflect changes in their relative interest in the subsidiary, and the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent. Such difference was recorded in the "capital reserve" in the condensed consolidated statement of financial position.

## 17. DIVIDENDS

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

The actual 2011 final dividend paid was RMB93,071,000, after eliminating RMB2,292,000 paid for shares held by the Share Award Scheme Trust.

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

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 18. BUSINESS COMBINATION

On 4 January 2011, the Group, through its subsidiary, Shell Internet, entered into an agreement (the "Acquisition Agreement") with 7 parties (the "Selling Parties") who owned drivergenius software which can be downloaded from its official website drivergenius.com and also owned a few websites including mydrivers.com, drivers.com.cn, myfiles.com.cn and 9724.com (the "Target Business"). Pursuant to the Acquisition Agreement, the Group will pay the Selling Parties a cash consideration of RMB12,000,000, and will pay another RMB6,000,000 conditional upon the achievements by the Target Business of certain operating results within the first 12-month period and the second 12-month period after the completion of the acquisition. In return, the Selling Parties transferred all of the intellectual properties, user database, material contracts, fixed assets and key employees engaged in the Target Business to the Group. The transaction was closed on 24 January 2011.

The fair values of the identifiable assets of the Target Business as at the date of acquisition were:

	<b>FAIR VALUE RECOGNISED ON ACQUISITION RMB'000 (AUDITED)</b>
Property, plant and equipment	<b>105</b>
Trademark and websites	<b>2,161</b>
Software	<b>12,885</b>
Total identifiable net assets at fair value	<b>15,151</b>
Goodwill on acquisition	<b>2,849</b>
<b>SATISFIED BY CASH AND OTHER PAYABLES</b>	<b>18,000</b>

As at 30 June 2012, The Group paid RMB15,000,000 to the Selling Parties (31 December 2011: RMB12,000,000).

## 19. CAPITAL COMMITMENTS

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

	<b>NOTE</b>	<b>30 JUNE 2012 RMB'000 (UNAUDITED)</b>	<b>31 DECEMBER 2011 RMB'000 (AUDITED)</b>
Contracted, but not provided for:			
Purchase of electronic equipment		<b>600</b>	6,333
Development of land and buildings	(a)	<b>1,642,747</b>	1,646,500
Acquisition of intangible assets		<b>—</b>	430
Total		<b>1,643,347</b>	1,653,263

(a) The capital commitment for the development of land and buildings represented the commitment to invest an aggregate of RMB924,435,000 before 2014 in the development of a piece of land in Zhuhai and an aggregate of RMB718,312,000 in the development of a piece of land in Chengdu, the PRC, in accordance with the relevant land use rights acquisition agreements.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 20. RELATED PARTY TRANSACTIONS

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

	NOTES	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
		2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)
Equity contribution from non-controlling shareholder of a subsidiary	(i)	—	159,078	—	159,078
Equity contribution from non-controlling shareholder of a subsidiary	(ii)	—	16,418	—	16,418
Loan to non-controlling shareholder of a subsidiary	(i)	—	125,967	—	125,967
Interest income from non-controlling shareholder of a subsidiary	(i)	<b>565</b>	—	<b>1,155</b>	—
Provision of services to companies whose parent has a significant influence on the Company	(iii)	<b>11,368</b>	—	<b>18,464</b>	—
Purchases of products from a company controlled by a member of the key management personnel of the Company	(iv)	<b>684</b>	—	<b>1,275</b>	—

- (i) On 8 April 2011, Westhouse Holdings Limited (“Westhouse Holdings”) issued 160,000,000 shares (representing 20% of enlarged equity interest of Westhouse Holdings) to WestGame Holdings Limited (“WestGame Holdings”), which is owned by some founding employees, at a subscription price of HKD1.1834 per share for an aggregate consideration of approximately HKD189,344,000 (equivalent to RMB159,078,000) pursuant to a share subscription agreement dated 24 January 2011 entered into by Westhouse Holdings, WestGame Holdings and the founding employees. Part of the consideration amounting to HKD151,475,000 (equivalent to RMB125,967,000) was funded by a loan advanced from Kingsoft Entertainment Software Holdings Limited (“KES Holdings”), the parent of Westhouse Holdings, which bears interest rate of Hong Kong Interbank Offered Rate plus 1.3% for initial term and Hong Kong Bank Offered Loan Rate for the succeeding terms, and was secured by 128,000,000 shares of Westhouse Holdings held by WestGame Holdings. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied.



# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 20. RELATED PARTY TRANSACTIONS (continued)

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

- (ii) Pursuant to a share subscription agreement dated 8 March 2011, KIS Holdings issued 100,000,000 ordinary shares (representing 11% of the enlarged equity interest of KIS Holdings) to a company controlled by non-controlling shareholder of a subsidiary, for an aggregate consideration of USD2,499,000 (equivalent to RMB16,418,000) on 31 March 2011.

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

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

(b) Outstanding balances with related parties:

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

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

- (i) A loan of HKD145,877,000 (equivalent to RMB118,919,000) was due from non-controlling shareholder of a subsidiary. Details are included in note(a)(i) above.

A loan of RMB13,060,000 was due from non-controlling shareholders of a subsidiary. This loan bears interest at a rate of HIBOR plus 1.5% per annum and will be repaid in four years since June 2009. The loan was secured by certain equity interest of the subsidiary held by the non-controlling shareholders.

# NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 20. RELATED PARTY TRANSACTIONS (continued)

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

	FOR THE THREE MONTHS ENDED 30 JUNE		FOR THE SIX MONTHS ENDED 30 JUNE	
	2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2012 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)
Salaries, allowances, and benefits in kind	2,862	2,888	5,721	6,915
Pension scheme contributions	76	41	127	90
Share-based compensation costs	3,530	1,319	6,652	3,130
Total compensation paid to key management personnel	<b>6,468</b>	4,248	<b>12,500</b>	10,135

## 21. CONTINGENT LIABILITIES

At 30 June 2012, the Group had no significant contingent liabilities (31 December 2011: Nil).

## 22. EVENTS AFTER THE REPORTING PERIOD

On 3 July 2012, the Group's subsidiary, Kingsoft Office Software Holdings Limited ("KOS Holdings") issued 200,000,000 shares (representing 21% of enlarged equity interest of KOS Holdings) to WPS Holdings Limited ("WPS Holdings"), which is owned by some founding employees, at a subscription price of USD0.03 per share for an aggregate consideration of approximately USD6,000,000 pursuant to an ordinary share subscription agreement dated 21 May 2012 entered into by KOS Holdings, WPS Holdings and the founding employees. Part of the consideration amounting to USD4,500,000 was funded by a loan advanced from the Company, the parent of KOS Holdings, which bears interest at a rate of Hong Kong Interbank Offered Rate plus 1.3%, and was secured by 200,000,000 shares of KOS Holdings held by WPS Holdings. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied.

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



## TO THE BOARD OF DIRECTORS OF KINGSOFT CORPORATION LIMITED

*(Continued into the Cayman Islands with limited liability)*

### INTRODUCTION

We have reviewed the interim condensed consolidated financial statements of Kingsoft Corporation Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 4 to 25, which comprise the condensed consolidated statement of financial position as at 30 June 2012 and the related condensed consolidated income statement and the condensed consolidated statement of comprehensive income for the three-month and six-month period then ended, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended and explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and the International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

*Certified Public Accountants*  
22/F CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

23 August 2012

# OPERATIONAL HIGHLIGHTS

## FOR THE THREE MONTHS ENDED

	30 SEPTEMBER 2010	31 DECEMBER 2010	31 MARCH 2011	30 JUNE 2011	30 SEPTEMBER 2011	31 DECEMBER 2011	31 MARCH 2012	30 JUNE 2012
<b>ONLINE GAMES</b>								
Daily Average Peak Concurrent Users	773,349	771,352	684,023	653,085	608,607	661,774	<b>631,485</b>	<b>615,221</b>
Monthly Average Paying Accounts	1,325,056	1,347,806	1,258,525	1,250,771	1,186,481	1,326,071	<b>1,330,868</b>	<b>1,459,883</b>
Monthly Average Revenue per Paying User (RMB)	39	41	43	46	46	47	<b>47</b>	<b>47</b>

# FINANCIAL HIGHLIGHTS

	<b>FOR THE SIX MONTHS ENDED 30 JUNE</b>	
	<b>2011 RMB'000 (UNAUDITED)</b>	<b>2012 RMB'000 (UNAUDITED)</b>
<b>REVENUE:</b>		
Entertainment software	336,380	<b>399,818</b>
Application software	157,863	<b>202,827</b>
Others	—	<b>12,407</b>
	494,243	<b>615,052</b>
Cost of revenue	(67,398)	<b>(90,531)</b>
<b>GROSS PROFIT</b>	<b>426,845</b>	<b>524,521</b>
Research and development costs, net of government grants	(135,755)	<b>(174,317)</b>
Selling and distribution costs	(51,021)	<b>(71,310)</b>
Administrative expenses	(54,443)	<b>(70,725)</b>
Share-based compensation costs	(11,231)	<b>(22,244)</b>
Other income and gains	7,840	<b>9,678</b>
Other expenses	(3,110)	<b>(3,018)</b>
<b>OPERATING PROFIT</b>	<b>179,125</b>	<b>192,585</b>
Finance income	26,838	<b>46,359</b>
Finance costs	(924)	<b>(3,942)</b>
Share of profits and losses of:		
Jointly-controlled entities	(1,478)	<b>4,646</b>
Associates	(2,591)	<b>(930)</b>
<b>PROFIT BEFORE TAX</b>	<b>200,970</b>	<b>238,718</b>
Income tax expense	(26,815)	<b>(29,976)</b>
<b>PROFIT FOR THE PERIOD</b>	<b>174,155</b>	<b>208,742</b>
Attributable to:		
Owners of the parent	170,809	<b>199,423</b>
Non-controlling interests	3,346	<b>9,319</b>
	174,155	<b>208,742</b>
	<b>RMB (UNAUDITED)</b>	<b>RMB (UNAUDITED)</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>		
Basic	0.1532	<b>0.1748</b>
Diluted	0.1471	<b>0.1720</b>

## FINANCIAL HIGHLIGHTS (continued)

	FOR THE THREE MONTHS ENDED		
	30 JUNE 2011 RMB'000 (UNAUDITED)	31 MARCH 2012 RMB'000 (UNAUDITED)	30 JUNE 2012 RMB'000 (UNAUDITED)
<b>REVENUE:</b>			
Entertainment software	173,004	191,090	<b>208,728</b>
Application software	89,963	90,754	<b>112,073</b>
Others	—	10,741	<b>1,666</b>
	262,967	292,585	<b>322,467</b>
Cost of revenue	(34,608)	(49,654)	<b>(40,877)</b>
<b>GROSS PROFIT</b>	<b>228,359</b>	<b>242,931</b>	<b>281,590</b>
Research and development costs, net of government grants	(61,447)	(87,344)	<b>(86,973)</b>
Selling and distribution costs	(31,176)	(31,206)	<b>(40,104)</b>
Administrative expenses	(26,088)	(33,972)	<b>(36,753)</b>
Share-based compensation costs	(3,699)	(8,152)	<b>(14,092)</b>
Other income and gains	6,655	2,260	<b>7,418</b>
Other expenses	(2,920)	(713)	<b>(2,305)</b>
<b>OPERATING PROFIT</b>	<b>109,684</b>	<b>83,804</b>	<b>108,781</b>
Finance income	13,791	22,207	<b>24,152</b>
Finance costs	(806)	(1,945)	<b>(1,997)</b>
Share of profits and losses of:			
Jointly-controlled entities	(625)	1,965	<b>2,681</b>
Associates	(815)	(930)	<b>—</b>
<b>PROFIT BEFORE TAX</b>	<b>121,229</b>	<b>105,101</b>	<b>133,617</b>
Income tax expense	(15,334)	(14,779)	<b>(15,197)</b>
<b>PROFIT FOR THE PERIOD</b>	<b>105,895</b>	<b>90,322</b>	<b>118,420</b>
Attributable to:			
Owners of the parent	103,915	87,526	<b>111,897</b>
Non-controlling interests	1,980	2,796	<b>6,523</b>
	105,895	90,322	<b>118,420</b>
	<b>RMB (UNAUDITED)</b>	<b>RMB (UNAUDITED)</b>	<b>RMB (UNAUDITED)</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic	0.0927	0.0768	<b>0.0979</b>
Diluted	0.0893	0.0757	<b>0.0964</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## First Half of 2012 Compared to First Half of 2011

### Revenue

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

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

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

### Cost of Revenue and Gross Profit

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

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

### Research and Development ("R&D") Costs

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## ***Selling and Distribution Costs***

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

## ***Administrative Expenses***

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

## ***Share-based Compensation Costs***

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

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

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

## ***Finance Income***

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

## ***Income Tax Expense***

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

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

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

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

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

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

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

## ***Liquidity and Financial Resource***

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

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



# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## *Foreign Currency Risk Management*

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

As at 30 June 2012, RMB156.9 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

## *Deferred Revenue*

Deferred revenue (including current and non-current portion) as at 30 June 2012 was RMB154.8 million compared to RMB181.5 million as at 31 December 2011. This decrease was primarily due to the sales promotion of prepaid card in the year end of 2011.

## *Net Cash Generated from Operating Activities*

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

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

## *Capital Expenditure*

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

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

### *Revenue*

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

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

## Cost of Revenue and Gross Profit

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

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

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

	FOR THE THREE MONTHS ENDED		
	30 JUNE 2012 RMB'000 (UNAUDITED)	31 MARCH 2012 RMB'000 (UNAUDITED)	30 JUNE 2011 RMB'000 (UNAUDITED)
Staff costs	<b>70,919</b>	70,282	52,444
Depreciation & Amortisation	<b>7,390</b>	7,629	8,504
Others	<b>10,942</b>	10,659	8,423
	<b>89,251</b>	88,570	69,371
Less: Capitalised software costs (excluding share-based compensation costs)	<b>(2,417)</b>	(1,905)	(1,453)
Add: Amortisation of capitalised software costs	<b>2,230</b>	2,232	4,665
Less: Government grants for research and development activities	<b>(2,091)</b>	(1,553)	(11,136)
Total	<b>86,973</b>	87,344	61,447

## Selling and Distribution Costs

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

## R&D Costs

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

## Administrative Expenses

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

## Share-based Compensation Costs

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

# MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

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

## ***Finance Income***

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

## ***Income Tax Expense***

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

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

As a result of the reasons discussed above, profit attributable to owners of the parent for the second quarter of 2012 increased 28% quarter-over-quarter and 8% year-over-year to RMB111.9 million.

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

Profit attributable to owners of the parent before share-based compensation costs increased 30% quarter-over-quarter and 15% year-over-year to RMB123.8 million. The net profit margin excluding the effect of share-based compensation costs was 38%, 32% and 41% for the three months ended 30 June 2012, 31 March 2012 and 30 June 2011, respectively.

# BUSINESS REVIEW AND OUTLOOK

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

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

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

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

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

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

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

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

## OTHER INFORMATION

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

Below are the changes of directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), as amended from time to time (the "Listing Rules") since the date of the Company's 2011 annual report:

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

### Directors' Interests in Securities

As at 30 June 2012, the interests and short positions of the Directors and the chief executive officer (the "CEO") of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and the Stock Exchange

pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

#### *Interests in the ordinary shares of the Company:*

<b>NAME OF DIRECTOR</b>	<b>NATURE OF INTERESTS</b>	<b>NUMBER OF SHARES HELD</b>	<b>PERCENTAGE OF ISSUED SHARE CAPITAL AS AT 30 JUNE 2012</b>
Pak Kwan Kau	Founder of a discretionary trust (Note 1)	108,032,566	9.22%
Jun Lei	Personal (Note 2)	1,000,000	0.09%
	Corporate (Note 3)	145,493,580	12.42%
	Other (Note 4)	143,214,003	12.22%
Zou Tao	Personal	324,600	0.03%

## OTHER INFORMATION (continued)

### Interests in underlying shares of the Company:

NAME OF DIRECTOR	INTERESTS IN UNDERLYING SHARES	NUMBER OF INTERESTS DIRECTLY BENEFICIALLY OWNED
HongJiang Zhang	Share options (Note 5)	7,500,000
	Awarded shares (Note 6)	7,000,000
Shun Tak Wong	Share options (Note 7)	5,000,000
	Awarded shares (Note 8)	2,500,000
Tao Zou	Awarded shares (Note 9)	500,000
Pak Kwan Kau	Awarded shares (Note 10)	500,000

#### Notes:

1. Mr. Pak Kwan Kau is beneficially interested in these 108,032,566 shares of the Company through Topclick Holdings Limited, a BVI company wholly controlled by Kau Management Limited. Kau Management Limited is a company indirectly owned by a discretionary trust, the beneficiaries of which include Mr. Pak Kwan Kau and his family members. Mr. Jun Lei has interest in these shares because under a voting consent agreement entered into amongst Mr. Jun Lei, Mr. Pak Kwan Kau and Mr. Shuen Lung Cheung, Mr. Pak Kwan Kau will vote in the same manner as Mr. Jun Lei with these shares.
  2. Mr. Jun Lei has interest in the number of 500,000 out of these shares because under a voting consent agreement entered into amongst Mr. Jun Lei, Mr. Pak Kwan Kau and Mr. Shuen Lung Cheung, Mr. Pak Kwan Kau will vote in the same manner as Mr. Jun Lei with these shares.
  3. These shares are held by Color Link Management Limited, a BVI company wholly owned by Mr. Jun Lei.
  4. Mr. Jun Lei has interest in these shares because under a voting consent agreement entered into amongst Mr. Jun Lei, Mr. Pak Kwan Kau and Mr. Shuen Lung Cheung, Mr. Pak Kwan Kau and Mr. Shuen Lung Cheung will vote in the same manner as Mr. Jun Lei with these shares.
  5. The relevant interests include number of options of 7,500,000 which was granted on 20 December 2011, and its exercise period is from 20 December 2012 to 19 December 2021 with exercise price of HK\$2.89.
  6. The relevant interests include number of 7,000,000 awarded shares granted on 29 November 2011 under the Share Award Scheme, out of which 1,800,000 number of awarded shares will be matured and exercisable on 29 November 2012 and one fourth of the remaining 5,200,000 awarded shares will be matured and exercisable on 29 November 2013, 29 November 2014, 29 November 2015 and 29 November 2016 respectively. The price for the grant of awarded shares is nil.
  7. The relevant interests include number of options of 5,000,000 which was granted on 20 December 2011, and its exercise period is from 20 December 2012 to 19 December 2021 with exercise price of HK\$2.89. Following Mr. Shun Tak Wong's resignation from all his posts held with the Company with effect from 15 July 2012, all of these share options lapsed automatically.
  8. The relevant interests include number of 2,500,000 awarded shares granted on 29 November 2011 under the Share Award Scheme. Following Mr. Shun Tak Wong's resignation from all his posts held with the Company with effect from 15 July 2012, all of these awarded shares lapsed automatically.
  9. The relevant interests include number of 500,000 awarded shares granted on 1 June 2012 under the Share Award Scheme, subject to the satisfaction of certain conditions attached to these awarded shares, one fifth of which will be matured and exercisable on 1 June 2013, 1 June 2014, 1 June 2015, 1 June 2016 and 1 June 2017 respectively. The price for the grant of awarded shares is nil.
  10. The relevant interests include number of 500,000 out of 1,500,000 awarded shares granted on 13 July 2009 under the Share Award Scheme, which will be exercisable on 13 July 2012. The price for the grant of awarded shares is nil.
- Save as disclosed above, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 30 June 2012.

## OTHER INFORMATION (continued)

### Share Option Schemes

The Company adopted the 2004 and 2007 Pre-IPO Share Option Schemes which were approved by resolutions in writing of all the shareholders passed on 30 June 2004 and 22 January 2007. Options granted under the 2004 and 2007 Pre-IPO Share Option Schemes generally vest over a period of four years, with one fourth of the options to vest on the first anniversary of the grant date, and an additional one eighth to vest at the end of each of the third to eighth six-month periods after the grant date as stipulated in the share option agreement. Share options were granted for periods of up to ten years.

The weighted average closing price immediately before the dates on which the options were exercised during the six months ended 30 June 2012 was HK\$3.36 (six months ended 30 June 2011: HK\$4.58).

The 2004 and 2007 Pre-IPO Share Option Schemes were terminated on 3 September 2007. No share options have been granted since then.

The following share options were outstanding under 2004 and 2007 Pre-IPO Share Option Schemes during six months ended 30 June 2012.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS			AT 30 JUNE 2012	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US\$ PER SHARE
	AT 1 JANUARY 2012	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD			
<b>Other employees</b>						
In aggregate	1,700,500	—	—	1,700,500	1 January 2000**	0.0005
	1,517,500	(45,000)	—	1,472,500	1 August 2004	0.0353
	665,500	(450,000)	—	215,500	1 August 2005	0.2118
	410,000	(410,000)	—	—	1 August 2006	0.2118
	850,000	(800,000)	—	50,000	1 December 2006	0.2400
	16,966,800	(2,115,000)	—	14,851,800	1 February 2007*	0.2400
	444,000	(20,000)	—	424,000	1 April 2007*	0.2400
	106,000	(10,000)	—	96,000	8 May 2007*	0.2400
	260,000	(20,000)	—	240,000	1 August 2007*	0.4616
	22,920,300	(3,870,000)	—	19,050,300		

\* These options were granted under the 2007 Scheme, while others were granted under the 2004 Scheme.

\*\* The option agreement was restated on 1 August 2004, and has an expiry period of ten years starting from the restatement date.

## OTHER INFORMATION (continued)

### 2011 Share Option Scheme

The Company operates the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Share Option Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group. The 2011 Share Option Scheme became

effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The following share options were outstanding under the 2011 Share Option Scheme during six months ended 30 June 2012.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS					GRANT DATE
	AT 1 JANUARY 2012	GRANTED DURING THE PERIOD	FORFEITED DURING THE PERIOD	EXERCISED AND TRANSFERRED DURING THE PERIOD	AT 30 JUNE 2012	
<b>Executive directors</b>						
HongJiang Zhang	7,500,000	—	—	—	7,500,000	20 December 2011
Shun Tak Wong*	5,000,000	—	—	—	5,000,000	20 December 2011
	12,500,000	—	—	—	12,500,000	

\* Mr. Shun Tak Wong has resigned from all his posts held with the Company with effect from 15 July 2012 and these 5,000,000 share options lapsed automatically.



## OTHER INFORMATION (continued)

### Share Award Scheme

The Share Award Scheme was adopted by the Board on 31 March 2008. Unless it is terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of five years commencing on the Adoption Date. On 25 November 2010, the Board resolved to extend the termination date of the Share Award Scheme from 31 March 2013 to 30 March 2017. Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time) select an employee for participation in the Share Award Scheme and determine the number of shares to be awarded. The Board shall not grant any award of shares which would result in the total number of shares which are the subject of awards granted by the Board

under the Share Award Scheme (but not counting any which have lapsed or have been forfeited) representing in aggregate over 10% of the issued share capital of the Company as at the date of such grant.

During the six months ended 30 June 2012, 7,242,000 shares (six months ended 30 June 2011: 2,370,000 shares) were awarded to a number of employees.

The weighted average closing price immediately before the dates on which the awarded shares were vested during the six months ended 30 June 2012 was HK\$3.45 (six months ended 30 June 2011: HK\$4.29).

The following Awarded shares were outstanding under the Share Award Scheme during six months ended 30 June 2012.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES					GRANT DATE
	AT 1 JANUARY 2012	GRANTED DURING THE PERIOD	FORFEITED DURING THE PERIOD	VESTED AND TRANSFERRED DURING THE PERIOD	AT 30 JUNE 2012	
<b>Executive directors</b>						
HongJiang Zhang	7,000,000	—	—	—	7,000,000	29 November 2011
Shun Tak Wong*	2,500,000	—	—	—	2,500,000	29 November 2011
Tao Zou	216,000	—	—	(216,000)	—	13 October 2008
	—	500,000	—	—	500,000	1 June 2012
	216,000	500,000	—	(216,000)	500,000	
<b>Non-executive director</b>						
Pak Kwan Kau	500,000	—	—	—	500,000	13 July 2009

## OTHER INFORMATION (continued)

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES					GRANT DATE
	AT 1 JANUARY 2012	GRANTED DURING THE PERIOD	FORFEITED DURING THE PERIOD	VESTED AND TRANSFERRED DURING THE PERIOD	AT 30 JUNE 2012	
<b>Other employees</b>						
In aggregate						
	100,000	—	—	(27,000)	73,000	26 June 2008
	147,000	—	—	(132,000)	15,000	13 October 2008
	50,000	—	—	(50,000)	—	1 December 2008
	160,000	—	—	(160,000)	—	8 June 2009
	26,667	—	—	—	26,667	27 November 2009
	648,000	—	—	(243,000)	405,000	1 December 2009
	1,396,667	—	—	(698,333)	698,334	26 March 2010
	1,066,669	—	(113,334)	(460,000)	493,335	26 May 2010
	40,001	—	(8,334)	(19,999)	11,668	23 June 2010
	86,000	—	(26,000)	—	60,000	12 July 2010
	150,000	—	—	(50,000)	100,000	12 January 2011
	120,000	—	—	(40,000)	80,000	18 April 2011
	2,000,000	—	—	(500,000)	1,500,000	8 June 2011
	—	782,000	—	—	782,000	12 April 2012
	—	5,880,000	—	—	5,880,000	1 June 2012
	—	80,000	—	—	80,000	19 June 2012
	5,991,004	6,742,000	(147,668)	(2,380,332)	10,205,004	
	16,207,004	7,242,000	(147,668)	(2,596,332)	20,705,004	

\* Mr. Shun Tak Wong has resigned from all his posts held with the Company with effect from 15 July 2012 and these 2,500,000 awarded shares lapsed automatically.

## OTHER INFORMATION (continued)

### **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. 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 six months ended 30 June 2012, 23,060,000 shares (six months ended 30 June 2011: 51,550,000 shares) were awarded to a number of employees with a vesting period of four years.

The following KIS Awarded Shares were outstanding under the KIS Share Award Schemes during six months ended 30 June 2012.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES					GRANT DATE
	AT 1 JANUARY 2012	GRANTED DURING THE PERIOD	FORFEITED DURING THE PERIOD	VESTED AND TRANSFERRED DURING THE PERIOD	AT 30 JUNE 2012	
<b>Other employees</b>						
In aggregate	49,870,000	—	(3,087,500)	—	46,782,500	1 June 2011
	—	21,670,000	—	—	21,670,000	1 January 2012
	—	80,000	—	—	80,000	1 February 2012
	—	900,000	—	—	900,000	1 March 2012
	—	190,000	—	—	190,000	1 May 2012
	—	220,000	—	—	220,000	1 June 2012
	49,870,000	23,060,000	(3,087,500)	—	69,842,500	

## OTHER INFORMATION (continued)

### Substantial Shareholders

As at 30 June 2012, as far as the Directors are aware of, the following, other than the directors or chief executive of the Company, had an interest in the shares or underlying shares in the Company which would fall to be disclosed to

the Company under the provision of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued capital of the Company:

NAME OF SHAREHOLDER	CAPACITY	NUMBER OF SHARES HELD IN THE COMPANY	PERCENTAGE OF ISSUED SHARE AS AT 30 JUNE 2012
Color Link Management Limited	Beneficial owner (Note 1)	145,493,580	12.42%
Tencent Holdings Limited	Interest of a controlled corporation	178,407,183	15.23%
Topclick Holdings Limited	Beneficial owner (Note 2)	108,032,566	9.22%
Credit Suisse Trust Limited	Trustee (Note 2)	108,032,566	9.22%
Kau Management Limited	Interest of a controlled corporation (Note 2)	108,032,566	9.22%
The Kau's Family Trust	Interest of a controlled corporation (Note 2)	108,032,566	9.22%
FIL Limited	Investment manager	58,665,000	5.01%

Note:

1. Mr. Jun Lei is deemed to be interested in Color Link Management Limited's interest in the Company pursuant to Part XV of the SFO because Color Link Management Limited is wholly owned by Mr. Jun Lei.

2. The 108,032,566 number of shares are held by Topclick Holdings Limited, which is in turn, held by Credit Suisse Trust Limited as the trustee of The Kau's Family Trust. The Kau's Family Trust is a discretionary trust established by Mr. Pak Kwan Kau as settlor and the Credit Suisse Trust Limited as trustee in January 2012. The beneficiaries of The Kau's Family Trust include family members of Mr. Pak Kwan Kau. Mr. Pak Kwan Kau is deemed to be interested in the 108,032,566 shares held by Topclick Holdings Limited pursuant to Part XV of the SFO.

Save as disclosed above, the Directors confirm that they are not aware of any other person who has beneficial interests or short positions in any of the shares or underlying shares in the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of the shares carrying the right to vote in all circumstances at general meetings of the Company.

are periodically reviewed. Apart from pension funds, in-house training programs, discretionary bonuses, medical insurance and mandatory provident fund, share awards and share options may be granted to employees according to the assessment of individual performance.

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

### Employee and Remuneration Policies

As at 30 June 2012, the Group had 2,577 employees (30 June 2011: 2,484), most of whom are based in Beijing and Zhuhai, the PRC. The number of employees employed by the Group varies from time to time depending on need. Employee remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. The remuneration policy and package of the Group's employees

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

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

## OTHER INFORMATION (continued)

### Review by Audit Committee

The Audit Committee of the Company has been established since year 2007 with responsibility of assisting the Board in providing an independent review of the financial statements and internal control system. It acts in accordance with its terms of reference which clearly defines its membership, authority, duties and frequency of meetings. It meets regularly with our management, external auditor and internal audit personnel to discuss accounting principles and practices adopted by the Group and internal control and financial reporting matters. Our Audit Committee is comprised of three independent non-executive directors, namely Mr. To Thomas Hui (chairman), Mr. Guangming George Lu and Mr. Chuan Wang.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with our external auditors has reviewed the Group's unaudited interim financial information for the three and six months ended 30 June 2012.

### Compliance with Model Code for Securities Transactions

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

### Code on Corporate Governance Practices

The revised Appendix 14, Corporate Governance Code and Corporate Governance Report (the "Revised Code") took effect on 1 April 2012 and applies to financial reports covering periods after 1 April 2012. The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in the Code on Corporate Governance Practices (for the period from 1 January 2012 to 31 March 2012) and Revised Code (for the period from 1 April 2012 to 30 June 2012) contained in Appendix 14 to the Listing Rules except for the code provision A.6.7 and C.1.2 of the Revised Code. The code

provision A.6.7 of the Revised Code is regarding non-executive directors' attendance on general meetings. Non-executive directors Mr. Pak Kwan Kau and Mr. Chi Ping Lau, and independent non-executive directors Mr. Tat Joel, Chang, Mr. Guangming George Lu and Mr. Chuan Wang did not attend the annual general meeting of the Company held on 23 May 2012 as they were traveling at that time attending other engagements. The code provision C.1.2 of the Revised Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive directors overseeing the daily operation of the Group and the effective communication between the executive directors, the management and the non-executive directors (including the independent non-executive directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

### Appreciation

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

By Order of the Board  
**Kingsoft Corporation Limited**

**Jun Lei**  
*Chairman*

Hong Kong, 23 August 2012