Kingsoft Corporation Limited
2009 Annual Report

KINGSOFT®

(continued into the Cayman Islands with limited liability)
Stock Code: 03888

"Being committed to enhancing the quality of people's digital life"

The Mission of Kingsoft

Beijing Zhuhai Chengdu Dalian Shenzhen Japan Malaysia

Kingsoft Corporation Limited

Contents

MISSION

The mission of Kingsoft: committed to improving the quality of people's digital lives

1. For users

The ultimate meaning of our existence is to focus on quality and to improve the quality of people's digital lives.

We provide the most tailor-made and personalized digital products and services, enabling people to have the brand-new, more colorful and freer life style. Through continuous improvement, we have been satisfying a variety of needs which are changing and increasing day by day.

Kingsoft helps everybody in need for different purposes, such as office, learning and amusement.

We respect our users' feeling and experience and thus give them extraordinary experience and better quality of life through our ubiquitous Kingsoft services.

2. For society

With the extensiveness and speed of the internet, we concentrate on the businesses in connection with internet security, application software, digital entertainment and social activities. We contribute to our society's advancement with a series of products and comprehensive services provided in a creative, speedy, contend-rich and centralized manner. Team members of Kingsoft always stick to their high integrity.

3. For staff

The Company are committed to creating the best career path to our staff and enhancing their value. Also, we strive to develop a happy working environment, in which learning is encouraged, with a view of improving the quality of our staff's working lives.

4. For investors

We aim to attract investors with excellent results while maintaining the Company's healthy and sustainable development. We expect to pursue long-term value for investors.

CORPORATE INFORMATION

Legal Name of the Company

Kingsoft Corporation Limited

Stock Code

3888

Date of Listing

October 9, 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. Pak Kwan Kau (Chairman)

Mr. Donghui Wang

Mr. Tao Zou

Non-executive Directors

Mr. Jun Lei

Mr. Shuen Lung Cheung

Independent Non-executive Directors

Mr. Shun Tak Wong

Mr. Guangming George Lu

Mr. Mingming Huang

Audit Committee

Mr. Shun Tak Wong (Chairman)

Mr. Guangming George Lu

Mr. Shuen Lung Cheung

Remuneration Committee

Mr. Shuen Lung Cheung (Chairman)

Mr. Shun Tak Wong

Mr. Mingming Huang

Nomination Committee

Mr. Guangming George Lu (Chairman)

Mr. Shuen Lung Cheung

Mr. Mingming Huang

Company Secretary and Board Secretary

Ms. Michelle Feng Harnett (ACCA)

Authorised Representatives

Mr. Pak Kwan Kau

Ms. Michelle Feng Harnett

CORPORATE INFORMATION (continued)

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

18th Floor, Two International Finance Centre

8 Finance Street

Central

Hong Kong

Legal Advisers on Hong Kong law

Woo Kwan Lee & Lo

26th Floor, Jardine House

1 Connaught Place

Central

Hong Kong

Principal Bankers

Industrial and Commercial Bank of China (Asia) Limited

Standard Chartered Bank (Hong Kong) Limited

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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FINANCIAL HIGHLIGHTS

Consolidated Income Statements

	Year Ended December 31,			
	2006	**2007**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Revenue:				
Entertainment software	215,356	396,440	553,723	**684,242**
Application software	98,432	156,521	261,150	**329,196**
Others	2,643	3,653	6,071	**8,974**
	316,431	556,614	820,944	**1,022,412**
Cost of revenue	(44,671)	(95,484)	(110,935)	**(128,467)**
Gross profit	271,760	461,130	710,009	**893,945**
Research and development costs, net of government grants	(58,914)	(68,450)	(124,926)	**(199,611)**
Selling and distribution costs	(59,504)	(108,723)	(148,565)	**(171,634)**
Administrative expenses	(43,766)	(65,785)	(93,772)	**(101,630)**
Share-based compensation costs	(6,852)	(103,764)	(49,909)	**(41,312)**
Other operating costs	(13,296)	(2,249)	(4,822)	**(2,598)**
Impairment of an available-for-sale investment/ an associate	(6,000)	—	—	**—**
Other income and gains	28,316	11,531	18,898	**26,867**
Operating profit	111,744	123,690	306,913	**404,027**
Finance income	3,753	22,775	31,022	**25,523**
Finance cost	(6,271)	(1,211)	—	**—**
Share of profits/(losses) of associates	(527)	(2,460)	27,263	**25,715**
Share of losses of jointly-controlled entities	—	—	(1,278)	**(6,952)**
Profit before tax	108,699	142,794	363,920	**448,313**
Income tax credit/(expense)	(9,589)	12,658	(59,885)	**(59,459)**
Profit for the year	99,110	155,452	304,035	**388,854**
Attributable to:				
Owners of the parent	99,525	164,678	307,501	**387,224**
Minority interests	(415)	(9,226)	(3,466)	**1,630**
	99,110	155,452	304,035	**388,854**
Proposed final dividend	—	95,710	139,723	**141,575**
	RMB	RMB	RMB	**RMB**
Earnings per share attributable to ordinary equity holders of the parent				
Basic	0.1245	0.1815	0.2895	**0.3638**
Diluted	0.1185	0.1725	0.2774	**0.3368**

Consolidated Statement of Financial Position (Selected Items)

	As At December 31,			
	2006	**2007**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cash and cash equivalents	333,508	1,246,077	1,007,115	**1,268,098**
Credit-linked deposit	—	—	111,708	**—**
Total assets	520,709	1,499,921	1,739,223	**2,040,870**
Total equity	267,827	1,133,657	1,328,365	**1,604,310**

Consolidated Cash Flow Statements (Selected Items)

	Year Ended December 31,			
	2006	**2007**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Net cash flows from operating activities	139,701	345,474	381,472	**446,874**
Net cash flows used in investing activities	(49,265)	(395,659)	(520,533)	**(503,721)**
Net cash flows from/(used in) financing activities	91,464	647,412	(97,073)	**(153,411)**
Net increase/(decrease) in cash and cash equivalents	181,900	597,227	(236,134)	**(210,258)**

MILESTONES OF THE GROUP IN 2009

March:

— In March and May, the Company moved into the new office facilities in Beijing and Zhuhai. Government officials including Mr. Liu Qi, Member of the Political Bureau of CPC Central Committee, Secretary of Beijing Municipal Party Committee and Mr. Gan Lin, Secretary of Zhuhai Municipal Committee Party and Chairman of the Standing Committee of Zhuhai Municipal People's Congress visited the two buildings in Beijing and Zhuhai respectively.

August:

— The Company's first 3D online game, JX3, commenced open beta testing; the launch of JX3 represents the new height of the technology of domestic online games.

September:

— JX World Online was officially launched in Vietnam and became a great success with peak concurrent users close to 300,000.

— Kingsoft WPS Office was purchased by the State Electricity Regulatory Commission ("SERC") of China.

October:

— Mr. Pak Kwan Kau, Chairman and CEO of Kingsoft, attended the floats parade of the 60th anniversary National Day of China as representative of Digital Publishing Industry.

November:

— Teamed up with Peking University to promote copyrighted software, and initiated "Campus with Copyrighted Software" program in all schools in China.

December:

— On December 21, President Hu Jintao visited Kingsoft's office and research center in Zhuhai, encouraged the company by saying "Make independent innovation the life spring of our software companies, be a good pioneer in the development of Chinese software industry."

— On December 29, over ten state-owned enterprises collectively purchased Kingsoft WPS Office.

— Kingsoft Internet Security has passed the PUA (Potentially Unwanted Applications) Test of AV-Comparatives, an internationally recognized organization in anti-virus software testing, and has been granted the highest level of certificate in the Performance Test of AV-Comparatives held this month, becoming the first Chinese-made software to pass these two tests so far; Kingsoft Internet Security also passed a testing conducted by Virus Bulletin, an international authority in anti-virus software testing, for the 8th time.

CHAIRMAN'S STATEMENT

Through over 20 years of innovative endeavor, Kingsoft has been widely recognized as a household renowned software brand in China. We have rejuvenated and successfully transited ourselves from the legacy of "the King of package software" to be an internet application based model of Software as a service (SAAS). Today, Kingsoft Ciba, Kingsoft Internet Security and WPS Office all top rank on the software search index of Baidu (http://top.baidu.com/buzz/soft.html).

Application Software Business Review

Started from DOS-based WPS office 20 years ago, Kingsoft Internet Security, Kingsoft PowerWord (Ciba) and WPS office have shown Kingsoft's ability of fulfilling the fast changing needs of internet users in China.

Kingsoft application software has evolved from a traditional packaged software business model to SAAS. Accordingly, Kingsoft is building a converged user platform for its diversified product portfolio and providing a variety of value-add-services.

"Av-comparatives" — the independent international authoritative anti-virus software evaluation organization announced that Kingsoft Internet Security passed its test in August 2009. Kingsoft Internet Security is the first and the only Chinese-made anti-virus software that passed the test to date. This demonstrated Kingsoft Internet Security's leading position in the industry.

WPS Office as the premium office software in China is extending to provide more value added services, such as office automation, online data storage and other online hosting services.

Entertainment Software Business Review

Kingsoft game originated from PC games in the mid 90s, has been a distinct icon of the martial arts genre with diversified multiple game studios and development platforms. The successful launch of JX3 in last September proved that we were capable of making the best quality games with our appropriate state-of-arts 3D engine.

During 2009 China Game Industry Annual Conference, which attended by major online game developers and operators in China. Kingsoft games received four awards, "Outstanding Game Company in China for 2009", "Pioneer in Product R&D in China Game Industry for 2009", "Outstanding Entrepreneur in China Game Industry for 2009" for Mr. Pak Kwan KAU, Chairman and Chief Executive Officer of Kingsoft, and "The Best Self-Developed Online Game in China for 2009" for JXIII.

Kingsoft game continued its leading position in Southeast Asia in 2009. Kingsoft set up a wholly-owned game operating subsidiary in Malaysia, and launched JX World successfully. This is a milestone for Kingsoft to expand its game franchise through independent self-operation internationally.

Prospects

As said by Hu Jintao, the President of China, during his visit to Kingsoft, "As a pioneer in the software industry of China, we must take innovation as our soul."

We understand that to carry on our successes and leverage our R&D strength, it is also a must to better user engagement and improve operation efficiency. This reorientation has already started from our people, as we recently introduced groups of top software and game operation talents to our management team.

We are very determined and confident to deliver sustainable growth and return to the shareholders in the future.

To highlight all these achievements, I'am very pleased to present our 2009 annual report. I would like to thank the management and staff for their hard work, and thank all our shareholders and investors for their support and confidence in Kingsoft.

Pak Kwan Kau

Chairman

Hong Kong, March 25, 2010

For the Year Ended December 31, 2009

The following tables sets forth the comparative numbers for the years ended December 31, 2008 and December 31, 2009, respectively.

	For the year ended	
	December 31, 2009 RMB'000	December 31, 2008 RMB'000
REVENUE:		
Entertainment software	**684,242**	553,723
Application software	**329,196**	261,150
Others	**8,974**	6,071
	1,022,412	820,944
Cost of revenue	**(128,467)**	(110,935)
GROSS PROFIT	**893,945**	710,009
Research and development costs, net of government grants	**(199,611)**	(124,926)
Selling and distribution costs	**(171,634)**	(148,565)
Administrative expenses	**(101,630)**	(93,772)
Share-based compensation costs	**(41,312)**	(49,909)
Other operating costs	**(2,598)**	(4,822)
Other income and gains	**26,867**	18,898
OPERATING PROFIT	**404,027**	306,913
Finance income	**25,523**	31,022
Share of profits of associates	**25,715**	27,263
Share of losses of jointly-controlled entities	**(6,952)**	(1,278)
PROFIT BEFORE TAX	**448,313**	363,920
Income tax expense	**(59,459)**	(59,885)
PROFIT FOR THE YEAR	**388,854**	304,035
Attributable to:		
Owners of parent	**387,224**	307,501
Minority interests	**1,630**	(3,466)
	388,854	304,035
	RMB	**RMB**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	**0.3638**	0.2895
Diluted	**0.3368**	0.2774

	2009 RMB'000	2008 RMB'000
PROFIT FOR THE YEAR	**388,854**	304,035
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation of foreign operations	**(632)**	(35,834)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(632)**	(35,834)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**388,222**	268,201
Attributable to:		
Owners of the parent	**386,888**	270,291
Minority interests	**1,334**	(2,090)
	388,222	268,201

Revenue

Revenue increased by 25% year-over-year to RMB1,022.4 million. Approximately 67% was generated from the entertainment software business segment and 32% was generated from the application software business segment.

— Entertainment Software

Revenue from the entertainment software increased by 24% year-over-year to RMB684.2 million. The revenue growth was mainly attributable to combination of (i) the launch of the Group's first 3D game JX Online III; and (ii) the Group's continued successful overseas expansion of JX series.

The Group's daily average peak concurrent users increased by 10% to 1.1 million year-over-year for the three months ended December 31, 2009.

The monthly ARPU for our MMORPGs remained nearly unchanged to RMB38 year-over-year for the three months ended December 31, 2009.

— Application Software

Revenue from the application software business increased by 26% year-over-year to RMB329.2 million primarily due to the increase of SMS and bank card subscribers with higher monthly ARPU for online services of Kingsoft Internet Security software and a continuing growth of software revenue from Kingsoft Japan.

During the year, the Group's revenue contributed from Kingsoft Internet Security was RMB258.9 million, represented 79% of the total revenue of the Group's application software and a 29% increase from last year.

Gross Profit and Cost of Revenue

Gross profit increased by 26% year-over-year to RMB893.9 million. The Group's gross profit margin increased by one percentage point year-over-year to 87%. This increase reflected the improved utilisation of servers and bandwidth and reduced royalty related to the terminated operation of Shui Hu Q Zhuan.

Cost of revenue increased by 16% year-over-year to RMB128.5 million. The increase primarily reflected the rising server and bandwidth fees associated with the Group's expanding product portfolio.

Research and Development ("R&D") costs

R&D costs, net of government grants, increased by 60% year-over-year to RMB199.6 million. This increase was primarily attributable to the increase in R&D headcount for new games development, the rising staff costs and improved staff welfare. This increase also resulted from the increased depreciation and amortisation associated with the new buildings and facilities in Zhuhai and Beijing.

Government grants which were research-project based for the Group's development of software and online game technologies, amounted to RMB14.8 million and RMB7.6 million in 2009 and 2008, respectively.

The following table sets forth a breakdown of R&D costs for the year ended December 31, 2009 and December 31, 2008

	2009 RMB'000	2008 RMB'000
Staff cost	**167,667**	114,641
Depreciation & Amortisation	**23,104**	6,869
Others	**36,335**	16,455
	227,106	137,965
Less: Capitalised software costs (except share-based compensation costs)	**(18,197)**	(9,560)
Add: Amortisation of capitalised software costs (except share-based compensation costs)	**5,481**	4,110
Less: Government Grants for research and development activities	**(14,779)**	(7,589)
Total	**199,611**	124,926

Selling and Distribution Costs

Selling and distribution expenses increased by 16% year-over-year to RMB171.6 million. This increase was primarily due to higher promotional and advertising expenses related to the launch of new games.

Administrative Expenses

Administrative expenses increased by 8% year-over-year to RMB101.6 million primarily due to the increase in expenses associated with our new buildings and facilities.

Share-based Compensation Costs

Share-based compensation costs decreased substantially by 17% year-over-year to RMB41.3 million primarily due to the graded vesting of the granted share options and awarded shares.

Other Operating Costs

Other operating costs decreased by 46% year-over-year to RMB2.6 million.

Other Income and Gains

Other income and gains increased by 42% year-over-year to RMB26.9 million. This increase was mainly attributable to the increased non-research project based subsidy income.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs increased by 25% year-over-year to RMB445.3 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs increased by one percentage point year-over-year to 44%.

Finance Income

Finance income decreased by 18% year-over-year to RMB25.5 million due to the lower interest rate in 2009.

Share of Profits of Associates

Share of profits of associates decreased by 6% year-over-year to RMB25.7 million. This decrease resulted primarily from the Group's reduced interest in Kingsoft Guangzhou from 40% to 30%.

Income Tax Expense

Income tax expense decreased by 1% year-over-year to RMB59.5 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) decreased by two percentage points year-over-year to 12%.

Profit attributable to Owners of the Parent

For the reasons described above, profit attributable to owners of the parent increased by 26% year-over-year to RMB387.2 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 the equity holders, a measure supplementary to the consolidated financial statements presented in accordance with International Financial Reporting Standards ("IFRSs").

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

Profit attributable to owners of the parent before share-based compensation costs increased by 20% year-over-year to RMB428.5 million.

The profit margin excluding the effect of share-based compensation costs decreased by two percentage points year-over-year to 42% primarily due to the increased R&D costs.

Liquidity and Financial Resources

The Group had a strong cash position towards the end of the reporting period. As at December 31, 2009, the Group had major financial resources in the forms of cash and cash equivalent, time deposits with initial term of over three months amounting to RMB405.6 million, RMB862.5 million, respectively, which totally represented 62% of the Group's total assets.

As at December 31, 2009, the Group's gearing ratio, which represents total liabilities divided by total assets, was 21%, decreased by three percentage points from 24% as at December 31, 2008. As at December 31, 2009, the Group did not have any borrowings from banks or other institutions.

Foreign Currency Risk Management

Certain expenses of the Group are denominated in currencies other than the RMB. The Group generates foreign currency revenue primarily from license sales made in other Asian countries. RMB against USD, HKD, JPY and MYR have been comparatively stable in the past. The Group adopted "natural immunity" method to match the income and payment in foreign currencies by arranging some expenses and expenditures denominated in foreign currencies.

As at December 31, 2009, RMB141.4 million of the Group's financial assets were held in deposits and investments denominated in non-RMB currencies. There is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

Deferred Revenue

Deferred revenue (including current and non-current portion) decreased by 6% year-over-year to RMB200.8 million as at December 31, 2009. This decrease was mainly due to the decreased Kingsoft Internet Security sales brought through brick-and-mortar retailers and original equipment manufacturers.

Net Cash Generated from Operating Activities

Cash generated by our operating activities reflects our profit for reporting year, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalised software costs, and share-based compensation costs, as well as the effect of changes in certain balance sheet items, such as deferred revenue and accrued expenses and other payables. Our net cash generated by operating activities increased by 17% to RMB446.9 million for the year ended December 31, 2009.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of property, land use right, fixed assets and intangible assets such as software. Cash used for capital expenditures decreased by 60% year-over-year to RMB130.8 million for the year ended December 31, 2009 as we incurred large payments for the purchase of the new office property in Beijing and the construction of Zhuhai Research Center in 2008.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Pak Kwan KAU, aged 45, is an executive Director and the chairman of the Board of our company. Mr. Kau has been employed by us since 1988. He graduated from National Defense University of Science and Technology in China in 1984 with a bachelor degree in Information Management Systems. Between 1984 and 1987, Mr. Kau worked at various Chinese companies as a software developer.

Mr. Kau started Kingsoft Software in 1988, and he was primarily responsible for the development of WPS 1.0 in 1988. Mr. Kau was named as one of the Top Ten Business Persons of the Year in 2000, one of the China Top Financial Figures of the Year in 2001 by CCTV, one of the ten most influential leaders in China's games industry at the inaugural China Game Industry Annual Conference in January 2005, and one of the most Outstanding Entrepreneurs at 2009 China Game Industry Annual Conference held in December 2009. Mr. Kau has never held directorship in any listed public companies. Mr. Kau was appointed as acting Chief Executive Officer of the company in December, 2007. And he was appointed as Chief Executive Officer of the Company in May, 2008.

Mr. Kau is also a director of Chengdu Kingsoft Interactive Entertainment Co., Ltd., Zhuhai Kingsoft Software Co., Ltd., Zhuhai Xishanju Software Co., Ltd., Zhuhai Juntian Electronic Technology Co., Ltd., Zhuhai Kingsoft Digital Technology Co., Ltd., Dalian Kingsoft Interactive Entertainment Co., Ltd., Kingsoft Application Software Holdings Limited, Kingsoft Internet Security Software Holdings Limited, Kingsoft Entertainment Software Holdings Limited, Kingsoft Application Software Corporation Limited , Kingsoft Internet Security Software Corporation Limited, Kingsoft Entertainment Software Corporation Limited and KINGSOFT (M) SDN. BHD..

Donghui WANG, aged 39, is currently our chief financial officer. Mr. Wang received a bachelor's degree in engineering from Tianjin Polytechnic University in 1992 and a MBA degree from Victoria University of Technology, Australia in 1997. Mr. Wang worked at Ernst & Young Beijing from 1997 to 1999 as a senior accountant. From 1999 to 2005, Mr. Wang served as a consultant in the PricewaterhouseCoopers Sydney office and a senior manager in their Beijing office. Mr. Wang joined us at the beginning of 2005 as a vice president and was appointed as our chief financial officer in December 2005. Mr. Wang became Senior Vice President of the company in December, 2007. He has been an executive director of our company since May, 2008.

Mr. Wang is also a director of Zhuhai Xishanju Software Co., Ltd., Dalian Kingsoft Interactive Entertainment Co., Ltd., Beike Internet Security Technology Co., Ltd., KINGSOFT (M) SDN. BHD. and Kingsoft Japan Inc.

Tao ZOU, aged 34, is currently a senior vice president responsible for the overall operations of our entertainment software business, including the research and development of our online games. Mr. Zou graduated from Tianjin Nankai University in 1997. Mr. Zou joined us in 1998 and was responsible for the development of our PowerWord product. Mr. Zou has been responsible for our entertainment software business since 2004. Mr. Zou became a senior vice president of the Company in December, 2007 and has been an executive director of our company since August, 2009.

Mr. Zou is also a director of Zhuhai Xishanju Software Co., Ltd. and Dalian Kingsoft Interactive Entertainment Co., Ltd.

Non-executive Directors

Jun LEI, aged 40, is an non-executive Director, vice chairman of the Board, and co-founder of our company. Mr. Lei has been employed by us since 1992 and has played a key role in developing the operation of our Group and expanding our business operations. He has been our chief executive officer since 1998, and under his leadership, we further expanded application software businesses into utilities software, Internet security software and online games. He also played a major role in transforming our Group from a traditional software company into an on-demand software company which extensively utilises the Internet. In December, 2007, Mr. Lei relinquished his position as chief executive officer, chief technology officer and president of the Company. In August 2008, Mr. Lei was re-designated from an executive director to a non-executive director. Mr. Lei is also a director of Beijing Kingsoft Qijian Digital Technology Co., Ltd., Beijing Kingsoft Software Co., Ltd., Beijing Kingsoft Digital Entertainment Co., Ltd., Chengdu Kingsoft Digital Entertainment Co., Ltd. and Beijing Kingsoft Internet Security Software Co., Ltd.

Mr. Lei graduated from Wuhan University in 1991 with a bachelor degree in Computer Science. He has been a member of the board of Wuhan University since 2003. He was co-founder of Joyo.com, which was founded in April 2000 and sold to Amazon.com in 2004. Mr. Lei has held directorship in 2020 CHINACAP ACQUIRCO, INC. — an AMEX listed company from January, 2007 to October, 2009. 2020 CHINACAP ACQUIRCO, INC. is listed on AMEX since November 8, 2007. Mr. Lei also holds directorship at Duowan Entertainment Corp. and UC Mobile Group Limited and both companies are not public companies.

Mr. Lei was named as one of the Beijing Top Ten Young Entrepreneurs in 2002, as one of the ten most influential leaders in China's games industry at the inaugural China Game Industry Annual Conference in January 2008.

Shuen Lung CHEUNG, aged 53, is one of the founders of the business of the Company and its subsidiaries. He is a director of Highland Crest Limited and Super Faith International Limited, substantial shareholders of the Company, and controlling shareholder of Highland Crest Limited. He is also a member of the audit committee and the nomination committee and the chairman of the remuneration committee of the Company. He is also an executive director of Peking University Founder Group Company Limited ("**Peking Founder**") and is one of the founders of Peking Founder. He is the executive chairman of PUC Founder (MSC) Berhad, a company listed on ACE Market of Bursa Malaysia Securities Berhad and was an executive director and the Chairman of Founder Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited, before 23 April 2007. He is a research fellow of the Enterprise Research Institute at Peking University and is a MBA alumni trainer of Peking University Guanghua School of Management. Mr. CHEUNG is famed for his prestige and has extensive experience in the China's information technology industry. Mr. Cheung has become a non-executive Director of our company since March 25, 2010.

Independent Non-executive Directors

Shun Tak WONG, aged 49, is an independent non-executive Director of our Company. He is also the chairman of the audit committee and a member of the remuneration committee of the Company. Mr. Wong has a master degree in finance from the University of Lancaster in the United Kingdom and a master degree in accounting from Charles Stuart University in Australia. Mr. Wong is also a fellow CPA member of the Hong Kong Institute of Certified Public Accountants and a fellow CPA member of Australian Society of CPAs. In the past, Mr. Wong held key executive positions in various multi-nationals and Hong Kong listed companies, including working as the financial controller of AMF Bowling, Inc., between November 1996 and March 1998 and International Distillers China Ltd between December 1993 and October 1996. He has extensive experience in financial control, operations, strategic planning and implementation, private equity investments and exit strategies.

He served as the chief financial officer of Goodbaby Children Products Group ("Goodbaby") between August 2003 and August 2007, a leading juvenile product manufacturer in China. Before joining Goodbaby, Mr. Wong worked as the vice president for finance in IDT International Limited, a Hong Kong listed company between September 2001 and July 2003. Mr. Wong currently serves as vice president for finance & corporate controller at Alibaba Group. We appointed Mr. Wong as our independent non-executive Director in April 2007.

Guangming George LU, aged 45, is an independent non-executive Director of our Company. He is also a member of the audit committee and the chairman of the nomination committee of the Company. Mr. Lu graduated from Huazhong Normal University in 1984 and obtained a master degree of science from the University of Memphis in 1989.

Mr. Lu founded Surfmax Corporation in November 1997, a private investment firm in the U.S. Since April 2004, Mr. Lu has been the vice chairman of Xingda International Holdings Limited (a Surfmax portfolio investment) whose shares are listed on the Hong Kong Stock Exchange. Mr. Lu also currently serves as the Chairman of 2020 International Capital Group. From August 2006 to October 2009, Mr. Lu served as the Chairman and CEO of Exceed Company Limited (a 2020 portfolio investment), whose shares are listed on NASDAQ. Mr. Lu joined us in April 2007.

Mingming HUANG, aged 37, is an independent nonexecutive Director of our Company. He is also a member of the remuneration committee and the nomination committee of the Company. Mr. Huang is a cofounder and the chief executive officer of Trend Media Corp, which was established in August 2005, a well-known Internet company in China which owns and operates websites such as Flashget, ZCOM and Myrice. In addition, Mr. Huang also serves on boards of many well-known Internet companies in China, which operate in similar industries to our industry, including 265.com (since June 2006), Baitai Media (since September 2005) and Cheshi.com (since September 2006).

During March 1996 to July 1998 at Hewlett-Packard, Mr. Huang built a channel team and developed the market in east China region for HP Unix servers. Mr. Huang did not hold directorship in any listed public companies in the past three years. Mr. Huang received his MBA from University of Chicago and his bachelor of science majoring in electric engineering from Shanghai Jiao Tong University. Mr. Huang joined us in June 2007.

Senior Management

Pak Kwan KAU, aged 45, is an executive Director and the chairman of the Board of our company. Mr. Kau has been employed by us since 1988. He graduated from National Defense University of Science and Technology in China in 1984 with a bachelor degree in Information Management Systems. Between 1984 and 1987, Mr. Kau worked at various Chinese companies as a software developer.

Mr. Kau started Kingsoft Software in 1988, and he was primarily responsible for the development of WPS 1.0 in 1988. Mr. Kau was named as one of the Top Ten Business Persons of the Year in 2000, one of the China Top Financial Figures of the Year in 2001 by CCTV, one of the ten most influential leaders in China's games industry at the inaugural China Game Industry Annual Conference in January 2005, and one of the most Outstanding Entrepreneurs at 2009 China Game Industry Annual Conference held in December 2009. Mr. Kau has never held directorship in any listed public companies. Mr. Kau was appointed as acting Chief Executive Officer of the company in December, 2007. And he was appointed as Chief Executive Officer of the Company in May, 2008.

Mr. Kau is also a director of Chengdu Kingsoft Interactive Entertainment Co., Ltd., Zhuhai Kingsoft Software Co., Ltd., Zhuhai Xishanju Software Co., Ltd., Zhuhai Juntian Electronic Technology Co., Ltd., Zhuhai Kingsoft Digital Technology Co., Ltd., Dalian Kingsoft Interactive Entertainment Co., Ltd., Kingsoft Application Software Holdings Limited, Kingsoft Internet Security Software Holdings Limited, Kingsoft Entertainment Software Holdings Limited, Kingsoft Application Software Corporation Limited , Kingsoft Internet Security Software Corporation Limited, Kingsoft Entertainment Software Corporation Limited and KINGSOFT (M) SDN. BHD..

Donghui WANG, aged 39, is currently our chief financial officer. Mr. Wang received a bachelor's degree in engineering from Tianjin Polytechnic University in 1992 and a MBA degree from Victoria University of Technology, Australia in 1997. Mr. Wang worked at Ernst & Young Beijing from 1997 to 1999 as a senior accountant. From 1999 to 2005, Mr. Wang served as a consultant in the PricewaterhouseCoopers Sydney office and a senior manager in their Beijing office. Mr. Wang joined us at the beginning of 2005 as a vice president and was appointed as our chief financial officer in December 2005. Mr. Wang became Senior Vice President of the company in December, 2007. He has been an executive director of our company since May, 2008.

Mr. Wang is also a director of Zhuhai Xishanju Software Co., Ltd., Dalian Kingsoft Interactive Entertainment Co., Ltd., Beike Internet Security Technology Co.,Ltd., KINGSOFT (M) SDN. BHD. and Kingsoft Japan Inc.

Tao ZOU, aged 34, is currently a senior vice president responsible for the overall operations of our entertainment software business, including the research and development of our online games. Mr. Zou graduated from Tianjin Nankai University in 1997. Mr. Zou joined us in 1998 and was responsible for the development of our PowerWord product. Mr. Zou has been responsible for our entertainment software business since 2004. Mr. Zou became a senior vice president of the Company in December, 2007 and has been an executive director of our company since August, 2009.

Mr. Zou is also a director of Zhuhai Xishanju Software Co., Ltd. and Dalian Kingsoft Interactive Entertainment Co., Ltd.

Ke GE, aged 36, is currently a senior vice president and has the overall responsibility for our application software business. Mr. Ge joined us in 1999 and was appointed as the assistant to our chief executive officer in 1999. He was the chief officer in our distribution department from 2000 to 2001. He was appointed the assistant president in 2001 and had overall responsibilities for our internal operations and management. He was appointed as a vice president in 2002. He became a senior vice president of the company in December, 2007, in charge of overall application software business of the company.

Mr. Ge graduated from the Electronic Science and Engineering Department of Nanjing University and worked at Founder Information System Engineering Company from 1995 to 1999, focusing on software development and software sales management.

ShouSheng LU, aged 38, is appointed as a vice president of HR & Administration since October,2008. Before joining our company, he was the consulting director of Hay Group, a famous management consulting company in the world. He provided management consulting services for several multinational companies as well as leading Chinese companies on organizational transformation and human resources management. He once was a HR supervisor in a state-owned-company and HR director in a Sino-foreign joint venture before becoming a senior consultant.

Mr. Lu received a bachelor degree in engineering from Hohai University (China) in 1991, a master degree in Project Management from Tianjin University (China) in 1997, and a MBA degree from University of Illinois at Chicago (USA) in 2003. He also was Certified Trainer and Coach of Leadership Development issued by McClelland Center of Hay Group.

Yimin WU, aged 34, is currently a vice president of the Company and is responsible for the operation of Kingsoft online games. Mr. Wu joined the Company in January 2010. He is experienced in operating online games and has worked for several reputable online games companies. From October 2002 to May 2006, he was the sales supervisor of Soft-world Electronic (Shanghai) Co. Ltd., in charge of the operation and marketing of "The Legend of Three Kingdoms Online". From May 2006 to April 2009, he joined Shenzhen Tencent Technology Co., Ltd and worked as the operating manager of "QQ Tang" and the producer of "Cross Fire", "AVA", "QQ Xian Jing" etc.. He worked for Shanghai Shanda Networking Co., Ltd from April 2009 to December 2009 as the system game manager and producer. Mr Wu graduated from the faculty of Oil Processing in East China University of Science and Technology.

Xin WANG, aged 36, is currently a vice president of the Company, and is responsible for the operation and marketing & sales of Kingsoft Internet Security business. Ms. Wang joined the Company in 1999 and has been the product manager of Kingsoft PowerWord, Kingsoft Instant Translator and Kingsoft You Xia. She was appointed the Deputy General Manager of WPS Unit in 2002. Ms. Wang left Kingsoft in 2003 and joined MTone Wireless as General Manager of its handset game business unit and spearheaded the development and operation of the first handset online game in China. Ms. Wang rejoined Kingsoft in May 2006 and led Kingsoft's Internet Security's migration with internet.

Ms Wang graduated in 1996 from the faculty of Computer in Qingdao University. She worked for ZTT and was the software development and project manager for large banks and is the author of The Real-life Experience of a Product Manager.

Hai Yin SHEN, aged 36, is a vice president of the Company and CEO of Kingsoft Japan Inc.. Mr. Shen was appointed as a director of Kingsoft Japan in March 2007, a vice president of the Company in January 2008 and CEO of Kingsoft Japan Inc. in March 2008. Mr. Shen graduated from Shanghai Jiao Tong University in 1993 with double Bachelor's degrees in Automation Control and Industry Management. He founded ACCESSPORT INC. in Japan in 2000 and was the CEO of the company. The company was later renamed JWord INC., which was the fourth largest web search service provider in Japan. The company was acquired by GMO Internet Group and Yahoo! Japan (both companies are listed on the Tokyo Stock Exchange). Mr. Shen has eight years of Internet industry experience.

Quanguo WANG, aged 44, is currently our chief information officer. Mr. Wang graduated from Wuhan Mapping and Science Technology University in 1988, specialising in computer science and engineering. He worked as an engineer from 1988 to 1992 at Computer Science Department of Wuhan Mapping and Science Technology University.

Mr. Wang joined us in 1992 and served as the vice general manager of Beijing Kingsoft until 1996. From 1997 to 2003, Mr. Wang served as the vice chief editor at Sino Map Press. Mr. Wang rejoined us in 2003 and was appointed as a vice president.

Ningning GAO, aged 52, has been a vice president since he joined our company in 2001 and is responsible for our Zhuhai and Chengdu operations. Prior to joining our company, he was the chief officer in charge of key accounts at Nanjing Tonchu Information and Industry Group.

Mr. Gao graduated from Nanjing Employee Institute majoring in computer software in 1981. After graduation, he was an engineer at the Design Institute of Electronic Industry Ministry 720 Factory from 1981 to 1989, and worked at China Electronic Information Industry Group's Science and Technology Department from 1989 to 1991.

Wenbing ZHANG, aged 44, is currently a vice president and is responsible for overseas business development. Mr. Zhang worked at Shenzhen Yuebao Electronic General Company from 1992 to 1995 as the factory director and the manager for overseas business department. He also served as the chief operating officer at several video game franchising companies in New Zealand prior to joining us in 2006. Mr. Zhang received a bachelor degree majoring in electronic engineering from Xi'an Jiaotong University in 1988.

Huan YANG, aged 37, is a vice president at Kingsoft. He obtained a Bachelor's degree in Decision-Making Science from Shanghai Jiao Tong University in 1994, and a Master's degree in Management Science from the University of Science and Technology of China in 1997. Mr. Yang worked as an operation analyst at Legend Technology Limited (HK) from 1997 to 1998. From the end of 1998 to 2000, he worked at Kingsoft as General Manager of Administration Department. From 2001 to 2005, Mr. Yang worked at Lenovo Group as the Investment Management Director and Investment Project Director of Strategic Investment Department respectively, during which time he was in charge of existing investments and new business development. He assisted in the establishment of Lenovo Global Offshore Transaction Center in Singapore from 2005 to early 2007. Mr. Yang rejoined Kingsoft since 2007.

Zhen Yang ZHAN, aged 29, is a vice president at Kingsoft. Mr. Zhan graduated from the Department of International Economy and Trade of Zhe Jiang University in 2001, with a bachelor degree of Economics. He joined Kingsoft after his graduation, and was in charge of the company's mobile software development, research management and sales of the products. In 2003, under Mr. Zhan's lead, the company set up a Mobile Software Business Department and he was appointed the deputy general manager of the department. Mr. Zhan left Kingsoft at the beginning of 2004 to set up his own business with a target to provide the whole-set handset design solutions to users. Mr. Zhan rejoined Kingsoft at the end of 2006, and was appointed as a vice president.

Fei Zhou CHEN, aged 32, is currently a vice president of our Group and is responsible for the research and development of our online games in the entertainment software unit. Mr. Chen has obtained a Bachelor Degree in Computer & Application in 1998 from Huaqiao University. Mr. Chen joined the Group in 1998 and was responsible for the development of Kingsoft's anti-virus products. Mr. Chen has been responsible for the research and development of our online 3D games since 2004.

Li WAN, aged 35, is currently a vice president of our Group responsible for KK game client platform unit. He graduated from North West University in China with a bachelor degree in Chemical Engineering in 1997 and obtained a master degree in software engineering in 2006 from Harbin Institute of Technology. Mr. Wan joined us in 1998 and was responsible for developing WPS Office products.

Company Secretary and Board Secretary

Michelle Feng HARNETT, aged 40, is our Secretary of the Board and Company Secretary, who is responsible for our secretarial and accounting management affairs. Ms. Harnett is a member of the senior management team and is employed by us on a full time basis since May 2007.

She has more than ten years of experience in accounting, including working as a Senior Treasury Officer at a property development group based in London. She also previously worked as the Company Secretary and Qualified Accountant at Zhaojin Mining Industry Company Limited from September 2006 to April 2007, shares of which are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). She is a member of the Association of Chartered Certified Accountants in the United Kingdom. She obtained the BSc (Hons) in Applied Accounting degree from Oxford Brookes University, the United Kingdom.

CORPORATE GOVERNANCE PRACTICES

The seven corporate core values of Kingsoft Corporation Limited (the "Company", or "Kingsoft") and its subsidiaries (hereinafter collectively referred to as the "Group") are care, customer, honesty, innovation, cooperation, concentration and happiness, which we apply in the context of our corporate governance practices with utmost determination.

The Company strives to attain and uphold a high standard of corporate governance and to maintain sound and well-established corporate governance practices for the interest of shareholders, customers and staff. It abides strictly by the laws and regulations of jurisdictions where it operates, and observes the guidelines and rules issued by regulatory authorities relevant to the Company. The board of directors (the "Board") sets high standards for our employees, senior management and directors, and keeps the Company's corporate governance system under constant review to ensure that it is in line with global best practices.

Throughout the year ended December 31, 2009, save as disclosed below, the Company complied with the code provisions set out in the code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Code A.2.1 of the Code provides that the roles of the chairman (the "Chairman") and chief executive officer (the "CEO") should be separated and should not be performed by the same individual. The Chairman of the Company, Mr. Pak Kwan Kau was formally appointed as the CEO of the Company since May 2008. The Board considers that the current arrangement does not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that Mr. Kau's appointment being both the Chairman and CEO is beneficial to the business prospect of the Company. The Board will continue to review the current structure from time to time and shall make necessary changes when appropriate and inform the shareholders accordingly.

DIRECTORS' SECURITIES TRANSACTIONS

The Board of Directors has adopted the Model Code for Securities Transactions by Director of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code").

The directors (the "Director", "Directors") have confirmed, following specific enquiry by the Company with each of them that they have complied with the required standards set out in the Model Code during the year. The designated senior management of the Company also has adopted the Model Code.

Details of security interests in the Company held by the Directors are set out in the Directors' Report under the subtitle of "Directors' and Chief Executive's Interests in Securities" on pages 33 to 34 of this annual report.

BOARD OF DIRECTORS

The Group is controlled through its Board who is responsible for steering the success of the Group by directing and supervising the Group's affairs in line with its strategies and missions. The Board delegates the authority of the management of the Group's daily operation to the members of the senior management. The management reports to the Board on a regular basis and can communicate with the Board freely. The Board has formulated a clear written policy that stipulates the circumstances under which the management should report to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board regularly reviews the policy.

The Board is the core function of the Company's corporate governance structure. It oversees specific areas affecting the interests of all shareholders including annual budget, major capital and equity transactions, major disposals and acquisitions, financial reporting and control, recommendation/declaration of dividend or other distributions, notifiable and connected transactions under the Listing Rules, capital reorganization or other significant changes in the capital structure of the Group, recommendation on appointment or reappointment of auditors and other significant operational and financial matters.

The Board acknowledged its responsibilities for the preparation of the Group's financial statements, and ensured that the financial statements are prepared in accordance with the requirements of laws and regulations and applicable accounting standards. The Directors also ensured the timely publication of the Group's financial statements. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue on a going concern basis. The external auditors' responsibilities to shareholders are set out in the Independent Auditors' Report on page 41 of this annual report.

Composition of the Board

As at the date of this annual report, there are 8 Directors in our Board consisting of 3 executive Directors (the "Executive Director", "Executive Directors"), 2 non-executive Directors (the "Non-executive Director", "Non-executive Directors") and 3 independent non-executive Directors (the "Independent Non-executive Director", "Independent Non-executive Directors") with business management and consultancy, and accounting backgrounds. The Company's Independent Non-executive Directors are professionals in the fields of accounting, finance, technology and management with extensive experience in their respective professional areas, and all of them act in diligent manner to uphold the interests of the Company and the shareholders by maintaining the independence of their opinions and providing professional advice on the long-term development of the Company.

The Company has received, from each of the Independent Non-executive Directors, a written confirmation of his independence to the Company pursuant to the requirements of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent of the Company.

A list of all Directors is set out hereunder. A list of Directors' respective biographies and their relationship with others, if any, are set out on pages 14 to 18 of this annual report.

Executive Directors

Pak Kwan KAU *(Chairman)*

Donghui WANG

Tao ZOU

Non-Executive Directors

Jun LEI

Shuen Lung CHEUNG

Independent Non-Executive Directors

Shun Tak WONG

Guangming George LU

Mingming HUANG

During the year and up to the date of this annual report, the following changes in the Board composition of the Company took place: (i) Mr. Choon Chong TAY resigned as a non-executive director on April 1, 2009; (ii) Mr. Tao ZOU was appointed as an Executive Director on August 25, 2009; (iii) Mr. Shuen Lung CHEUNG was appointed as a non-executive Director on March 25, 2010; (iv) Mr. Wai Ming WONG and Mr. Wing Chung Anders CHEUNG resigned as a non-executive director on March 25, 2010.

Supply of and Access to information and resource

All the directors have direct access to the legal counsels and the company secretary (the "Company Secretary") who are responsible for advising the Board on corporate governance and compliance issues. Written procedures are also in place for directors to seek, at the Company's expenses, independent professional advice in performing their directors' duties. The Company has arranged appropriate insurance to cover the liabilities of the directors arising from corporate activities. The insurance coverage is reviewed on an annual basis. The Management supplies the Board and its committees with adequate, complete and reliable information in a timely manner to enable them to make informed decisions. Every newly appointed Director of the Company should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

Board Meetings

The Board meets at least four times a year at approximately quarterly intervals to review the financial performance of the Group, the overall group strategy and operations with active participation of majority of directors. Of such regular board meetings, Directors will receive at least 14 days' prior written notice. A regular meeting does not include the practice of obtaining board consent through the circulation of written resolutions. Additional board meetings will be conducted if required and Directors are given as much notice as is reasonable and practicable in the circumstances. Senior vice presidents are invited as observers to attend board meetings. Other senior managements are invited to attend board meetings from time to time to report on certain matters.

The Company Secretary is responsible for drafting meeting agenda and obtaining comments from all Directors and approval of meeting agenda by the Chairman, preparing and circulating meeting materials that contain analysis and background information to all meeting attendees at least 3 days in advance, drafting minutes of meetings of the Board and Board committees and obtaining comments from all Directors and approval of the meetings minutes by the Chairman. The approved meetings minutes are open for inspection by the Directors within reasonable advance notice.

The Directors shall abstain from voting for the approval of any proposals in which they are materially interested. If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall not be dealt with by way of circulation or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting shall be held. Independent non-executive Directors who have no material interest in the transaction should be present and vote at such board meeting.

In order to illustrate its focus on the Company's business management, the Board sets out the table below the attendance of meetings of the Board in 2009.

Meetings of the Board:

Number of meetings held by the Board and the attendance record of members is set out below:

Number of meetings	*7**
Chairman and Executive Director	
Pak Kwan KAU	7/7
Executive Directors	
Donghui WANG	7/7
Tao ZOU (appointed on August 25, 2009)	3/3
Non-Executive Directors	
Jun LEI	7/7
Choon Chong TAY (resigned on April1, 2009)	2/2
Wing Chung Anders CHEUNG	7/7
Wai Ming WONG	0/7
Independent Non-Executive Directors	
Shun Tak WONG	5/7
Guangming George LU	7/7
Mingming HUANG	7/7

* During the year, the Board had held 7 meetings, but as some of the Directors joined and resigned from the Board during the year, the number of board meetings which the respective Director should have attended varies depending on when the Director joined and resigned from the Board.

Chairman and Chief Executive Officer

Mr. Pak Kwan Kau, Chairman of the Company took up the position of acting CEO since December 20, 2007 until May 30, 2008, when Mr. Pak Kwan Kau was officially appointed to be the CEO of the Company. During the year, the roles of Chairman and CEO were not separated. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that Mr. Kau's appointment being both the Chairman and CEO is beneficial to the business prospect of the Company.

Appointment and re-election

All the Directors including the Non-executive Directors have either service contracts or formal letters of appointments setting out the major terms and conditions of their appointment. Their terms are fixed at three years.

The Company may from time to time elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at the meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting. According to the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every 3 years. A retiring Director shall be eligible for re-election at the general meeting of the Company, at which a Director retires may fill the vacated office.

BOARD COMMITTEES

The Board has established four specialized committees, namely the audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee") and strategy committee (the "Strategy Committee"). The Audit Committee, Remuneration Committee and Nomination Committee proceed their business according to their terms of reference (available upon written request to the Company Secretary). The Audit Committee, Remuneration Committee, and Nomination Committee are mainly consisted of the Independent Non-executive Directors and Non-executive Directors.

Audit Committee

- **Audit Committee composition and primary duties**

The Company established the Audit Committee in 2007. The Audit Committee is chaired by an independent non-executive director, Mr. Shun Tak Wong, and currently comprises one other independent non-executive director, Mr. Guangming George Lu and one non-executive director, Mr. Shuen Lung Cheung of the Company. Mr. Wing Chung Anders Cheung was a member of the Audit Committee throughout the year until March 25, 2010 when he ceased to be a director of the Company and a member of the Audit Committee. Mr. Shuen Lung Cheung was appointed to be a member of the Audit Committee on March 25, 2010. None of the Audit Committee members are members of the previous or existing auditors of the Company.

The Audit Committee is primarily responsible for assisting our board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, and the financial statements. It acts in accordance with the terms of reference which deals with its authority, responsibilities, membership and frequency of meetings. The Audit Committee's main duties are to oversee audit process; to review drafts of the Company's financial reports, accounts and results announcements before submission to the Board; to review material transactions and material financial system of our Company; to review accounting policies, financial position and financial reporting procedures of our Company; to consider the appointment of external auditors, their audit fees and questions of resignation or dismissal; and to assess the performance of internal financial and audit personnel. The Audit Committee also performs other duties and responsibilities as assigned by our board.

The Audit Committee meets regularly with the external and internal auditors, and the management to discuss the internal control and financial reporting matters, and the accounting principles and practices adopted by the Group. To this end it has unrestricted access to both our external and internal auditors. The Audit Committee has reviewed the Group's audited financial statements for the year ended December 31, 2009, and is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

- **Meetings of Audit Committee**

During the year, the Audit Committee held 6 meetings and the attendance record of members is set out below:

Number of meetings	6
Shun Tak WONG *(Chairman)*	6/6
Guangming George LU	6/6
Wing Chung Anders CHEUNG	6/6

- **Principal Work performed by the Audit Committee in 2009 includes reviewing and/or approving:**
  - The financial reporting matters including the quarterly, interim and annual financial statements, results announcements, and financial reports before submission to the Board for approval;
  - The accounting principles, policies and practices adopted by the Group;
  - 2008 internal audit report of the Group and 2009 internal audit plan;
  - 2008 external audit report and plan
  - The effectiveness of the internal control systems adopted by the Company;
  - The continuing connected transactions of the Group;
  - The independence, authorities and resource of the internal and external auditors; and
  - The recommendation of re-appointment and fee of external auditors.

- **External Auditors**

Ernst & Young, Certified Public Accountants, Hong Kong, were engaged as the Company's external auditors for the year ended December 31, 2009. External auditors may provide certain non-audit services to the Group as long as these services do not involve any management or decision making functions for and on behalf of the Group; or perform any self assessments; or acting in an advocacy role for the Group. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 41.

During the year, Ernst & Young provided audit and insignificant non-audit services to the Group.

During the year, the fees paid to Ernst & Young in respect of the audit of the financial statements amounted to approximately RMB5.88 million, the review of the Group's interim financial statements amounted to approximately RMB2.10 million, and the fee paid/payable to Ernst & Young for non-audit activities amounted to approximately RMB1.33 million.

- **Internal Control**

The Company's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve our business objectives, and it aims to provide a reasonable, as opposed to an absolute, assurance in this respect. The Board acknowledges its overall responsibility to ensure that the Company maintains sound and effective controls. This is achieved through a defined management structure with specified limits of authority and defined control responsibility to:

- Safeguard its properties and assets against unauthorized used or disposition and meet business objectives;
- Make sure maintaining proper accounting records for the provision of reliable financial information for internal use or for publication;
- Ensure compliance with applicable laws and regulations; and
- Try to minimize risks exposed, prevent and detect frauds.

The internal control framework covers the setting of objectives, budgets and targets; the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets; the delegation of authority; and the establishment of clear lines of accountability. The management is responsible for the design, implementation and maintenance of internal controls, and the Board and the Audit Committee oversee the actions of the management and monitor the effectiveness of the established controls. The Audit Committee reviews the Company's internal control system covering financial, operational and compliance controls and risk management procedures.

The Company has adopted the "Internal Control-Integrated Framework" of the Report of Committee of Sponsoring Organizations of the Treadway Committee (COSO) entitled ("the COSO internal control framework"), which is a recommended framework under HKICPA Corporate Governance guidelines. The COSO internal control framework leverages policies and procedures adopted at the company management, operational and financial reporting levels. The Directors adopted the COSO internal control framework to assess the effectiveness of the internal control system. Within this framework, the management performs company level and process level risk assessments and continuously monitors and reports the progress of improvement plans to address risks in key areas.

Reporting to the Audit Committee, our internal audit team (the "IA") provides independent assessment as to the existence and effectiveness of the Company's internal control system, mainly through conducting an annual internal audit, quarterly financial reviews and various operational audit projects.

Our IA has unrestricted access to all corporate records and data files, assets, employees and operations. Under the COSO framework, the IA undertakes a periodical risk assessment of the Company's overall activities and prepares its audit plan focusing on areas of the Company's operations with greatest perceived risk. In selecting the audits to perform each year, our IA uses information collected throughout the year from process owners, the risk assessment team, senior executives, external auditors and the Board of directors. The Audit Committee reviews audit plan and receives at least quarterly updates on the progress. Our IA also conducts subjective auditing projects of the operational areas which are material to the business or identified by the Audit Committee and/or senior management, results of which will be reported to the Audit Committee and senior management concerned. Our IA will follow up with the implementation of audit recommendations. Any major internal control weaknesses and findings will be firstly reported to the Audit Committee whenever necessary. In addition, it maintains regular communications with our external auditors so that both parties are aware of the significant factors that may affect their respective scopes of work.

During the year, our IA using a risk based audit approach, worked with the management to continuously improve our internal control, especially in the areas such as procurement to payment, general accounting, taxation, virtual items stock control, fixed assets, human resource and payroll, revenue recognition system, policies and procedures compliance, information system, cash management and treasury and our entity level control. With the IA's coordination, management has conducted internal control documentation update, key control rationalization and self-assessment on certain important business control cycles, including marketing cost management, awarded share scheme and share option scheme management, connected transactions and information disclosure management, etc.

The external auditors meet and report to the Audit Committee and senior management on a regular basis on matters relating to internal control and financial reporting. Appropriate actions are taken to put in place external auditors' recommendations.

The Board believes that all the internal control policies and procedures have been properly designed and would enable the Company to strengthen the compliance level of the overall monitoring system and thereby reducing its operational risk. Continuous monitoring and improvement of management procedures will be carried out to ensure effective operations of those internal controls so as to be in line with the growth of the Company's business. The Company has not suffered any material liability during the period under review resulting from the deficiencies in our internal control system.

The Board, with the recommendation of the Audit Committee, have reviewed the effectiveness of the system of internal control of the Company and its subsidiaries and they consider the internal control systems effective and adequate. Such review also considered the adequacy of resources, qualification and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration Committee

The Remuneration Committee currently consists of 3 Directors. Non-executive Director Mr. Wing Chung Anders Cheung was the chairman of the Remuneration Committee throughout the year until March 25, 2010 when he ceased to be a Director and a member and chairman of the Remuneration Committee. Independent Non-executive Directors Mr. Shun Tak Wong and Mr. Mingming Huang are the members of the Remuneration Committee. On March 25, 2010, Mr. Shuen Lung Cheung was appointed by the Board to be the chairman of the Remuneration Committee.

The primary duties of the remuneration committee mainly include review and determination of the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management, review and recommending to the Board the Company's annual remuneration policy and other findings after each meeting. The Remuneration policy is set to attract, motivate and retain high performing individuals who are essential to the success of the Company.

The emolument package for the Executive Directors, the senior managers and key personals includes basic salary, performance bonus and incentive stock options. The Non-executive Directors and Independent Non-executive Directors receive directors' fees. The basic salary and directors' fees depend on individuals' experience, responsibilities and relevant market rate. The bonus depends on actual performance of the Company's targets and individual performance. Details for the stock option scheme and the share award scheme (the "Share Award Scheme") can be found under the subtitle of "Share Option Schemes" and "Share Award Scheme" in the Directors' Report. The awarded shares are offered to qualified employees to reward them for their high level of performance and foster loyalty with the Group.

The information regarding the remuneration of the Directors for 2009 are set out in Note 8 to the financial statements. When a meeting is convened to discuss certain Directors' remuneration, the Directors in discussion can not determine his own remuneration.

- **Meetings of Remuneration Committee**

During the year, the Remuneration Committee held 6 meetings and the attendance record of members is set out below:

Number of meetings	*6*
Wing Chung Anders CHEUNG *(Chairman)*	6/6
Shun Tak WONG	6/6
Mingming HUANG	6/6

- **Principal Work performed by the Remuneration Committee in 2009 includes the following activities:**
  - Reviewed and recommended compensation policy for Directors to the Board
  - Reviewed and recommended performance bonus scheme of the Company to the Board
  - Reviewed and recommended the Share Award Scheme to the Board
  - Reviewed and recommended the compensation policy and levels for Executive Directors and senior management
  - Approved the terms of Executive Directors' service contracts

Nomination Committee

The Nomination Committee consists of three members, and two of them are Independent Non-executive Directors namely Mr. Guangming George Lu (chairman) and Mr. Mingming Huang. Non-executive Director Mr. Wing Chung Anders Cheung was a member of the Nomination Committee throughout the year until March 25, 2010 when he ceased to be a director of the Company and a member of the Nomination Committee. Mr. Shuen Lung Cheung was appointed to be a member of the Nomination Committee on March 25, 2010.

The primary duties of the Nomination Committee are mainly to make recommendations to our Board regarding any proposed changes to the Board, identify suitably qualified individuals as members of our Board, assess the independence of our Independent Non-executive Directors, make recommendations to the Board on matters relating to appointment of Directors, and succession planning for Directors, particularly the Chairman and the CEO.

During the year, the Nomination Committee recommended to the Board candidates as members of the Board.

- **Meeting of Nomination Committee:**

During the year, the Nomination Committee held 1 meeting and all members attended this meeting.

Number of meeting	*1*
Guangming George LU *(Chairman)*	1/1
Mingming HUANG	1/1
Wing Chung Anders CHEUNG	1/1

COMMUNICATION WITH SHAREHOLDERS

Our Board is committed to uphold transparent communication with our shareholders in order to safeguard the right to information and participation of the shareholders, which ultimately enables the shareholders to make informed decisions about their investments and exercise their rights as shareholders. The Company establishes and maintains various communication channels with its shareholders through the publication of annual, interim and quarterly results announcements, annual and interim report, any other announcements on transactions requested to be disclosed by the Listing Rules, and press releases.

The Company encourages shareholders to actively participate at shareholders' meetings which are regarded as valuable platforms for shareholders to raise comments and communicate directly their views with the Board. The Chairman of the Company and management will attend the annual general meeting (the "AGM") to answer shareholders' questions. All AGM meeting materials including but not limited to circular, notice and proxy form will be sent to shareholders in time including all adequate information according to the Listing Rules. The AGM is conducted according to the relevant rules in the Listing Rules and the Articles of Association of the Company.

INVESTOR RELATIONS

The Company is dedicated to enhancing relationships and communications with investment community. The Company continues its effort to reach out its existing and potential investors, shareholders, media and analysts through non-deal road shows, conference calls, media briefings and press releases. The Company's investor relationship website, www.kingsoft.com, provides information of the Company such as financial, investor relations, corporate information and other latest information in a timely manner and is updated regularly.

On behalf of the Board
Pak Kwan Kau
Chairman
Hong Kong, March 25, 2010

The Directors of the Company are pleased to present to the shareholders their report together with the audited financial statements of the Group for the year ended December 31, 2009.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the research, development, operation and distribution of online game, mobile game and casual game services; and the research, development, operation and distribution of internet security software, dictionary software and office application software products. There were no significant changes in the nature of the Group's principal activities during the year. The analysis of the Group's revenues by operating segments and certain geographical information are set out in note 4 to the financial statements.

Use of IPO Proceeds

The Company has raised the aggregate net proceeds from the Global Offering of approximately HK$649.1 million. The Global Offering was completed in the fourth quarter of 2007 and the use of proceeds as of the end of 2009 is set out in the table below:

Area of use	**Planned amount (HK$' Mil)**	**Amount remaining as at December 31, 2009 (HK$' Mil)**
Expansion of research and development capabilities	170.1	**3.9**
Expansion in certain overseas market	76.0	**61.1**
IT infrastructure upgrade	94.1	**—**
Strategic acquisitions and joint ventures	115.8	**12**
Construction of research and development facilities in Zhuhai	72.4	**—**
General corporate purposes	27.9	**—**

Results and Dividends

The Group's results for the year ended December 31, 2009 and the state of affairs of the Company and the Group are set out in the consolidated financial statements on pages 42 to 49.

During the year, a final dividend for year 2008 of HK$0.15 per ordinary share, with the total amount of approximately HK$159.6 million, which excluded the dividend related to the shares held for share award scheme, was paid to shareholders on June 5, 2009.

The Directors recommend the payment of a final dividend of HK$0.15 per ordinary share totaling approximately HK$160.8 million, which excluded the dividend related to the shares held for share award scheme, based on the number of total issued shares of 1,094,365,133 as at December 31, 2009 in respect of the year to shareholders whose names appear on the register of members of the Company on May 28, 2010. Such proposed dividend will be subject to approval of the shareholders at the forthcoming AGM to be held on May 28, 2010. Such proposed dividend will be payable on June 15, 2010. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the equity section of the statement of financial position.

For the year ended December 31, 2009, the Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

Closure of Register

The register of members of the Company will be closed from Monday, May 24, 2010 to Friday, May 28, 2010 both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and the right to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, May 20, 2010.

Reserves

For the year ended December 31, 2009, the profit attributable to owners of the parent amounted to RMB387.2 million. The Company's reserves available for distribution comprise share premium and retained earnings. Under the Companies Law of the Cayman Islands, the Company's share premium account may be applied by the Company in paying distributions or dividend to shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

As at December 31, 2009, the Company had distributable reserves amounting to RMB517.7 million, calculated in accordance with any statutory provisions applicable in Cayman Islands. Details of movements in the reserves of the Group and the Company during the year ended December 31, 2009 are set out in the consolidated statement of changes in equity on page 46, and in note 32(b) to the financial statements, respectively.

Charitable Contributions

During the year, the Group made charitable contributions totaling RMB0.05 million (2008: RMB1.7 million).

Retirement Schemes

We participate in government and other mandatory pension schemes for our employees in Mainland China and overseas. Particulars of these schemes are set out in note 2 to the financial statements.

Employee and Remuneration Policy

As at December 31, 2009, the Group had approximately 2,735 full-time employees (2008: 2,271). The staff cost of the Group (including Directors' and senior management's emoluments in 2008 and 2009 were approximately RMB253.4 million and RMB315.0 million, respectively. The Group remunerates its employees based on their performance and work experience and the prevailing market rates. Salaries of employees are maintained at competitive levels while bonuses are granted by reference to the performance of the Group and individual employees.

Employees' remuneration includes basic salaries, benefits, allowances, bonus, share options and awarded shares. The Directors' remuneration comprises Directors' fees, basic salaries, benefits, allowances, bonus, share options and awarded shares which are determined based on their responsibilities and contribution to the Group.

Please refer to note 7 to the financial statements for the share options and awarded shares granted to certain Directors and employees of the Group, note 8 to the financial statements for Directors' and senior executives' remuneration, and note 6 to the financial statements for the employee benefit expense.

Subsidiaries

Details of the Company's principal subsidiaries as at December 31, 2009 are set out in note 31 to the financial statements.

Material Investment and Acquisition

No other material investment and acquisition incurred during 2009, except the acquisition of Skyprofit, which was processed according to share purchase agreement signed in 2008.

Financial Summary

A summary of the published results, assets, and liabilities of the Group for the last five financial years as extracted from the prospectus of the Company dated on September 24, 2007 and consolidated financial statements for the year ended December 31, 2007, 2008 and 2009, is set out as below. The summary does not form part of the audited financial statements.

	YEAR ENDED DECEMBER 31,				
	2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Profit for the year	34,432	99,110	155,452	304,035	**388,854**

	AS AT DECEMBER 31,				
	2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	2009 RMB'000
Total assets	270,933	520,709	1,499,921	1,739,223	**2,040,870**
Total liabilities	229,180	252,882	366,264	410,858	**436,560**

Contract of Significance

1) On 3 June 2009, the Company entered into the Loan Agreement with Mr. Haiyin Shen and Mr. Yongbiao Weng, shareholders of Kingsoft Japan, pursuant to which the Company agreed to lend approximately HK$15.8 million to the Borrowers to acquire 4,000 shares (approximately 11.1% equity interest) of Kingsoft Japan.

2) On 3 June 2009, the Company entered into the Internet Advertising Services Framework Agreement with Beijing Wonder, pursuant to which the Company agreed, through Beijing Wonder, to deploy a total of not more than RMB10 million advertising expenses on Duowan for a 3-year period ending 31 December, 2011.

Bank Borrowings

There has been no bank borrowing of the Group as at December 31, 2009.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group and the Company for the year ended December 31, 2009 are set out in note 13 to the financial statements.

No assets of the Group is charged during the year ended December 31, 2009.

Future Plans for Material Investments or Capital Assets

Save as those disclosed in note 35 to the financial statements, there was no specific plan for material investments and acquisition of material capital assets as at December 31, 2009.

Principal properties

During the year, the Group has not held any properties for development and/or sale or for investment purposes which any of the percentage ratios exceeds 5%.

Share Capital

Details of the movements in share capital of the Company for the year ended December 31, 2009 are set out in note 30 to the financial statements.

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 June 30, 2004 and January 22, 2007. The details of these schemes and Kingsoft Japan Share Options are stated in note 7 in the financial statements.

Details of the movements in share options of the Company for the year ended December 31, 2009 are set out in note 7 to the financial statements. During the year, no share options have been granted to anybody.

Summary of The Share Option Schemes

	Detail	2004 Pre-IPO Share Option Scheme	2007 Pre-IPO Share Option Scheme	Kingsoft Japan Pre-IPO Share Option Scheme
1.	Purposes	To retain the best available personnel, to provide additional incentive to employees, senior management and directors of the Group and to promote the success of the business of the Group	Same as 2004 Pre-IPO Share Option Scheme	To enhance the operational efficiency of Kingsoft Japan and to provide additional incentive for its employees and other related persons.
2.	Qualifying participants	Any employee (whether full time or part time), chief executive or director (including executive or non-executive or independent non-executive) of any member of the Group of any associated company, in which the Company directly or indirectly holds more than 20% of its issued share capital or the voting power at general meetings or in which any equity interest is held by the Company for long term purpose and a significant influence is exercised over its management, or such other person as may be determined by the Board from time to time	Same as 2004 Pre-IPO Share Option Scheme	Not specified in the Scheme
3.	Maximum number of shares	The maximum number of ordinary shares in respect of which options may be granted under the 2004 Pre-IPO Share Option Scheme shall not in aggregate exceed 10% of the total number of ordinary shares in issue. On August 12, 2005, the shareholders approved that the maximum number of ordinary shares in respect of which options may be granted shall not in aggregate exceed 18% of the total number of ordinary shares in issue of 35,410,000. Pursuant to a Share Subscription and Purchase Agreement dated July 21, 2006 ("Agreement Date"), the aggregate of all options issued from the Agreement Date to an initial public offering shall not constitute more than 15% of the issued capital of the Company.	The maximum number of ordinary shares in respect of which options may be granted under the 2007 Pre-IPO Share Option Scheme shall not in aggregate exceed 13% of the total number of issued Shares on the fully diluted basis of inclusion of all of the issued and outstanding shares of the Company, as well as 6,373,800 options under the 2004 Pre-IPO Share Option Scheme.	The maximum number of the shares which may be issued upon exercise of all issued and outstanding options shall be 1,000 ordinary shares of Kingsoft Japan in aggregate.
4.	Maximum entitlement of each participant	Not specified in the scheme	Not specified in the scheme	Not specified in the scheme
5.	Option period	The period set out in the relevant offer letter within which the option may be exercisable provided that such period must expire on the date falling on the tenth anniversary of the offer date	Same as 2004 Pre-IPO Share Option Scheme	(1) the option period of options granted on January 4, 2007 is from January 5, 2009 to November 1, 2016 (2) the option period of options granted on March 30, 2007 is from March 30, 2007 to March 30, 2017 (3) the option period of options granted on July 31, 2007 is from August 1, 2009 to November 1, 2016
6.	Acceptance of offer	The offer of a grant of share options must be accepted within 28 business days from the date of offer, upon payment of a consideration of HK$1 in total by the grantee	The offer of a grant of share options must be accepted within 28 business days from the date of offer, without a remittance of HK$1 to the Company	Options shall be issued free

	Detail	2004 Pre-IPO Share Option Scheme	2007 Pre-IPO Share Option Scheme	Kingsoft Japan Pre-IPO Share Option Scheme
7.	Subscription price	The exercise price shall be determined and notified by the Board and shall be at least a price being the fair market value for each Share as at the Offer Date as shall be determined by the Board from time to time.	The exercise price shall be determined and notified by the Board and shall be a price US$4.80 per share or a price being the fair market value for each Share as at the Offer Date as shall be determined by the Board from time to time.	Note
8.	Remaining life of the Scheme	It will expire on the tenth anniversary of the date on which the Scheme is deemed to take effect	It will expire on the tenth anniversary of the date on which the Scheme is deemed to take effect	It will expire on the tenth anniversary of the date on which the Scheme is deemed to take effect

Note:

The subscription price for option offered on January 4, 2007 and March 30, 2007 shall be ¥10,000 per share.

The subscription price for option offered on July 31, 2007 shall be ¥70,000 per share.

The Subscription Price shall be adjusted in accordance with the following formula, if after issuance of Options, Kingsoft Japan issues new shares at a price less than the last subscription price of its shares and it has not yet undergone initial public offering of its shares:

$$\text{Subscription price after adjustment} = \text{Subscription price before adjustment} \times \frac{\text{Number of issued shares} + \dfrac{\text{Number of shares to be newly issued or transferred} \times \text{Subscription amount or transfer price per share}}{\text{Last subscription price per share}}}{\text{Number of issued shares} + \text{Number of shares to be newly issued or transferred}}$$

Furthermore, in the case of any share split or consolidation of shares and reduction in paid in capital and in certain other cases, the Exercise Price may be adjusted appropriately.

Share Award Scheme

The Share Award Scheme was adopted by the Board on March 31, 2008 (the "Adoption Date"). Unless 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. During the year, the Company granted 12,042,000 awarded shares.

The purpose of the Share Award Scheme is to recognise the contributions by certain employees (including without limitation employees who are also directors) of the Group and to give incentive thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

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.

More details regarding the Share Award Scheme are set out in note 7 to the financial statements.

Directors

The Directors of the Company during the year and up to the date of this report comprised 8 directors, of which 3 were Executive Directors, 2 were Non-executive Directors and 3 were Independent Non-executive Directors, whose names are as follows:

	APPOINTMENT DATE	RESIGNATION DATE	RE-DESIGNATION DATE
EXECUTIVE DIRECTORS			
Mr. Pak Kwan KAU (求伯君)	July 27, 1998	N/A	N/A
Mr. Donghui WANG (王東暉)	May 30, 2008	N/A	N/A
Mr. Tao ZOU (鄒濤)	August 25, 2009	N/A	N/A
NON-EXECUTIVE DIRECTORS			
Mr. Jun LEI (雷軍)	July 27, 1998	N/A	August 28, 2008
Mr. Shuen Lung Cheung (張旋龍)	March 25, 2010	N/A	N/A
Mr. Choon Chong TAY (鄭俊聰)	January 27, 2008	April 1,2009	N/A
Mr. Wai Ming WONG (黃偉明)	April 24, 2007	March 25, 2010	N/A
Mr. Wing Chung Anders CHEUNG (張榮宗)	September 22, 2004	March 25, 2010	N/A
INDEPENDENT NON-EXECUTIVE DIRECTORS			
Mr. Shun Tak WONG (王舜德)	April 30, 2007	N/A	N/A
Mr. Guangming George LU (魯光明)	April 30, 2007	N/A	N/A
Mr. Mingming HUANG (黃明明)	June 18, 2007	N/A	N/A

In accordance with Article 108 and Article 112 of the Articles of Association of the Company, Mr. Pak Kwan KAU, Mr. Jun LEI, Mr. Tao ZOU and Mr. Shuen Lung CHEUNG will retire at the forthcoming AGM of the Company to be held on May 28, 2010 and, being eligible, will offer themselves for re-election.

The Company has received from each Independent Non- executive Director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and we consider them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 14 to 18 of the annual report.

Directors' Service Contracts

Each of the executive directors has entered into a service agreement with the Company. Each agreement is for a period of three years and shall continue thereafter until being terminated by either party giving not less than three months' prior written notice.

The emoluments of the Directors of the Company are determined by the Remuneration Committee after considering the Company's operating results, market rate and individual performance. No director can take part in deciding his own remuneration. Details of the remuneration policy for the Directors and senior management of the Group are set out in Corporate Governance Report under the heading of "Remuneration Committee".

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Interests of the Directors in Contracts

Save as disclosed in the section of "Related Party Transactions and Connected Transactions" in Directors' Report, no Directors had any direct or indirect material interests in any contracts of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year ended December 31, 2009.

Directors' and Chief Executive's Interests in Securities

As at December 31, 2009, the interests and short positions of the Directors and the chief executive 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 ("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, to be notified to the Company and the Stock Exchange were as follows:

Interests in the ordinary shares of the Company:

NAME OF DIRECTOR	NATURE OF INTERESTS	NUMBER OF SHARES HELD	PERCENTAGE OF ISSUED SHARE CAPITAL
Pak Kwan Kau	Corporate (Note 1)	219,489,800	20.06%
Jun Lei	Corporate (Note 2)	150,230,280	13.73%
Donghui Wang	Personal	127,000	0.01%
Tao Zou	Personal	750,600	0.07%

Interests in underlying shares of the Company:

NAME OF DIRECTOR	INTERESTS IN UNDERLYING SHARES	NUMBER OF INTERESTS DIRECTLY BENEFICIALLY OWNED
Jun Lei (Note 3)	Share options	27,763,300
Wing Chung Anders Cheung (Note 4)	Share options	500,000
Donghui Wang	Share options (Note 5)	7,200,000
	Awarded shares (Note 6)	1,754,000
Pak Kwan Kau (Note 7)	Awarded shares	1,500,000
Tao Zou	Share options (Note 8)	6,850,000
	Awarded shares (Note 9)	3,015,000

Notes:

1. These shares are held by Topclick Holdings Limited, a BVI company wholly owned by Pak Kwan Kau.

2. These shares are held by Color Link Management Limited, a BVI company wholly owned by Jun Lei.

3. The relevant interests include number of options of 22,451,800 which was granted on February 1, 2007 and its exercise period is from February 1, 2007 to February 1, 2017 with exercise price of US$0.2400, and the number of options of 5,311,500 which was granted on August 1, 2004 and its exercise period is from August 1, 2004 to August 1, 2014 with exercise price of US$0.0353.

4. The relevant interests are 500,000 number of share options which were granted on August 1, 2004. Its exercise period is from August 1, 2004 to August 1, 2014 and exercise price is US$0.0353.

5. The relevant interests include number of options of 800,000 which was granted on March 1, 2005 and its exercise period is from March 1, 2005 to March 1, 2015 with exercise price of US$0.2118, the number of options of 600,000 which was granted on August 1, 2005 and its exercise period is from August 1, 2005 to August 1, 2015 with exercise price of US$0.2118, the number of options of 800,000 which was granted on December 1, 2006 and its exercise period is from December 1, 2006 to December 1, 2016 with exercise price of US$0.24, and the number of options of 5,000,000 which was granted on February 1, 2007 and its exercise period is from February 1, 2007 to February 1, 2017 with exercise price of US$0.24.

6. The relevant interests include: 1) number of 254,000 out of 381,000 awarded shares granted on October 13, 2008 under the Share Award Scheme adopted at the Board meeting held on March 31, 2008, half of which will be exercisable on October 13, 2010 and October 13, 2011 respectively. The price for grant is nil; 2) number of 1,500,000 awarded shares granted on July

13, 2009, under the Share Award Scheme, one third of which will be exercisable on July 13, 2010, July 13, 2011 and July 13, 2012 respectively. The price for grant is nil.

7. The relevant interests include number of 1,500,000 awarded shares granted on July 13, 2009 under the Share Award Scheme, one third of which will be exercisable on July 13, 2010, July 13, 2011 and July 13, 2012 respectively. The price for grant is nil.

8. The relevant interests include number of options of 1,450,000 which was granted on December 1, 2006 and its exercise period is from December 1, 2006 to December 1, 2016 with exercise price of US$0.24, and the number of options of 5,400,000 which was granted on February 1, 2007 and its exercise period is from February 1, 2007 to February 1, 2017 with exercise price of US$0.2400.

9. The relevant interests include: 1) number of 324,000 awarded shares granted on October 13, 2008 under the Share Award Scheme, one third of which was exercised on October 13, 2009, and will be exercisable on October 13, 2010 and October 13, 2011 respectively. The price for grant is nil; 2) number of 2,691,000 awarded shares granted on June 8, 2009 under the Share Award Scheme, one third of which will be exercisable on June 8, 2010, June 8, 2011 and June 8, 2012 respectively subject to the satisfaction of maturity conditions set out its grant letter. The price for grant is nil.

10. For further details on share options and awarded shares, please refer to the paragraph headed "Share Option Schemes" and "Share Award Scheme" respectively set out on page 30 to page 31 of this annual report respectively.

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 December 31, 2009.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the sections of "Directors' and Chief Executive's Interests in Securities", "Share Option Schemes", and "Share Award Scheme" in Directors' Report, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company, their respective spouse or minor children to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Substantial Shareholders

As at December 31, 2009, as far as the Directors are aware of, the following, other than the Directors and 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:

Long position in the shares in the Company

NAME OF SHAREHOLDER	CAPACITY	NUMBER OF ORDINARY SHARES HELD IN THE COMPANY	PERCENTAGE OF ISSUED SHARE CAPITAL AS AT DECEMBER 31, 2009
Topclick Holdings Limited(1)	Beneficial owner	219,489,800	20.06%
Color Link Management Limited(2)	Beneficial owner	150,230,280	13.73%
Super Faith International Limited	Beneficial owner	101,946,386	9.32%
Caprice Pacific Limited(3)	Interest of a controlled corporation	101,946,386	9.32%
Highland Crest Limited(3)	Interest of a controlled corporation	101,946,386	9.32%
World Conquest Limited(3)	Interest of a controlled corporation	101,946,386	9.32%
Pacific Star Overseas Limited(3)	Interest of a controlled corporation	101,946,386	9.32%
Shuen Lung Cheung(3)	Interest of a controlled corporation	101,946,386	9.32%
Nien Shian Chu(3)	Interest of a controlled corporation	101,946,386	9.32%
Siu Lung Cheung(3)	Interest of a controlled corporation	101,946,386	9.32%
Tung Ping Lau(3)	Interest of a controlled corporation	101,946,386	9.32%
Siu Ha Cheung(3)	Interest of a controlled corporation	101,946,386	9.32%
Ka Yeung Yip(3)	Interest of a controlled corporation	101,946,386	9.32%
Mirae Asset Global Investments (Hong Kong) Limited	Beneficial owner	77,278,115	7.06%

1. Pak Kwan Kau is deemed to be interested in Topclick Holdings Limited's interest in the Company by the SFO because Topclick is wholly owned by Pak Kwan Kau.

2. Jun Lei is deemed to be interested in Color Link Management Limited's interest in the Company by the SFO because Color Link Management Limited is wholly owned by Jun Lei.

3. Each of Caprice Pacific Limited, Highland Crest Limited and World Conquest Limited is deemed to be interested in Super Faith International Limited's interest in the Company under the SFO because each of these entities is entitled to control the exercise of 33.3% of the voting power at general meetings of Super Faith International Limited. Caprice Pacific Limited is owned by Siu Ha Cheung and Ka Yeung Yip, who are husband and wife. Highland Crest Limited is owned by Shuen Lung Cheung and Nien Shian Chu, who are husband and wife. World Conquest Limited is owned by Siu Lung Cheung and Tung Ping Lau, who are husband and wife. Accordingly, each of Shuen Lung Cheung, Nien Shian Chu, Siu Lung Cheung, Tung Ping Lau, Siu Ha Cheung and Ka Yeung Yip is deemed to be interested in Super Faith International Limited interest in the Company by the SFO.

Save as disclosed above, the Directors are not aware of any other person who has beneficial interests or short positions in any of the shares or underlying shares 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.

Public Float

As at the date of this report, the Company has maintained the prescribed public float of at least 25% under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Purchase, Sale or Redemption of Shares

Pursuant to a resolution (the "Resolution") passed by our shareholders on May 25, 2009, a general unconditional mandate was granted to our Directors during the Relevant Period authorising the repurchase by our Company on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, such number of shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of our share capital in issue as at the date of the passing of the Resolution. For the purpose of the Resolution, Relevant Period means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next general meeting of the Company following the passing of the Resolution;

(ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by the articles of association of the Company and any applicable laws; and

(iii) the revocation or variation of the authority given under the Resolution by ordinary resolution of the shareholders of the Company in general meeting.

During the year ended December 31, 2009, the trustee of the Share Award Scheme of the Company had, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased from the market a total of 8,501,000 shares for award to employees upon vesting. The total amount paid to acquire these 8,501,000 shares during the year was about HK$48.8 million. Details of awarded shares purchased are as follows:

Month of purchase in 2009	No. of shares purchased	Purchase consideration per share: Highest price paid HK$	Lowest price paid HK$	Aggregate consideration paid HK$
January	50,000	2.75	2.71	137,215
June	2,403,000	5.45	4.93	12,556,436
July	6,048,000	6.43	5.41	36,136,005
Total	8,501,000			48,829,656

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2009.

Competing Interest

As of December 31, 2009, none of the Directors, controlling shareholders nor their respective associates (as defined in the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

Major Customers and Suppliers

For the year ended December 31, 2009, the 5 largest customers of the Group accounted for 20% of the total revenue, while the largest customer accounted for 7% of the total revenue. For the year ended December 31, 2009, the 5 largest suppliers of the Group accounted for 57% of the total purchases, while the largest supplier accounted for 17% of the total purchases.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Related Party Transactions and Connected Transactions

Non-exempt Continuing Connected Transactions

Duowan Transaction

As disclosed in the announcement of the Company of June 3, 2009, an agreement ("Internet Advertising Services Framework Agreement") between Chengdu Kingsoft Digital Entertainment Co., Ltd. ("Chengdu Digital") and Beijing Chuangshiqiji Advertisement Co., Ltd. ("Beijing Wonder") had been entered into on the same date, whereby Chengdu Digital agrees to allocate a total of not more than RMB10 million advertising expenses and engage Beijing Wonder to serve promotional advertisements on www.duowan.com, the online gaming portal ("Duowan") operated and owned by Guangzhou Huaduo Internet Technology Co., Ltd. ("GHIT") for a 3-year period ending 31 December 2011.

GHIT is a limited company incorporated in the PRC, which is an associate of Mr. Jun LEI, a non-executive Director of the Company. As Duowan is an online gaming portal owned and operated by GHIT, the transactions contemplated under the Internet Advertising Services Framework Agreement constitute continuing connected transactions of the Company subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The Group has complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules in respect of the above transaction.

Certain Structure Contracts

According to the Administrative Rules for Foreign Investments in Telecommunications Enterprises, which were issued on December 11, 2001 by the State Council and became effective on January 1, 2002, a foreign investor is currently prohibited from owning more than 50% of the equity interest in a Chinese entity that provides value-added telecommunications services. Internet content provision services are classified as value-added telecommunications businesses, and a commercial operator of such services must obtain an ICP license from the appropriate telecommunications authorities in order to carry on any commercial Internet content provision operations in China. In July 2006, the MII issued a notice which prohibits ICP license holders from leasing, transferring or selling a telecommunications business operating license to any foreign investors in any form, or providing any resource, sites or facilities to any foreign investors for their illegal operation of telecommunications businesses in China. The notice also requires that ICP license holders and their shareholders directly own the domain names and trademarks used by such ICP license holders in their daily operations. Therefore, in order for us to be able to carry on our business in China, the Group entered into a series of structure contracts with Beijing Kingsoft Qijian Digital Technology Co., Ltd. ("Kingsoft Qijian"), its shareholders Weiqin Qiu and Peili Lei, and Chengdu Kingsoft Digital Entertainment Co., Ltd. ("Chengdu Digital Entertainment"), which enable the Group to exercise control over Kingsoft Qijian, Beijing Kingsoft Digital Entertainment Co., Ltd. ("Beijing Digital Entertainment") and Chengdu Digital Entertainment and to consolidate these companies' financial results in our results. Beijing Digital Entertainment (which is wholly owned by Kingsoft Qijian) and Chengdu Digital Entertainment (which is owned as to 99% by Beijing Digital Entertainment and 1% by Weiqin Qiu) hold the requisite ICP licenses.

The structure contracts which were in place during the year ended December 31, 2009 are as follows:

Structure Contracts relating to Kingsoft Qijian

(i) A loan agreement dated March 30, 2007 between Weiqin Qiu and Chengdu Kingsoft Interactive Entertainment Co., Ltd. ("Chengdu Interactive Entertainment") which provided for an interest free loan by Chengdu Interactive Entertainment of RMB1,200,000 to Weiqin Qiu and of RMB300,000 to Peili Lei, entirely for the purpose of repaying the loan provided by Zhuhai Kingsoft Software Co. Ltd. ("Zhuhai Software") to Chengdu Digital Entertainment. The loans have no definite maturity date and Chengdu Digital Entertainment may request repayment at any time. Weiqin Qiu shall repay the loan by transferring the equity interest she holds in Chengdu Digital Entertainment to Chengdu Interactive Entertainment or as it may direct.

(ii) A shareholder voting agreement dated March 30, 2007 among Chengdu Interactive Entertainment, Weiqin Qiu, Peili Lei and Kingsoft Qijian, under which Weiqin Qiu and Peili Lei irrevocably entrust all of their shareholder rights in Kingsoft Qijian to Chengdu Interactive Entertainment, including but not limited to the voting rights and the right to nominate directors of Kingsoft Qijian.

(iii) A call option agreement dated March 30, 2007 among Weiqin Qiu, Peili Lei, Kingsoft Qijian and Chengdu Interactive Entertainment, under which Chengdu Interactive Entertainment was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, some or all of Weiqin Qiu's and Peili Lei's equity interest in Kingsoft Qijian at anytime, at a nominal amount subject to applicable PRC laws.

(iv) An equity pledge agreement dated March 30, 2007 among Weiqin Qiu, Peili Lei, Chengdu Interactive Entertainment and Kingsoft Qijian, pursuant to which Weiqin Qiu and Peili Lei pledged all of their equity interests in Kingsoft Qijian (and any increase in their capital contributions) in favor of Chengdu Interactive Entertainment as security for their obligations and Kingsoft Qijian's performance of its obligations under the above loan agreement, shareholder voting agreement and call option agreement, and the performance by Chengdu Digital Entertainment of its obligations under the intellectual property license agreements (as described above) and the performance by Beijing Digital Entertainment of its obligations under the intellectual property licence agreements (as described below).

(v) Zhuhai Software (as the licensor) and Beijing Digital Entertainment (as the licensee) entered into a framework intellectual property license agreement on June 15, 2007 for a term of 10 years from January 1, 2007 which will be automatically renewed for one year at the end of the term of any renewed term, unless the licensor notifies otherwise. Zhuhai Software agreed to enter into agreements to licence certain intellectual property rights to Beijing Digital Entertainment on a case by case basis.

Structure Contracts relating to Chengdu Digital Entertainment

(i) A loan agreement dated March 30, 2007 between Weiqin Qiu and Chengdu Interactive Entertainment which provided for an interest free loan of RMB100,000 by Chengdu Interactive Entertainment to Weiqin Qiu entirely for the purpose of capital funding of Chengdu Digital Entertainment. The loan has no definite maturity date and Chengdu

Interactive Entertainment may request repayment at any time. Weiqin Qiu shall repay the loan by transferring the equity interest she holds in Chengdu Digital Entertainment to Chengdu Interactive Entertainment or as it may direct.

(ii) A shareholder voting agreement dated March 30, 2007 among Chengdu Interactive Entertainment, Weiqin Qiu and Chengdu Digital Entertainment, under which Weiqin Qiu irrevocably entrusts all of her shareholder rights in Chengdu Digital Entertainment to Chengdu Interactive Entertainment, including but not limited to the voting rights and the right to nominate directors of Chengdu Digital Entertainment.

(iii) A call option agreement dated March 30, 2007 among Weiqin Qiu, Chengdu Digital Entertainment and Chengdu Interactive Entertainment, under which Chengdu Interactive Entertainment was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, some or all of Weiqin Qiu's equity interest in Chengdu Digital Entertainment at any time, at a nominal amount subject to applicable PRC laws.

(iv) An equity pledge agreement dated March 30, 2007 among Weiqin Qiu, Chengdu Interactive Entertainment, Chengdu Digital Entertainment and Beijing Digital Entertainment, pursuant to which Weiqin Qiu pledged her 1% equity interest in Chengdu Digital Entertainment (and any increase in her capital contribution) in favor of Chengdu Interactive Entertainment as security for the performance of her obligations under the above loan agreement, shareholder voting agreement and call option agreement as well as the performance by Chengdu Digital Entertainment of its obligations under the intellectual property license agreements (as described below).

(v) Chengdu Interactive Entertainment (as the licensor) and Chengdu Digital Entertainment (as the licensee) entered into a framework intellectual property license agreement on June 15, 2007 for a term of 10 years from January 1, 2007 which will be automatically renewed for one year at the end of the term of any renewed term, unless the licensor notifies otherwise. Chengdu Interactive Entertainment agreed to enter into agreements to licence certain intellectual property rights to Chengdu Digital Entertainment on a case by case basis.

As Weiqin Qiu is the sister of our executive Director, Pak Kwan Kau, and Peili Lei is an aunt of Jun Lei who was our executive Director when the above said structure contracts were signed and now is our non-executive Director, Weiqin Qiu and Peili Lei are associates of Pak Kwan Kau and Jun Lei, and therefore, are our connected persons. Accordingly, certain transactions under the structure contracts technically constituted connected transactions. The Company applied to the Stock Exchange for and was granted a specific waiver from strict compliance with the applicable disclosure and shareholders' approval requirements of Chapter 14A of the Listing Rules in relation to the transactions contemplated under the structure contracts for so long as the shares of the Company are listed on the Stock Exchange.

The Independent Non-executive Directors have reviewed the above structure contracts and have confirmed that:

— these structure contracts remain unchanged and are consistent with their disclosure in the prospectus of the Company dated September 24, 2007;

— no dividends or other distributions were made by Kingsoft Qijian, Beijing Digital Entertainment, or Chengdu Digital Entertainment to the holders of their equity interests for the year ended December 31, 2009; and

— apart from these structure contracts, there were no other new structure contracts entered into, renewed and/or "cloned" during the year ended December 31, 2009.

In accordance with rule 14A.37 of the Listing Rules, the Independent Non-executive Directors have reviewed all of the continuing connected transactions referred to above and have confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the Group's business;

(ii) either on normal commercial terms or on terms no less favorable than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of Directors in compliance with rule 14A.38 of the Listing Rules.

To streamline the corporate structure of the Group, the Group has commenced an internal reorganization exercise and a set of structure contracts relating to Zhuhai Qiwen Application Software Co., Ltd. ("Zhuhai Qiwen") was entered into on February 8, 2010.

Structure Contracts relating to Zhuhai Qiwen

(i) A loan agreement was entered into between Weiqin Qiu, Jin Wang and Zhuhai Kingsoft Software Co., Ltd. ("Zhuhai Software") which provided for an interest free loan by Zhuhai Software of RMB8,000,000 to Weiqin Qiu and Jin Wang, entirely for the purpose of repaying the liabilities incurred by Weiqin Qiu and Jin Wang in acquiring the entire equity interest in Zhuhai Qiwen. The loan has no definite maturity date and Zhuhai Software may request repayment at any time. Weiqin Qiu and Jin Wang shall, subject to the applicable laws, repay the loan by transferring the equity interest they hold in Zhuhai Qiwen to Zhuhai Software or as it may direct.

(ii) A shareholder voting agreement was entered into among Weiqin Qiu, Jin Wang, Zhuhai Software and Zhuhai Qiwen, under which Weiqin Qiu and Jin Wang irrevocably entrust all of their shareholder rights in Zhuhai Qiwen to Zhuhai Software, including but not limited to the voting rights and the right to nominate directors of Zhuhai Qiwen.

(iii) A call option agreement was entered into among Weiqin Qiu, Jin Wang, Zhuhai Software and Zhuhai Qiwen, under which Zhuhai Software was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, some or all of Weiqin Qiu's and Jin Wang's equity interests in Zhuhai Qiwen at anytime, at a nominal amount subject to applicable PRC laws.

(iv) An equity pledge agreement was entered into among Weiqin Qiu, Jin Wang, Zhuhai Software and Zhuhai Qiwen, pursuant to which Weiqin Qiu and Jin Wang pledged all of their equity interests in Zhuhai Qiwen (and any increase in their capital contribution) in favor of Zhuhai Software as security for the performance of their obligations under the above loan agreement, shareholder voting agreement and call option agreement, and the performance of the obligation by Zhuhai Software under the intellectual property license agreement (as described below).

(v) Zhuhai Software (as the licensor) and Zhuhai Kingsoft Application Software Co., Ltd ("Zhuhai Kingsoft Application") (as the licensee) entered into a framework intellectual property license agreement, for a term of 10 years from October 22, 2009 which will be automatically renewed for one year at the end of the term of any renewed term, unless the licensor notifies otherwise. Pursuant to the agreement, Zhuhai Software agreed to license the copyright of a software and permitted Zhuhai Kingsoft Application to develop the value-added telecommunications services and other business as permitted by its scope of business.

As Jin Wang is the husband of Weiqin Qiu, and Weiqin Qiu is the sister of our executive Director, Pak Kwan Kau, Jin Wang and Weiqin Qiu fall within the associate definition under Rule 14A.11(4)(b) to (c) of the Listing Rules. Accordingly, transactions under the structure contracts relating to Zhuhai Qiwen may technically constitute connected transactions.

However, given the arrangement relating to Zhuhai Qiwen was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment, it has been confirmed with the Stock Exchange that disclosure and shareholders' approval requirements under Chapter 14A of the Listing Rules do not apply to the structure contracts relating to Zhuhai Qiwen, subject to disclosure requirements similar to those applicable to structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment as disclosed on pages 36 to 39 of this Annual Report.

The Independent Non-executive Directors have reviewed the structure contracts relating to Zhuhai Qiwen and have confirmed that:

— these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated September 24, 2007 ;

— no dividends or other distributions were made by Zhuhai Qiwen to the holders of their equity interest during the period between February 8, 2010 to the date hereof;

— apart from these structure contracts, there were no other new structure contracts entered into, renewed and/or "cloned" during the period between January 1, 2010 to the date hereof; and

— these structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the Company's shareholders as a whole.

Non-exempt Connected Transactions

Loan to minority shareholders

As disclosed in the announcement of the Company of June 3, 2009, the Company had on the same date entered into a loan agreement with Mr. Haiyin Shen (沈海寅), Mr. Yongbiao Weng (翁永飆), EP Dream Technology Limited and Siger Network Co., Limited (the "Loan Agreement"), pursuant to which the Company agreed to lend approximately HK$15.8 million to the directors of Kingsoft Japan, namely Mr. Haiyin Shen (沈海寅) and Mr. Yongbiao Weng (翁永飆) (the "Borrowers"), to acquire 4,000 shares (approximately 11.1% equity interest) of Kingsoft Japan from Ichiro Hirosawa (廣澤一郎). The loan is subject to an interest of 1.5% plus HIBOR per annum to be adjusted annually. The tenure of the loan is 4 years from the date of disbursement. The 4,000 shares acquired were pledged to ensure timely repayment of the loan or any interest accured.

The Borrowers each owns 16.6% of Kingsoft Japan through their respective 100% owned investment holding company EP Dream Technology Limited and Siger Network Co., Limited. Therefore, the Borrowers are connected persons of the Group under Chapter 14A of the Listing Rules and the transaction under the Loan Agreement constitutes connected transaction of the Company subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules in respect of the above transaction.

Related Party Transactions

Details of the related party transactions for the year are included in Note 36 to the financial statements.

Compliance with the Code on Corporate Governance Practice

During the year, the Company complied with all code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules with the exception of the deviation from code provision A.2.1. Please also refer to the Corporate Governance Report in this annual report for full details.

Auditors

The consolidated financial statements of the Company for the year ended December 31, 2009 has been audited by Ernst & Young, who will retire and, being eligible, offer themselves for reappointment at our forthcoming AGM.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the articles of association of our Company or the laws of the Cayman Islands, which would oblige our Company to offer new shares on a pro-rata basis to existing shareholders.

By order of the Board
Pak Kwan Kau
Chairman
Hong Kong, March 25, 2010

INDEPENDENT AUDITORS' REPORT

安 永

TO THE SHAREHOLDERS OF KINGSOFT CORPORATION LIMITED
(Continued into the Cayman Islands with limited liability)

We have audited the financial statements of Kingsoft Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 42 to 124, which comprise the consolidated and company statements of financial position as at December 31, 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

March 25, 2010

CONSOLIDATED INCOME STATEMENT

Year ended December 31, 2009

	NOTES	2009 RMB'000	2008 RMB'000
REVENUE:	5		
Entertainment software		**684,242**	553,723
Application software		**329,196**	261,150
Others		**8,974**	6,071
		1,022,412	820,944
Cost of revenue		**(128,467)**	(110,935)
Gross profit		**893,945**	710,009
Research and development costs, net of government grants		**(199,611)**	(124,926)
Selling and distribution costs		**(171,634)**	(148,565)
Administrative expenses		**(101,630)**	(93,772)
Share-based compensation costs	6, 7	**(41,312)**	(49,909)
Other operating costs	6	**(2,598)**	(4,822)
Other income and gains	5	**26,867**	18,898
Finance income	6	**25,523**	31,022
Share of profits of associates	17	**25,715**	27,263
Share of losses of jointly-controlled entities	18	**(6,952)**	(1,278)
PROFIT BEFORE TAX	6	**448,313**	363,920
Income tax expense	9	**(59,459)**	(59,885)
PROFIT FOR THE YEAR		**388,854**	304,035
Attributable to:			
Owners of the parent		**387,224**	307,501
Minority interests		**1,630**	(3,466)
		388,854	304,035
		RMB	**RMB**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**0.3638**	0.2895
Diluted		**0.3368**	0.2774

Details of the dividends proposed for the year are disclosed in note 11 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2009

	2009 RMB'000	2008 RMB'000
PROFIT FOR THE YEAR	**388,854**	304,035
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation of foreign operations	**(632)**	(35,834)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(632)**	(35,834)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**388,222**	268,201
Attributable to:		
Owners of the parent	**386,888**	270,291
Minority interests	**1,334**	(2,090)
	388,222	268,201

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2009

	NOTES	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**407,980**	345,626
Goodwill	14	**2,377**	2,377
Other intangible assets	15	**48,489**	39,071
Lease prepayment	16	**6,972**	7,138
Interests in associates	17	**6,378**	27,077
Interests in jointly-controlled entities	18	**40,112**	4,722
Loan receivables	19	**2,649**	2,520
Deferred tax assets	9	**28,917**	29,262
Deferred cost	20	**1,201**	273
Long-term prepayments	21	**38,738**	11,620
		583,813	469,686
CURRENT ASSETS			
Inventories	22	**5,384**	4,686
Trade receivables	23	**120,378**	84,819
Prepayments, deposits and other receivables	24	**60,075**	55,138
Income tax receivable		**—**	182
Deferred cost	20	**3,122**	5,889
Credit-linked deposit	25	**—**	111,708
Cash and cash equivalents	26	**1,268,098**	1,007,115
		1,457,057	1,269,537
CURRENT LIABILITIES			
Trade payables	27	**12,597**	7,649
Dividend payable		**174**	134
Accrued expenses and other payables	28	**186,896**	160,972
Deferred revenue	29	**158,643**	183,445
Income tax payable		**19,453**	19,616
		377,763	371,816
NET CURRENT ASSETS		**1,079,294**	897,721
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,663,107**	1,367,407

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

December 31, 2009

	NOTES	2009 RMB'000	2008 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,663,107**	1,367,407
NON-CURRENT LIABILITIES			
Deferred revenue	29	**42,144**	31,179
Deferred tax liabilities	9	**16,653**	7,863
		58,797	39,042
Net assets		**1,604,310**	1,328,365
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	**4,434**	4,362
Share premium	30	**525,349**	639,034
Shares held for share award scheme	30	**(72,365)**	(40,050)
Statutory reserves	32(a)	**107,817**	81,481
Employee share-based capital reserve		**225,011**	194,648
Foreign currency translation reserve		**(66,464)**	(66,128)
Retained earnings		**723,335**	362,447
Proposed final dividends	11	**141,575**	139,723
		1,588,692	1,315,517
Minority interests		**15,618**	12,848
Total equity		**1,604,310**	1,328,365

Pak Kwan Kau
Director

Donghui Wang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2009

	ATTRIBUTABLE TO OWNERS OF THE PARENT											
	ISSUED CAPITAL (NOTE 30) RMB'000	SHARE PREMIUM (NOTE 30) RMB'000	SHARES HELD FOR SHARE AWARD SCHEME (NOTE 30) RMB'000	ORDINARY SHARES SUBSCRIBED RMB'000	STATUTORY RESERVES (NOTE 32(a)) RMB'000	EMPLOYEE SHARE-BASED CAPITAL RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED EARNINGS RMB'000	PROPOSED FINAL DIVIDEND RMB'000	TOTAL RMB'000	MINORITY INTERESTS RMB'000	TOTAL EQUITY RMB'000
AT JANUARY 1, 2008	4,322	735,510	–	319	57,570	144,741	(28,918)	101,953	95,710	1,111,207	22,450	1,133,657
Total comprehensive income for the year	–	–	–	–	–	–	(37,210)	307,501	–	270,291	(2,090)	268,201
2007 final dividend declared	–	–	–	–	–	–	–	–	(95,710)	(95,710)	–	(95,710)
Dividend on shares issued for employee share options exercised after December 31, 2007	–	–	–	–	–	–	–	(421)	–	(421)	–	(421)
Shares purchased for share award scheme	–	–	(40,050)	–	–	–	–	–	–	(40,050)	–	(40,050)
Share-based compensation costs	–	–	–	–	–	49,907	–	–	–	49,907	113	50,020
Issuance of share certificates for ordinary shares subscribed	3	316	–	(319)	–	–	–	–	–	–	–	–
Capital contribution from shareholders (note 30(a))	–	32,741	–	–	–	–	–	–	–	32,741	–	32,741
Profit appropriations (note 32(a))	–	–	–	–	23,911	–	–	(23,911)	–	–	–	–
Exercise of share options	37	10,190	–	–	–	–	–	–	–	10,227	–	10,227
Acquisition of minority interest (note 36(b)(i))	–	–	–	–	–	–	–	(22,675)	–	(22,675)	(7,625)	(30,300)
Proposed final 2008 dividend (note 11)	–	(139,723)	–	–	–	–	–	–	139,723	–	–	–
AT DECEMBER 31, 2008 AND JANUARY 1, 2009	**4,362**	**639,034**	**(40,050)**	**–**	**81,481**	**194,648**	**(66,128)**	**362,447**	**139,723**	**1,315,517**	**12,848**	**1,328,365**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(336)**	**387,224**	**–**	**386,888**	**1,334**	**388,222**
2008 final dividend declared	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(139,723)**	**(139,723)**	**–**	**(139,723)**
Dividend on shares issued for employee share options exercised after December 31, 2008	**–**	**(1,068)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,068)**	**–**	**(1,068)**
Shares purchased for share award scheme	**–**	**–**	**(43,050)**	**–**	**–**	**–**	**–**	**–**	**–**	**(43,050)**	**–**	**(43,050)**
Share-based compensation costs	**–**	**–**	**–**	**–**	**–**	**41,098**	**–**	**–**	**–**	**41,098**	**36**	**41,134**
Capital contribution from minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,400**	**1,400**
Profit appropriations (note 32(a))	**–**	**–**	**–**	**–**	**26,336**	**–**	**–**	**(26,336)**	**–**	**–**	**–**	**–**
Exercise of share options	**72**	**28,958**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**29,030**	**–**	**29,030**
Vested awarded shares transferred to employees	**–**	**–**	**10,735**	**–**	**–**	**(10,735)**	**–**	**–**	**–**	**–**	**–**	**–**
Proposed final 2009 dividend (note 11)	**–**	**(141,575)**	**–**	**–**	**–**	**–**	**–**	**–**	**141,575**	**–**	**–**	**–**
AT DECEMBER 31, 2009	**4,434**	**525,349**	**(72,365)**	**–**	**107,817**	**225,011**	**(66,464)**	**723,335**	**141,575**	**1,588,692**	**15,618**	**1,604,310**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2009

	NOTES	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**388,854**	304,035
Adjustments for:			
Depreciation	6	**41,220**	20,585
Amortisation of lease prepayment	6	**166**	166
Loss on disposal of items of property, plant and equipment	6	**216**	89
Write-off of receivables	6	**—**	102
Write-down of inventories	6	**—**	1,206
Amortisation of purchased software	15	**9,591**	7,019
Amortisation of capitalised software costs	15	**4,524**	4,152
Amortisation of other intangible assets	15	**1,065**	444
Interest income		**(1,715)**	(4,206)
Deferred income tax expense	9	**9,135**	16,556
Share-based compensation costs		**41,134**	50,019
Impairment of interest in an associate		**400**	—
Share of profits of associates		**(25,715)**	(27,263)
Share of losses of jointly-controlled entities		**6,952**	1,278
Changes in assets and liabilities:			
Trade receivables		**(35,559)**	(24,695)
Prepayments, deposits and other receivables		**12,110**	(7,395)
Income tax receivable		**182**	340
Loan receivables		**(129)**	(736)
Inventories		**(698)**	(2,282)
Deferred cost		**1,839**	4,667
Trade payables		**4,948**	529
Deferred revenue		**(13,837)**	24,896
Accrued expenses and other payables		**2,354**	(1,603)
Income tax payable		**(163)**	13,569
Net cash flows from operating activities		**446,874**	381,472

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended December 31, 2009

	NOTES	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		**101**	87
Purchases of items of property, plant and equipment		**(78,655)**	(291,218)
Purchases of software	15	**(4,491)**	(16,488)
Addition of capitalised software costs	15	**(18,883)**	(11,167)
Purchase of credit-linked financial instrument		**—**	(108,807)
Maturity of credit-linked financial instrument		**108,807**	—
Interest received from credit-linked deposit		**2,901**	1,305
Increase in time deposits with original maturity of over three months when acquired		**(472,343)**	(33,005)
Dividend received from an associate		**46,414**	1,200
Acquisition of minority interests	36(b)(i)	**—**	(30,300)
Acquisition of assets from a business combination	33	**—**	(14,520)
Increase in long-term prepayments		**(28,738)**	(11,620)
Advance of loans to shareholders of a subsidiary		**(13,912)**	—
Advance of loan to shareholder of a jointly-controlled entity		**(4,000)**	—
Investment in an associate		**(200)**	—
Investment in jointly-controlled entities		**(40,722)**	(6,000)
Net cash flows used in investing activities		**(503,721)**	(520,533)
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of shares held for share award scheme		**(43,050)**	(40,050)
Share issuance expenses		**—**	(3,994)
Exercise of share options		**29,030**	10,227
Capital contribution from minority interests		**1,400**	—
Capital contributions from shareholders	30(a)	**—**	32,741
Dividends paid to owners of the parent		**(140,791)**	(95,997)
Net cash flows used in financing activities		**(153,411)**	(97,073)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(210,258)**	(236,134)
Cash and cash equivalents at the beginning of the year		**616,955**	888,922
Effect of foreign exchange rate changes, net		**(1,102)**	(35,833)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**405,595**	616,955
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**258,975**	219,080
Time deposits with original maturity of three months or less when acquired	26	**146,620**	397,875
		405,595	616,955

STATEMENT OF FINANCIAL POSITION

December 31, 2009

	NOTES	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	31	**195,060**	166,351
Investment in a jointly-controlled entity	18	**35,370**	—
Property, plant and equipment	13	**3**	—
Other intangible assets	15	**763**	3,058
		231,196	169,409
CURRENT ASSETS			
Prepayments, deposits and other receivables	24	**14,305**	488
Due from subsidiaries	31	**327,470**	319,967
Credit-linked deposit	25	**—**	111,708
Cash and cash equivalents	26	**85,554**	155,604
		427,329	587,767
CURRENT LIABILITIES			
Accrued expenses and other payables	28	**2,897**	1,072
Dividend payable		**174**	134
Due to subsidiaries	31	**52,738**	28,936
		55,809	30,142
NET CURRENT ASSETS		**371,520**	557,625
TOTAL ASSETS LESS CURRENT LIABILITIES		**602,716**	727,034
NET ASSETS		**602,716**	727,034
EQUITY			
Issued capital	30	**4,434**	4,362
Share premium	30	**525,349**	639,034
Shares held for share award scheme	30	**(72,365)**	(40,050)
Employee share-based capital reserve	32(b)	**224,348**	194,023
Foreign currency translation reserve	32(b)	**(71,368)**	(70,705)
Accumulated losses	32(b)	**(149,257)**	(139,353)
Proposed final dividends	11	**141,575**	139,723
TOTAL EQUITY		**602,716**	727,034

Pak Kwan Kau
Director

Donghui Wang
Director

1. CORPORATE INFORMATION

Kingsoft Corporation Limited (the "Company") was incorporated under the laws of the British Virgin Islands on March 20, 1998 as a tax exempted company with limited liability under the Companies Act. On November 15, 2005, it was redomiciled under the Company Law (2004 revision) of the Cayman Islands. The registered office of the Company is located at Clifton House, 75 Fort Street, P.O. Box 1350 GT, George Town, Grand Cayman, Cayman Islands.

The principal executive office of the Company is located at Kingsoft Tower, No. 33, Xiaoying West Road, Haidian District, Beijing, the People's Republic of China ("PRC").

During the year, the Company and its subsidiaries (collectively, the "Group") were involved in the following principal activities:

- research, development, operation and distribution of online games, mobile games and casual game services; and
- research, development, operation and distribution of internet security, dictionary and office application software products.

In the opinion of the directors, the Company does not have a holding company.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2009. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

On March 31, 2008 (the "Adoption Date"), the board of directors of the Company approved and adopted a share award scheme (the "Share Award Scheme") in which selected employees of the Group are entitled to participate. The Group has set up a trust (the "Share Award Scheme Trust") for the purpose of administering the Share Award Scheme and holding shares awarded to the employees (the "Awarded Shares") before they vest. As the Group has the power to govern the financial and operating policies of the Share Award Scheme Trust and derives benefits from the contributions of the employees who have been awarded the Awarded Shares through their continued employment with the Group, the Group consolidates the Share Award Scheme Trust.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised IFRSs has had no significant effect on these financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IFRS 8 Amendment*	Amendment to IFRS 8 *Operating Segments — Disclosure of information about segment assets* (early adopted)
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC-Int 9 and IAS 39 Amendments	Amendments to IFRIC-Int 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*
IFRIC-Int 13	*Customer Loyalty Programmes*
IFRIC-Int 15	*Agreements for the Construction of Real Estate*
IFRIC-Int 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to IFRSs (May 2008)	*Amendments to a number of IFRSs*

* Included in Improvements to IFRSs (as issued in April 2009).

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adopting these new and revised IFRSs are as follows:

(a) Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

(b) Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or result of operations of the Group.

(c) Amendments to IFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The Group does not have financial instruments recorded at fair value as at December 31, 2009.

(d) IFRS 8 *Operating Segments*

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

The Group has early adopted in these financial statements the Amendment to IFRS 8 resulting from *Improvements to IFRSs* issued in April 2009 which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(e) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(f) Amendment to Appendix to IAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) IAS 23 (Revised) *Borrowing Costs*

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group currently has no borrowings, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to IFRIC-Int 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*

The amendment to IFRIC-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(j) IFRIC-Int 13 *Customer Loyalty Programmes*

IFRIC-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) IFRIC-Int 15 *Agreements for the Construction of Real Estate*

IFRIC-Int 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) IFRIC-Int 16 *Hedges of a Net Investment in a Foreign Operation*

IFRIC-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) IFRIC-Int 18 *Transfers of Assets from Customers* (adopted from July 1, 2009)

IFRIC-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(n) In May 2008, the IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs. Except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after July 1, 2009, the Group adopted all the amendments from January 1, 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 7 *Financial Instruments: Disclosures*: Removes the reference to "total interest income" as a component of finance costs.

- IAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

- IAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

- IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Additional Exemptions for First-time Adopters*[2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters*[4]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation-Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement-Eligible Hedged Items*[1]
IFRIC-Int 14 Amendments	Amendments to IFRIC-Int 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC-Int 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to Sell the Controlling Interest in a Subsidiary*[1]

Apart from the above, the IASB has issued *Improvements to IFRSs* in April 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. These improvements contain amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, Appendix to IAS 18, IAS 36, IAS 38, IAS 39, IFRIC-Int 9 and IFRIC-Int 16. Except for the amendments to IFRS 2, IAS 38, IFRIC-Int 9 and IFRIC-Int 16 which are effective for annual periods beginning on or after July 1, 2009 and no transitional provisions for amendment to Appendix to IAS 18 has been specified, other amendments are effective for annual periods beginning on or after January 1, 2010 although there are separate transitional provisions for each standard.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

[1] Effective for annual periods beginning on or after July 1, 2009
[2] Effective for annual periods beginning on or after January 1, 2010
[3] Effective for annual periods beginning on or after February 1, 2010
[4] Effective for annual periods beginning on or after July 1, 2010
[5] Effective for annual periods beginning on or after January 1, 2011
[6] Effective for annual periods beginning on or after January 1, 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a special purpose entity) whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

The results of the jointly-controlled entity are included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in the jointly-controlled entity is treated as non-current asset and is stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Goodwill arising from the acquisition of associates, is included as part of the Group's interests in associates and is not individually tested for impairment.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over the following estimated useful lives:

Leasehold land and buildings	Over the shorter of the lease term and 50 years
Electronic equipment	3 years
Office equipment and fixtures	5 years
Motor vehicles	5 years
Leasehold improvements	Over the shorter of the expected life of the leasehold improvements and the lease term

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Construction in progress represents a building under construction or equipment under installation, which is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of purchase, construction and installation during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Purchased software

Purchased software (including upfront licensing fees) are stated at cost less any impairment losses and are amortised on the straight-line basis over the shorter of the estimated economic life or the license period.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

The capitalised software development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the estimated economic life of the underlying product, which is determined to range from one to two years, commencing from the period in which the product is commercially released.

Website and internally used software development costs

The Group expenses all website and internally used software development costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance of the existing websites and software. Costs incurred in the development phase and satisfy the criteria for development costs capitalisation listed above are capitalised and amortised over the estimated product life.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, or loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, time deposits, a credit-linked deposit, trade and other receivables and loans receivable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationship as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flow is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flow for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

The Group's financial liabilities include trade and other payables are initially stated at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in financial cost in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; or a discounted cash flow analysis.

Shares held for share award scheme

Where shares of the Company are purchased from the market for share award scheme, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held for share award scheme" and deducted from equity.

Inventories

Inventories are stated at the lower of cost (calculated on the weighted average basis) and net realisable value. Cost includes materials and production costs related to the purchase and production of inventories outsourced to third party manufacturers. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event, and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Defined contribution plan for PRC employees

Full-time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labour regulations require that the Group makes contributions to the government for these benefits based on certain percentages of the employees' salaries. The Group has no legal obligation for the benefits beyond the contributions made.

Share-based payment transactions

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of the Company's ordinary shares on the dates of share option grants before the listing of the Company was assessed by an external appraiser. The fair values of share options are determined by management using the Black-Scholes valuation model.

The cost of equity-settled transactions with employees is recognised as expense, together with a corresponding increase in equity, presented as "Employee share-based capital reserve", over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vested is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after November 7, 2002 that had not vested by January 1, 2005 and to those granted on or after January 1, 2005.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating lease are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Revenue recognition

The Group recognises revenue when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Revenue from the sale of software products often includes a combination of software, the provision of training and post contract support services ("PCS"). When the selling price of a product includes an identifiable amount for subsequent servicing, the amount is deferred and recognised as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable profit on those services. If an acceptance period is required, revenue is recognised upon the earlier of customer acceptance or the expiration of the acceptance period.

Revenue is recognised net of value-added tax ("VAT") payable to, but includes the benefit of the refund of VAT on the sale of software products received or receivable from, the Chinese tax authorities as part of the PRC government's policy of encouraging software development in the PRC. The sales of software products in the PRC are subject to a 17% VAT. Companies that fulfil certain criteria set by the relevant authorities and which develop their own software products and have the software products registered with the relevant authorities in the PRC are entitled to a refund of VAT equivalent to the excess over 3% of contract amount paid in the month when output VAT exceeds input VAT (excluding export sales). The excess portion of the VAT is refundable and is recorded on an accrual basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

The Group offers contractual cash rebates and rights of returns of its products under various policies and programs with its distributors and resellers. Revenue is deferred and recognised when the price can be measured reliably and the amount of future rebates and returns can be reasonably estimated, provided that all other basic criteria for revenue recognition have been met. The Group accounts for reserves on cash rebates and returns as an offset to revenue. The Group accounts for the cash rebates which are offset against revenue in the income statement, together with an accrual in the statement of financial position. Besides, the Group estimates the amount of returns, which is offset against revenue in the income statement, together with deferred revenue in the statement of financial position.

In addition to these basic criteria, there are specific revenue recognition policies for each of the major streams, namely, the sale of software products, including security and utilities software and office application software, the provision of online game services, and other revenue which mainly comprises the provision of software consultancy services.

(a) Application software products

- Sales of perpetual software licenses

  The Group sells perpetual information security and utilities software licenses to original equipment manufacturers ("OEMs") for them to install into their own products, or to non-OEM customers, most of which are for individual usage through distributors. Revenue from the license agreements is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. For those licenses to OEMs which involve virus definition updates to end users of OEM's products, revenue of this element is recognised over the period during which the virus definition update service is provided.

- Multi-year licensing arrangements

  The Group enters into multi-year licensing arrangements with OEMs to allow OEMs to install unlimited copies of the Group's information security and utilities software over a period of one to three years in the OEMs' products for a fixed cash consideration. During the license period, the Group is required to provide when-and-if-available upgrades, training and virus definition update subscriptions to OEMs' products. Revenue from multi-year licensing arrangements is recognised as revenue ratably over the license period upon the delivery of the software master copy.

- Subscription of online downloads

  Online subscription model is applied on the Group's individual information security products, of which revenue is recognised upon activation of the prepaid service cards or online downloads based on the actual usage of subscribed time by end customers. Upon expiry of prepaid service cards, any remaining amount is recognised immediately as revenue. The costs related to the production of prepaid services are also deferred until revenue for the prepaid amounts is recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(b) Entertainment software — Online game services

The Group earns revenue from the sale of either its prepaid game cards for its online game products to the distributors which in turn sell them to end users, or prepaid online points to end customers at the Group's website.

The Group applys a pay-to-play subscription based model and an item-billing revenue model on its online game services.

For the pay-to-play subscription-based model, both prepaid cards and prepaid online points provide customers with a pre-specified length of game playing time within a specified period of time. All prepaid fees received from distributors and end customers are initially recognised as deferred revenue. Revenue is recognised upon activation of the prepaid game cards or online points based on the actual usage of the game playing time by end customers.

For the item-billing revenue model, the customers can play the game for free with limited basic functions. There are also in-game items and premium features sold in the game by consuming online game points, commonly known as "Virtual Items", which are regarded as value-added services and are rendered over a pre-specified period or throughout the whole game life. The revenue from these Virtual Items are recognised ratably over the estimated practical usage period or throughout the whole game life as appropriate. Future usage patterns may differ from the historical usage patterns on which the item-billing revenue model revenue recognition is based. The Group monitors the operational statistics and usage patterns of Virtual Items.

Upon expiry of online points, any remaining amount is recognised as revenue. The costs related to the production of prepaid game cards are also deferred until revenue for those prepaid amounts are recognised.

The sale of prepaid game cards to distributors and retailers includes certain discounts from the face value of the cards. The Group recognises revenue from these transactions net of the discounts provided to the distributors.

(c) Software consultancy services

The Group engages in the provision of the consultancy services to assist its clients in the design and development of software or applications. These consulting services are usually fixed on prices, completed within one year, and subject to the successful completion in performing deliverables within a time frame specified by clients on a project by project basis. The Group recognises software consultancy service revenue when the services have been completed or upon written acceptance from customers, if applicable. Revenue from software consultancy services was reported as either application software revenue or other revenue, depending on the nature of project.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(d) *Advertising services*

Advertising revenues are derived principally from online advertising arrangements. The Group enters into advertising arrangements with advertisers to allow them to place advertisements on particular areas of the Group's websites over a particular period of time, or embedded hyperlinks to advertisements in the Group's software. Advertising revenues from advertising arrangements with a particular period of time are recognised ratably over the displayed period of the contract when the collectibility is reasonably assured. For the hyperlinks embedded in the Group's software, the advertisers pay the Group based on number of clicks on the hyperlinks by end users of the software. The Group recognises revenue when the revenue can be measured reliably and the collectability is reasonably assured.

(e) *Interest income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Cost of revenue

Cost of revenue consists primarily of manufacturing costs for software and prepaid game cards, data centre and transportation costs and other overhead expenses directly attributable to the production of software and provision of online game services.

Deferred revenue

Deferred revenue represents cash received or receivables from the sale of software products, subscription received for online information security services, payment for online game services in advance of services being rendered and government grants received in advance of fulfilling the grant requirements.

The deferred revenue consists of the unamortised balance of the sale of software products, the unused balance of online game cards and prepaid service cards sold and deferral of government grants.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction of the related expense when the expense is incurred. Where the grant relates to capitalised software costs, the fair value is deducted from the carrying amount of the capitalised software costs and released to the income statement by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB. The Company and its subsidiaries have determined their functional currencies to be their respective local currencies of Hong Kong Dollars ("HK$"), Japanese Yen ("JPY"), Malaysia Ringgit ("MYR") and RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and certain overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and certain overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. ESTIMATION UNCERTAINTY

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Recognition of share-based compensation costs

The Company granted share options to its employees. The management used the Black-Scholes model to determine the total fair value of the options granted, which is expensed over the vesting period. Judgement regarding the terms and conditions upon which the options were granted, such as risk-free rate, dividend yield, expected volatility and expected life of options, was required to be made by the management as the parameters for applying the Black-Scholes model. No share options were granted during the years ended December 31, 2009 and 2008.

The Company grantes Awarded Shares to its employees. The fair value of the Awarded Shares was based on the market value of the Company's shares at grant date. The fair value of the Awarded Shares awarded during the year ended December 31, 2009 was approximately RMB54,558 thousand (2008: RMB35,087 thousand).

The grant of equity instruments is conditional upon satisfying specified vesting conditions, including service period, performance condition linked to financial performance measure. Judgement is required to take into account the vesting conditions and adjust the number of equity instruments included in the measurement of share-based compensation costs. Determining the number of equity instruments that eventually vest requires assumptions regarding the profit forecast, and hence they are subject to uncertainty.

(b) Software development costs

Software development costs are capitalised in accordance with the accounting policy for research and development costs. Determining the amounts to be capitalised requires assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At December 31, 2009, the best estimate of the carrying amount of capitalised development costs was RMB23,362 thousand (2008: RMB9,003 thousand).

3. ESTIMATION UNCERTAINTY (continued)

(c) Revenue recognition

(i) Application software

Judgement is required to determine the portion of the deferral of software revenue, which represents the expected cost for post contract support services, together with a reasonable profit on those services. Determining the amount of post contract support services requires estimates of the product life cycle for the information security software which is subject to changes to the product's functionality and termination of the provision of virus definition updates.

As the Group offers contractual cash rebates and rights of returns of its products under various policies and programs with its distributors and resellers, judgement is required to estimate the amount of future rebates and returns.

(ii) Entertainment software — Online games services

Revenue is recognised upon activation of the prepaid game cards or online points based on the actual usage of the game playing time by end customers. As the prepaid game cards are sold through distributors or the Group's websites, the discount rate offered varies among different distribution channels. The amount of revenue is calculated from actual usage and unit price per point per day, which is determined on a weighted average basis.

(d) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses was RMB4,833 thousand as at December 31, 2009 (2008: RMB44 thousand). The amount of unrecognised tax losses as at December 31, 2009 was RMB24,257 thousand (2008: RMB24,661 thousand). Further details are disclosed in note 9.

(e) Impairment of trade receivables

The Group's policy for impairment of trade receivables is based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of trade receivables and impairment loss in the period in which such estimate has been changed.

(f) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

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

(a) The entertainment software segment engages in research and development of online games, and provision of online games, mobile games and casual game services.

(b) The application software segment engages in the research, development and distribution of internet security software, dictionary software and office application software products.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on 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 from the Group's financial instruments as well as administrative expenses, employee share-based payments, share of profits/losses of associates/jointly-controlled entities, other operating costs and other income and gains are excluded from such measurement.

YEAR ENDED DECEMBER 31, 2009	ENTERTAINMENT SOFTWARE RMB'000	APPLICATION SOFTWARE RMB'000	TOTAL RMB'000
SEGMENT REVENUE:			
Sales to external customers	**684,431**	**337,981**	**1,022,412**
SEGMENT RESULTS	**378,600**	**144,100**	**522,700**
Reconciliation:			
Administrative expenses			**(101,630)**
Share-based compensation costs			**(41,312)**
Other operating costs			**(2,598)**
Other income and gains			**26,867**
Finance income			**25,523**
Share of profits of associates			**25,715**
Share of losses of jointly-controlled entities			**(6,952)**
PROFIT BEFORE TAX			**448,313**
OTHER SEGMENT INFORMATION:			
Depreciation and amortisation	**16,585**	**31,799**	**48,384**

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED DECEMBER 31, 2008	ENTERTAINMENT SOFTWARE RMB'000	APPLICATION SOFTWARE RMB'000	TOTAL RMB'000
SEGMENT REVENUE:			
Sales to external customers	553,723	267,221	820,944
SEGMENT RESULTS	320,334	116,184	436,518
Reconciliation:			
Administrative expenses			(93,772)
Share-based compensation costs			(49,909)
Other operating costs			(4,822)
Other income and gains			18,898
Finance income			31,022
Share of profit of an associate			27,263
Share of loss of a jointly-controlled entity			(1,278)
PROFIT BEFORE TAX			363,920
OTHER SEGMENT INFORMATION:			
Impairment losses recognised in the income statement	137	1,069	1,206
Depreciation and amortisation	11,641	15,566	27,207

Geographical information

(a) Revenue from external customers:

	2009 RMB'000	2008 RMB'000
Mainland China	**957,422**	796,933
Japan	**53,974**	24,011
Other countries	**11,016**	—
Total	**1,022,412**	820,944

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets:

	2009 RMB'000	2008 RMB'000
Mainland China	**518,399**	433,681
Japan	**697**	1,082
Other countries	**33,151**	3,141
Total	**552,247**	437,904

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

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after deduction of returns and trade discounts; and the value of services rendered. The Group's revenue includes:

(a) "Entertainment software", which comprises the provision of online game services and related advertising services;

(b) "Application software", which comprises the sales of software products, including security and utilities software and office application software, and related advertising services; and

(c) "Others", which mainly comprises the provision of software consulting services.

An analysis of the Group's revenue is as follows:

	2009 RMB'000	2008 RMB'000
Revenue		
Sales of packaged software	**109,319**	76,963
Rendering of services	**913,093**	743,981
	1,022,412	820,944

	2009 RMB'000	2008 RMB'000
Other income and gains		
Government grants	**24,524**	18,898
Others	**2,343**	—
	26,867	18,898

6. PROFIT BEFORE TAX

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

	NOTES	2009 RMB'000	2008 RMB'000
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**209,595**	158,703
Social insurance costs and staff welfare		**44,853**	31,763
Share-based compensation costs		**41,312**	49,909
Pension plan contributions		**19,217**	13,030
		314,977	253,405
Minimum lease payments under operating leases:			
Plant and machinery		**33,546**	26,824
Buildings		**14,468**	12,161
		48,014	38,985
Depreciation	(a)	**41,220**	20,585
Amortisation of lease prepayment	(a)	**166**	166
Amortisation of intangible assets:			
Amortisation of capitalised software costs*		**5,481**	4,110
Amortisation of purchased software	(a)	**9,591**	7,019
Amortisation of other intangible assets	(a)	**1,065**	444
Write-down of inventories***	22	**—**	1,206
Write-off of receivables***		**—**	102
Loss on disposal of items of property, plant and equipment***		**216**	89
Foreign exchange differences, net***		**984**	1,602
Impairment of interest in an associate***	17	**400**	—
Auditors' remuneration		**5,880**	5,600
Government grants:			
— recorded as a reduction to research and development cost**		**(14,779)**	(7,589)
— recorded in other income and gains		**(24,524)**	(18,898)
		(39,303)	(26,487)
Bank interest income		**(25,523)**	(31,022)

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

** Government grants which were granted to support the development of software and online game technology are recorded as a reduction to research and development cost on the face of the consolidated income statement during the year. Government grants received/receivable for which related expenditures have not yet been undertaken are included in deferred revenue in the consolidated statement of financial position.

*** The write-down of inventories, write-off of receivables, loss on disposal items of property, plant and equipment, foreign exchange differences and impairment of interest in an associate are included in "other operating costs" on the face of the consolidated income statement.

6. PROFIT BEFORE TAX (continued)

(a) Depreciation of property, plant and equipment and amortisation of lease prepayment, purchased software and other intangible assets

	2009 RMB'000	2008 RMB'000
Included in:		
Cost of revenue	**17,804**	12,044
Research and development costs	**23,104**	6,869
Selling and distribution costs	**2,952**	670
Administrative expenses	**8,182**	8,631
	52,042	28,214

7. SHARE-BASED COMPENSATION COSTS

(a) Share options

From 2000 to 2003, the Company entered into share option agreements with employees, chief executives and directors of the Company.

Pursuant to these share option agreements, options are granted with a vesting period over four years of continuous service, with one eighth of the options to vest after each six months of the grant date. Options granted expire in ten years. The ordinary shares acquired can only be sold after the effective date of a registration statement covering any public offering of the Company's securities and a certain period of time as the relevant regulations may require.

2004 and 2007 Pre-IPO Share Option Schemes

In June 2004, the Company adopted the 2004 Pre-IPO Share Option Scheme (the "2004 Scheme"). The 2004 Scheme provides for the grant of share options to employees, chief executives or directors (including executives or non-executives or independent non-executives) of the Group.

Options granted under the 2004 Scheme 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.

Options under the 2004 Scheme were granted for periods of up to ten years. The exercise price of share options was determined by the directors.

Pursuant to a directors' resolution dated January 22, 2007, the Company adopted the 2007 Pre-IPO Share Option Scheme (the "2007 Scheme"), for the purpose of providing incentives and awards to employees, senior management and directors of the Group. The vesting terms of the 2007 Scheme are the same as those of the 2004, except for 1,109,036 share options granted to directors of the Group in February 2007 which were conditional upon a successful initial public offering occurring on or before February 1, 2008 and 224,518 options were fully vested and exercisable on April 30, 2009 as the Group achieved certain net profit target for the year ended December 31, 2008.

The total expense recognised for employee services received in respect of the 2004 Scheme and the 2007 Scheme for the year ended December 31, 2009 was RMB20,395 thousand (2008: RMB44,242 thousand).

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options (continued)

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

The 2004 Scheme and the 2007 Scheme were terminated on September 3, 2007. No share options have been granted since then. The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, the Company's share options for the years ended December 31, 2009 and 2008.

	COMPANY			
	2009 NUMBER OF SHARE OPTIONS	**2009 WAEP US$ PER SHARE**	**2008 NUMBER OF SHARE OPTIONS**	**2008 WAEP US$ PER SHARE**
2004 Scheme				
Outstanding at January 1	**23,882,125**	**0.1083**	32,646,280	0.1093
Forfeited during the year	**(110,000)**	**0.2374**	(311,000)	0.1806
Exercised during the year	**(6,246,625)**	**0.1074**	(8,453,155)	0.1093
Outstanding at December 31	**17,525,500**	**0.1078**	23,882,125	0.1083
Exercisable at December 31	**16,325,500**	**0.0982**	19,935,000	0.0847
2007 Scheme				
Outstanding at January 1	**99,897,400**	**0.2410**	109,031,400	0.2411
Forfeited during the year	**(4,526,000)**	**0.2400**	(6,841,467)	0.2439
Exercised during the year	**(14,751,800)**	**0.2408**	(2,292,533)	0.2400
Outstanding at December 31	**80,619,600**	**0.2410**	99,897,400	0.2410
Exercisable at December 31	**47,597,460**	**0.2407**	35,272,640	0.2407
Total outstanding at December 31	**98,145,100**	**0.2172**	123,779,525	0.2154
Total exercisable at December 31	**63,922,960**	**0.2043**	55,207,640	0.1843

The weighted average share price at the date of exercise for the options exercised in 2009 was US$0.6996 (2008: US$0.2996).

The weighted average remaining contractual life for the Company's share options outstanding under the 2004 Scheme as at December 31, 2009 was 5.27 years (2008: 6.22 years), and the range of exercise prices for these outstanding options was US$0.0005 to US$0.2400 (2008: US$0.0005 to US$0.2400).

The weighted average remaining contractual life for the Company's share options outstanding under the 2007 Scheme as at December 31, 2009 was 7.09 years (2008: 8.09 years), and the range of exercise prices for these outstanding options was US$0.2400 to US$0.4616 (2008: US$0.2400 to US$0.4616). No share options were granted in 2009 and 2008.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options (continued)

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

The following share options were outstanding under the 2004 Scheme and the 2007 Scheme during the years ended December 31, 2009 and 2008.

	NUMBER OF SHARE OPTIONS					
NAME OR CATEGORY OF PARTICIPANT	AT JANUARY 1, 2009	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	AT DECEMBER 31, 2009	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
EXECUTIVE DIRECTORS						
Donghui Wang	**800,000**	**—**	**—**	**800,000**	March 1, 2005	0.2118
	600,000	**—**	**—**	**600,000**	August 1, 2005	0.2118
	800,000	**—**	**—**	**800,000**	December 1, 2006	0.2400
	5,000,000	**—**	**—**	**5,000,000**	February 1, 2007**	0.2400
	7,200,000	**—**	**—**	**7,200,000**		
Tao Zou*	**200,000**	**(200,000)**	**—**	**—**	August 1, 2004	0.0353
	1,600,000	**(150,000)**	**—**	**1,450,000**	December 1, 2006	0.2400
	5,400,000	**—**	**—**	**5,400,000**	February 1, 2007**	0.2400
	7,200,000	**(350,000)**	**—**	**6,850,000**		
NON-EXECUTIVE DIRECTORS						
Jun Lei	**5,311,500**	**—**	**—**	**5,311,500**	August 1, 2004	0.0353
	22,451,800	**—**	**—**	**22,451,800**	February 1, 2007**	0.2400
	27,763,300	**—**	**—**	**27,763,300**		
Wing Chung Anders Cheung	**500,000**	**—**	**—**	**500,000**	August 1, 2004	0.0353

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options (continued)

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

	NUMBER OF SHARE OPTIONS					
NAME OR CATEGORY OF PARTICIPANT	AT JANUARY 1, 2009	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	AT DECEMBER 31, 2009	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
OTHER EMPLOYEES						
In aggregate	**1,770,500**	**(70,000)**	**—**	**1,700,500**	January 1, 2000	0.0005
	6,532,000	**(3,497,000)**	**—**	**3,035,000**	August 1, 2004	0.0353
	442,625	**(442,625)**	**—**	**—**	January 1, 2005	0.2118
	250,000	**(160,000)**	**(10,000)**	**80,000**	April 1, 2005	0.2118
	2,309,500	**(1,154,000)**	**—**	**1,155,500**	August 1, 2005	0.2118
	216,000	**(175,000)**	**—**	**41,000**	January 1, 2006	0.2118
	800,000	**—**	**—**	**800,000**	August 1, 2006	0.2118
	1,750,000	**(398,000)**	**(100,000)**	**1,252,000**	December 1, 2006	0.2400
	65,147,600	**(14,412,800)**	**(4,526,000)**	**46,208,800**	February 1, 2007**	0.2400
	788,000	**(169,000)**	**—**	**619,000**	April 1, 2007**	0.2400
	680,000	**(115,000)**	**—**	**565,000**	May 8, 2007**	0.2400
	430,000	**(55,000)**	**—**	**375,000**	August 1, 2007**	0.4616
	81,116,225	**(20,648,425)**	**(4,636,000)**	**55,831,800**		
	123,779,525	**(20,998,425)**	**(4,636,000)**	**98,145,100**		

* Mr. Tao Zou has been appointed as an executive director of the Company with effect from August 25, 2009.

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

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options (continued)

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

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS: AT JANUARY 1, 2008	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	AT DECEMBER 31, 2008	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
EXECUTIVE DIRECTOR						
Donghui Wang	800,000	—	—	800,000	March 1, 2005	0.2118
	600,000	—	—	600,000	August 1, 2005	0.2118
	800,000	—	—	800,000	December 1, 2006	0.2400
	5,000,000	—	—	5,000,000	February 1, 2007*	0.2400
	7,200,000	—	—	7,200,000		
NON-EXECUTIVE DIRECTORS						
Jun Lei	5,311,500	—	—	5,311,500	August 1, 2004	0.0353
	22,451,800	—	—	22,451,800	February 1, 2007*	0.2400
	27,763,300	—	—	27,763,300		
Wing Chung Anders Cheung	500,000	—	—	500,000	August 1, 2004	0.0353

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options (continued)

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

	NUMBER OF SHARE OPTIONS					
NAME OR CATEGORY OF PARTICIPANT	AT JANUARY 1, 2008	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	AT DECEMBER 31, 2008	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US$ PER SHARE
OTHER EMPLOYEES						
In aggregate	1,770,500	—	—	1,770,500	January 1, 2000	0.0005
	152,460	(152,460)	—	—	January 1, 2001	0.0283
	11,547,820	(4,760,820)	(55,000)	6,732,000	August 1, 2004	0.0353
	3,541,000	(3,098,375)	—	442,625	January 1, 2005	0.2118
	250,000	—	—	250,000	April 1, 2005	0.2118
	2,617,000	(234,000)	(73,500)	2,309,500	August 1, 2005	0.2118
	556,000	(157,500)	(182,500)	216,000	January 1, 2006	0.2118
	800,000	—	—	800,000	August 1, 2006	0.2118
	3,400,000	(50,000)	—	3,350,000	December 1, 2006	0.2400
	79,341,600	(2,237,533)	(6,556,467)	70,547,600	February 1, 2007*	0.2400
	1,008,000	(55,000)	(165,000)	788,000	April 1, 2007*	0.2400
	680,000	—	—	680,000	May 8, 2007*	0.2400
	550,000	—	(120,000)	430,000	August 1, 2007*	0.4616
	106,214,380	(10,745,688)	(7,152,467)	88,316,225		
	141,677,680	(10,745,688)	(7,152,467)	123,779,525		

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

As of December 31, 2009, the Company had 98,145,100 share options outstanding under the 2004 Scheme and 2007 Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 98,145,100 additional ordinary shares of the Company and additional share capital of RMB335 thousand and share premium of RMB145,254 thousand.

At the date of approval of these financial statements, the Company had 92,153,500 share options outstanding under the 2004 Scheme and 2007 Scheme, which represented approximately 8.4% of the Company's shares in issue as at that date.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options (continued)

Kingsoft Japan Inc. ("Kingsoft Japan") Share Options

Pursuant to Kingsoft Japan's shareholder resolution dated November 2, 2006 (the "November Resolution"), Kingsoft Japan is authorised to grant share options to employees in exchange for Kingsoft Japan's ordinary shares. The maximum number of Kingsoft Japan's ordinary shares in respect of which options may be granted is 1,000 in aggregate. Options are conditional upon a successful initial public offering of Kingsoft Japan (the "Condition"). Options granted expire in ten years. The exercise price is JPY10,000 per share.

(a) Pursuant to a directors' resolution on January 4, 2007, 410 options were granted to certain employees which vest over a period of three years, with one third of options to vest on the first anniversary of the grant date, and an additional one twelfth to vest after each three months and exercisable upon the Condition. 210 options out of such 410 options have already been forfeited.

(b) Pursuant to a directors' resolution on March 30, 2007, 90 options were granted to employees and a consultant, which are exercisable upon the Condition above.

(c) Pursuant to a directors' resolution on July 31, 2007, the authorisation to issue the remaining 500 options under the November Resolution was revoked, and another 710 options were granted to the employees. Among which, 520 options vest over a period of two years, with half of the options to vest on the first anniversary of the grant date or the date when the employee joined the company, which is earlier, and an additional one eighth to vest each three months thereafter; and the remaining 190 options vest over a period of three years, with one third of the options to vest on the first anniversary of the grant date or the date when the employee joined the company, which is earlier, and an additional one twelfth to vest after each three months. The exercise of the above options is conditional upon a successful initial public offering of Kingsoft Japan.

The expense recognised in respect of Kingsoft Japan share options during the year ended December 31, 2009 was RMB73 thousand (2008: RMB230 thousand).

No share options were granted or exercised in 2009 and 2008, and no share options were forfeited in 2009 (2008: 225).

7. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme

On the Adoption Date, the board of directors of the Company approved and adopted the Share Award Scheme in which selected employees of the Group are entitled to participate. Unless early terminated by the board of directors, the Share Award Scheme is valid and effective for a term of five years commencing on the Adoption Date. The board of directors will 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 of directors under the Share Award Scheme (but not counting any which have lapsed or have been forfeited), representing in aggregate over 10% of the issued capital of the Company as at the date of such grant.

For the Awarded Shares granted under the Share Award Scheme, the fair value of the 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 total amount expensed over the vesting period is determined by reference to the fair value of the Awarded Shares granted.

During the year ended December 31, 2009, 12,042,000 shares (2008: 15,579,000 shares) were awarded to a number of employees with vesting period of three years, out of which, 8,382,000 (2008: 9,945,000 shares) awarded shares were also subject to certain performance conditions. During the year ended December 31, 2009, the Share Award Scheme Trust acquired 8,501,000 shares of the Company through purchases on the open market at a total cost (including related transaction costs) of approximately RMB43,050 thousand (2008: 17,138,000 shares, RMB40,050 thousand).

The expense recognised for employee services received in respect of the Share Award Scheme for the year ended December 31, 2009 was RMB20,844 thousand (2008: RMB5,437 thousand).

The following table illustrates the number of and movements in the Company's Awarded Shares for the years ended December 31, 2009 and 2008.

	2009 NUMBER OF AWARDED SHARES	2008 NUMBER OF AWARDED SHARES
Outstanding as at January 1	**15,558,000**	—
Granted during the year	**12,042,000**	15,579,000
Forfeited during the year	**(3,047,000)**	(21,000)
Vested during the year	**(3,895,000)**	—
Outstanding as at December 31	**20,658,000**	15,558,000

The fair value of the Awarded Shares was based on the market value of the Company's shares at the grant date. The weighted average fair value of the shares awarded during 2009 was RMB3.26 each (2008: RMB2.25 each).

As at December 31, 2009, 1,086,000 forfeited or unawarded shares were held by the Share Award Scheme Trust and would be awarded in future (2008: 1,580,000).

Subsequent to the end of the reporting period, on January 12, 2010, 350,000 shares were granted to an employee in respect of his services to the Group in the forthcoming years. These Awarded Shares vest between January 12, 2010 and January 12, 2013. The price of the Company's shares at the date of grant was HK$6.99 per share.

7. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

At the date of approval of these financial statements, the Company had 14,697,667 Awarded Shares outstanding under the Share Award Scheme, which represented approximately 1.3% of the Company's shares in issue as at that date.

The following Awarded Shares were outstanding under the Share Award Scheme during the years ended December 31, 2009 and 2008.

	NUMBER OF AWARDED SHARES					
NAME OR CATEGORY OF PARTICIPANT	AT JANUARY 1, 2009	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	VESTED DURING THE YEAR	AT DECEMBER 31, 2009	GRANT DATE
EXECUTIVE DIRECTORS						
Pak Kwan Kau	—	1,500,000	—	—	1,500,000	July 13, 2009
	—	1,500,000	—	—	1,500,000	
Donghui Wang	381,000	—	—	(127,000)	254,000	October 13, 2008
	—	1,500,000	—	—	1,500,000	July 13, 2009
	381,000	1,500,000	—	(127,000)	1,754,000	
Tao Zou	324,000	—	—	(108,000)	216,000	October 13, 2008
	—	2,691,000	—	—	2,691,000	June 8, 2009
	324,000	2,691,000	—	(108,000)	2,907,000	
OTHER EMPLOYEES						
In aggregate	5,058,000	—	(379,000)	(1,455,000)	3,224,000	June 26, 2008
	6,744,000	—	(667,000)	(1,855,000)	4,222,000	October 13, 2008
	2,001,000	—	(2,001,000)	—	—	October 24, 2008
	600,000	—	—	(200,000)	400,000	November 27, 2008
	150,000	—	—	(50,000)	100,000	December 1, 2008
	300,000	—	—	(100,000)	200,000	December 25, 2008
	—	1,600,000	—	—	1,600,000	January 1, 2009
	—	3,321,000	—	—	3,321,000	June 8, 2009
	—	80,000	—	—	80,000	November 27, 2009
	—	1,350,000	—	—	1,350,000	December 1, 2009
	14,853,000	6,351,000	(3,047,000)	(3,660,000)	14,497,000	
	15,558,000	12,042,000	(3,047,000)	(3,895,000)	20,658,000	

7. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES: AT JANUARY 1, 2008	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	VESTED DURING THE YEAR	AT DECEMBER 31, 2008	GRANT DATE
EXECUTIVE DIRECTOR						
Donghui Wang	—	381,000	—	—	381,000	October 13, 2008
	—	381,000	—	—	381,000	
OTHER EMPLOYEES						
In aggregate	—	5,079,000	(21,000)	—	5,058,000	June 26, 2008
	—	7,068,000	—	—	7,068,000	October 13, 2008
	—	2,001,000	—	—	2,001,000	October 24, 2008
	—	600,000	—	—	600,000	November 27, 2008
	—	150,000	—	—	150,000	December 1, 2008
	—	300,000	—	—	300,000	December 25, 2008
	—	15,198,000	(21,000)	—	15,177,000	
	—	15,579,000	(21,000)	—	15,558,000	

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Details of directors' remuneration are as follows:

	GROUP 2009 RMB'000	GROUP 2008 RMB'000
Fees	**683**	615
Other emoluments:		
Salaries, allowances and benefits in kind	**4,187**	2,541
Discretionary bonuses	**2,901**	1,465
Pension plan contributions	**18**	8
Share-based compensation	**12,199**	14,108
	19,988	18,737

Year ended December 31, 2009

	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION PLAN CONTRIBUTIONS RMB'000	SHARE-BASED COMPENSATION RMB'000	TOTAL RMB'000
Executive directors:						
Pak Kwan Kau	—	1,850	1,500	—	2,082	5,432
Donghui Wang	—	832	1,147	—	3,634	5,613
Tao Zou	—	846	254	9	1,754	2,863
Non-executive directors:						
Wing Chung Anders Cheung	—	205	—	—	—	205
Wai Ming Wong	—	205	—	—	—	205
Choon Chong Tay	—	52	—	—	—	52
Jun Lei	—	197	—	9	4,729	4,935
Independent non-executive directors:						
Guangming George Lu	205	—	—	—	—	205
Shun Tak Wong	273	—	—	—	—	273
Mingming Huang	205	—	—	—	—	205
	683	4,187	2,901	18	12,199	19,988

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' remuneration (continued)

Year ended December 31, 2008

	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION PLAN CONTRIBUTIONS RMB'000	SHARE-BASED COMPENSATION RMB'000	TOTAL RMB'000
Executive directors:						
Pak Kwan Kau	—	712	780	—	—	1,492
Donghui Wang	—	660	685	—	2,781	4,126
Non-executive directors:						
Wing Chung Anders Cheung	—	188	—	—	5	193
Tuck Lye Koh	—	64	—	—	—	64
Wai Ming Wong	—	188	—	—	—	188
Choon Chong Tay	—	178	—	—	—	178
Jun Lei	—	551	—	8	11,322	11,881
Independent non-executive directors:						
Guangming George Lu	188	—	—	—	—	188
Shun Tak Wong	239	—	—	—	—	239
Mingming Huang	188	—	—	—	—	188
	615	2,541	1,465	8	14,108	18,737

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, certain directors were granted Awarded Shares, in respect of their services to the Group, under the Share Award Scheme of the Company, further details of which are set out in note 7 to the financial statements. The fair value of such Awarded Shares which has been recognised in the income statement over the vesting period, was determined as at the date of the grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals

The five highest paid individuals included four (2008: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining one (2008: three) non-director, highest paid employee for the year as follows:

	GROUP	
	2009 RMB'000	**2008 RMB'000**
Salaries, allowances and benefits in kind	**752**	1,242
Discretionary bonuses	**150**	717
Pension plan contributions	**26**	25
Share-based compensation	**2,239**	5,932
	3,167	7,916

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	NUMBER OF EMPLOYEES	
	2009	**2008**
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$2,500,000	**—**	1
HK$3,500,001 to HK$4,000,000	**1**	—
HK$4,500,001 to HK$5,000,000	**—**	1

During the year, Awarded Shares were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 7 to the financial statements. The fair value of such Awarded Shares, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-directors, highest paid employees' remuneration disclosures.

9. INCOME TAX

No provision for Hong Kong profits tax has been made for the years ended December 31, 2009 and 2008 as the Group has no estimated assessable profits arising in Hong Kong.

PRC corporate income tax represents the tax charged on the estimated assessable profits arising in 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 holidays and preferential tax rates.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiary in Japan is 43.1%.

The major components of income tax expense for the years ended December 31, 2009 and 2008 are:

	GROUP	
	2009 RMB'000	**2008 RMB'000**
Current income tax		
Current income tax charge	**50,324**	43,329
Deferred income tax		
Resulting from change in tax rates	**—**	16,128
Relating to origination and reversal of temporary differences	**9,135**	428
Income tax expense reported in the consolidated income statement	**59,459**	59,885

A reconciliation of the tax expense for the year to product of accounting profit before tax multiplied by the PRC statutory income tax rate, is as follows:

	GROUP	
	2009 RMB'000	**2008 RMB'000**
Profit before tax	**448,313**	363,920
At the PRC statutory income tax rate of 25% (2008: 25%)	**112,078**	90,980
Tax holiday or lower tax rates for certain PRC subsidiaries	**(63,468)**	(53,801)
Effect on deferred tax of change in rates	**—**	16,128
Non-deductible expenses	**14,348**	11,533
Non-taxable income	**(10,938)**	(6,704)
Profits and losses attributable to associates and jointly-controlled entities	**(4,691)**	(6,496)
Unrecognised deferred income tax assets	**8,267**	6,912
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**3,863**	1,333
Income tax expense reported in the consolidated income statement	**59,459**	59,885
Effective income tax rate	**13%**	16%

9. INCOME TAX (continued)

Deferred income tax relates to the following:

	CONSOLIDATED STATEMENT OF FINANCIAL POSITION		CONSOLIDATED INCOME STATEMENT	
	2009	**2008**	**2009**	**2008**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Deferred income tax liabilities				
Government grants	**(656)**	(1,525)	**(869)**	(6,222)
Deferred cost	**(2,364)**	(2,726)	**(362)**	(2,785)
Waiver of reorganisation consideration	**(583)**	(583)	**—**	—
Fair value adjustments arising from acquisition of business	**(441)**	(441)	**—**	(111)
Withholding taxes	**(5,196)**	(1,333)	**3,863**	1,333
Capitalised software costs	**(3,715)**	—	**3,715**	—
Others	**(3,698)**	(1,255)	**2,443**	789
	(16,653)	(7,863)	**8,790**	(6,996)
Deferred income tax assets				
Property, plant and equipment	**261**	676	**415**	22
Deferred revenue	**19,741**	24,073	**4,332**	15,476
Accrued expenses	**901**	1,466	**565**	5,111
Provisions	**3,181**	2,718	**(463)**	1,197
Capitalised software costs	**—**	285	**285**	1,790
Tax losses carryforward	**4,833**	44	**(4,789)**	(44)
	28,917	29,262	**345**	23,552
Deferred income tax expense			**9,135**	16,556

The Group has tax losses arising in the PRC and Japan of RMB48,817 thousand as at December 31, 2009 (2008: RMB24,836 thousand) that are available for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the following items:

	2009	**2008**
	RMB'000	**RMB'000**
Tax losses	**24,257**	24,661
Deductible temporary differences	**43,061**	25,230
	67,318	49,891

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

9. INCOME TAX (continued)

The amounts and expiration dates of the tax losses carryforward at December 31, 2009 and 2008 are listed below:

EXPIRATION DATE	2009 RMB'000	2008 RMB'000
December 31, 2009	—	37
December 31, 2010	—	36
December 31, 2011	**93**	158
December 31, 2012	—	9,068
December 31, 2013	**8,202**	15,362
December 31, 2014	**15,962**	—

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

The aggregate amount of temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised for the withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in Mainland China, totalled approximately RMB663 million at December 31, 2009 (2008: RMB305 million). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The share of tax attributable to associates and jointly-controlled entities amounting to RMB2,896 thousand (2008: tax credit of RMB239 thousand) and RMB378 thousand (tax credit) (2008: nil), respectively, is included in "Share of profits and losses of associates and jointly-controlled entities" in the consolidated income statement.

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended December 31, 2009 includes a loss of RMB9,904 thousand (2008: RMB13,421 thousand) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Final dividend proposed (notes (a) and (b)):		
HK$0.15 (2008: HK$0.15) per share based on issued share capital as at year end	**144,538**	141,990
Less: Dividend for shares held for share award scheme as at year end	**(2,963)**	(2,267)
	141,575	139,723

Notes:

(a) Actual 2008 final dividend payable was RMB140,791 thousand, of which RMB1,068 thousand was payable for shares issued for employee share options exercised after December 31, 2008.

(b) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. 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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,064,275,119 (2008: 1,062,346,787) in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise 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:

	2009 RMB'000	2008 RMB'000
EARNINGS		
Profit attributable to ordinary equity holders of the parent	**387,224**	307,501

	NUMBER OF SHARES 2009	 2008
SHARES		
Weighted average number of ordinary shares in issue less shares held for share award scheme*	**1,064,275,119**	1,062,346,787
Effect of dilution:		
Share options	**70,366,460**	45,509,235
Awarded Shares	**15,088,872**	539,693
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,149,730,451**	1,108,395,715

* Weighted average number of ordinary shares in issue included ordinary shares subscribed, as the issuance of the related shares is mandatory to the Company and the subscriptions were paid by subscribers.

13. PROPERTY, PLANT AND EQUIPMENT

GROUP	LEASEHOLD LAND AND BUILDINGS RMB'000	ELECTRONIC EQUIPMENT RMB'000	OFFICE EQUIPMENT AND FIXTURES RMB'000	MOTOR VEHICLES RMB'000	LEASEHOLD IMPROVEMENTS RMB'000	CONSTRUCTION IN PROGRESS RMB'000	TOTAL RMB'000
DECEMBER 31, 2009							
At December 31, 2008 and January 1, 2009:							
Cost	**—**	**100,858**	**4,343**	**2,094**	**13,938**	**293,880**	**415,113**
Accumulated depreciation	**—**	**(51,944)**	**(3,325)**	**(966)**	**(13,252)**	**—**	**(69,487)**
Net carrying amount	**—**	**48,914**	**1,018**	**1,128**	**686**	**293,880**	**345,626**
At January 1, 2009, net of accumulated depreciation	**—**	**48,914**	**1,018**	**1,128**	**686**	**293,880**	**345,626**
Additions	**1,095**	**33,188**	**15,964**	**318**	**417**	**52,909**	**103,891**
Transfer from/(to)	**246,728**	**4,925**	**94,833**	**—**	**—**	**(346,486)**	**—**
Disposals	**—**	**(176)**	**(8)**	**—**	**(133)**	**—**	**(317)**
Depreciation charge for the year	**(2,869)**	**(22,634)**	**(14,776)**	**(375)**	**(566)**	**—**	**(41,220)**
At December 31, 2009, net of accumulated depreciation	**244,954**	**64,217**	**97,031**	**1,071**	**404**	**303**	**407,980**
At December 31, 2009:							
Cost	**247,823**	**137,781**	**114,696**	**2,412**	**7,446**	**303**	**510,461**
Accumulated depreciation	**(2,869)**	**(73,564)**	**(17,665)**	**(1,341)**	**(7,042)**	**—**	**(102,481)**
Net carrying amount	**244,954**	**64,217**	**97,031**	**1,071**	**404**	**303**	**407,980**
DECEMBER 31, 2008							
At January 1, 2008, net of accumulated depreciation	—	31,328	1,497	920	3,442	8,259	45,446
Additions	—	33,890	267	270	539	285,621	320,587
Acquisition from a business combination (note 33)	—	125	—	229	—	—	354
Disposals	—	(176)	—	—	—	—	(176)
Depreciation charge for the year	—	(16,253)	(746)	(291)	(3,295)	—	(20,585)
At December 31, 2008, net of accumulated depreciation	—	48,914	1,018	1,128	686	293,880	345,626
At December 31, 2008:							
Cost	—	100,858	4,343	2,094	13,938	293,880	415,113
Accumulated depreciation	—	(51,944)	(3,325)	(966)	(13,252)	—	(69,487)
Net carrying amount	—	48,914	1,018	1,128	686	293,880	345,626

The Group's leasehold land and buildings included above are held under medium term leases in Mainland China.

During the year ended December 31, 2009, the Company acquired electronic equipment amounted to RMB3.5 thousand, and depreciation charge of RMB0.1 thousand was provided during the year. As at December 31, 2009, the cost, accumulated depreciation and net carrying amount of the property, plant and equipment of the Company amounted to RMB3.5 thousand, RMB0.1 thousand and RMB3.4 thousand, respectively.

14. GOODWILL

GROUP	RMB'000
At January 1, 2008:	
Cost	—
Accumulated impairment	—
Net carrying amount	—
Cost at January 1, 2008, net of accumulated impairment	—
Acquisition of a business	2,377
At December 31, 2008	2,377
At December 31, 2008:	
Cost	2,377
Accumulated impairment	—
Net carrying amount	2,377
Cost at January 1, 2009, net of accumulated impairment	**2,377**
Cost and carrying amount at December 31, 2009	**2,377**
At December 31, 2009:	
Cost	**2,377**
Accumulated impairment	**—**
Net carrying amount	**2,377**

Goodwill acquired through a business combination has been allocated to the INFOGATE cash-generating unit, which is included in the reportable segment of application software, for impairment testing.

15. OTHER INTANGIBLE ASSETS

GROUP	PURCHASED SOFTWARE RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	OTHERS RMB'000	TOTAL RMB'000
DECEMBER 31, 2009				
Cost at January 1, 2009, net of accumulated amortisation	**25,432**	**9,003**	**4,636**	**39,071**
Addition of software costs	**5,715**	**18,883**	**—**	**24,598**
Amortisation, net	**(9,591)**	**(4,524)**	**(1,065)**	**(15,180)**
At December 31, 2009	**21,556**	**23,362**	**3,571**	**48,489**
At December 31, 2009:				
Cost	**45,287**	**37,153**	**5,080**	**87,520**
Accumulated amortisation	**(23,731)**	**(13,791)**	**(1,509)**	**(39,031)**
Net carrying amount	**21,556**	**23,362**	**3,571**	**48,489**
DECEMBER 31, 2008				
At January 1, 2008:				
Cost	17,852	9,103	—	26,955
Accumulated amortisation	(7,559)	(5,115)	—	(12,674)
Net carrying amount	10,293	3,988	—	14,281
Cost at January 1, 2008, net of accumulated amortisation	10,293	3,988	—	14,281
Addition of software costs	16,488	11,167	—	27,655
Net of government grants	—	(2,000)	—	(2,000)
Acquisition from a business combination (note 33)	5,670	—	5,080	10,750
Amortisation, net	(7,019)	(4,152)	(444)	(11,615)
At December 31, 2008	25,432	9,003	4,636	39,071
At December 31, 2008 and January 1, 2009:				
Cost	40,010	18,270	5,080	63,360
Accumulated amortisation	(14,578)	(9,267)	(444)	(24,289)
Net carrying amount	25,432	9,003	4,636	39,071

During the years ended December 31, 2009 and 2008, capitalised software costs were related to development expenditure on application software products.

15. OTHER INTANGIBLE ASSETS (continued)

	COMPANY	
	2009 RMB'000	2008 RMB'000
At January 1	**3,058**	5,615
Amortisation	**(2,295)**	(2,557)
At December 31	**763**	3,058
At December 31:		
Cost	**7,304**	7,304
Accumulated amortisation	**(6,541)**	(4,246)
Net carrying amount	**763**	3,058

The Company's intangible assets represent the purchased software.

16. LEASE PREPAYMENT

	GROUP	
	2009 RMB'000	2008 RMB'000
Carrying amount at January 1	**7,138**	7,304
Amortisation	**(166)**	(166)
Carrying amount at December 31	**6,972**	7,138
AT DECEMBER 31:		
Cost	**7,468**	7,468
Accumulated amortisation	**(496)**	(330)
Net carrying amount	**6,972**	7,138

The Group's lease prepayment represents prepaid land lease payments. The leasehold land is held under a medium term lease and is situated in Zhuhai, the PRC.

17. INTERESTS IN ASSOCIATES

	GROUP 2009 RMB'000	GROUP 2008 RMB'000
Share of net assets	**6,778**	27,077
Provision for impairment	**(400)**	—
Share of net assets	**6,378**	27,077

Particulars of the associates are as follows:

NAME	PLACE OF REGISTRATION	NOMINAL VALUE OF REGISTERED CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Guangzhou Kingsoft Duoyi Internet Technology Co. Ltd. ("Kingsoft Guangzhou")	PRC	RMB13,330,000	30	Research, development of online games and provision of online game services
Guangzhou Tuotu Computer Technology Co., Ltd.*	PRC	RMB100,000	19.9	Research and development of computer and network related technology; provision of network service; design and publishing of advertisements

* Newly acquired associate during the year ended December 31, 2009.

Both of the above interests in associates are indirectly held by the Company.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2009 RMB'000	2008 RMB'000
Assets	**40,140**	79,188
Liabilities	**(18,911)**	(11,496)
Revenue	**146,069**	101,361
Profit	**70,294**	68,158

The Group received a RMB46,414 thousand dividend from Kingsoft Guangzhou during the year ended December 31, 2009 (2008: RMB1,200 thousand).

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	GROUP		COMPANY	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Unlisted investment, at cost	—	—	35,370	—
Share of net assets	15,533	1,122	—	—
Goodwill — at cost	24,579	3,600	—	—
	40,112	4,722	35,370	—

Particulars of the jointly-controlled entities are as follows:

NAME	PLACE OF REGISTRATION	NOMINAL VALUE OF REGISTERED CAPITAL/ ISSUED ORDINARY SHARE CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Beijing Kingsoft Lianking Technology Corporation Limited ("Kingsoft Lianking") (note)	PRC	RMB8,000,600	40	Research and development of games
Shanghai Zhixiong Network Technology Co., Ltd.*	PRC	RMB24,970,000	19.9	Research and development of games
Sky Profit Limited ("Sky Profit")*	Cayman Islands	US$50,000	21.42**	Investment holding

* Newly acquired jointly-controlled entities during the year ended December 31, 2009.

** The Company held 3,410,594 preferred shares and 796,026 ordinary shares of US$0.001 each of Sky Profit.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2009 RMB'000	2008 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**5,996**	939
Non-current assets	**11,648**	183
Current liabilities	**(511)**	—
Non-current liabilities	**(1,600)**	—
Net assets	**15,533**	1,122
Share of the jointly-controlled entities' results:		
Revenue	**1,282**	—
Other income	**4**	—
	1,286	—
Total expenses	**(8,616)**	(1,278)
Tax	**378**	—
Loss after tax	**(6,952)**	(1,278)

Note:

Pursuant to the cooperative agreement, the Group is required to transfer up to 15% of its equity interest in Kingsoft Lianking at no consideration to the other shareholders of Kingsoft Lianking should the revenue of the first online game developed by Kingsoft Lianking achieve certain predetermined revenue targets in the coming years, or upon the happening of specified events. Another 10% equity interest of Kingsoft Lianking will be required to transfer to the other shareholders should the revenue of online games developed by Kingsoft Lianking achieve certain predetermined revenue targets during the first five years. In addition, if the revenue of the first online game developed by Kingsoft Lianking is below certain predetermined revenue targets and the first online game of Kingsoft Lianking is not ready for commercialisation during the first 24 months of its operation, the Group is entitled to acquire up to 19% of equity interest in Kingsoft Lianking from the other shareholders at no consideration.

19. LOAN RECEIVABLES

The loan receivables are interest-free housing loans granted to employees, which were carried at amortised cost with effective interest rates of 5.76% and 7.22% per annum during the years ended December 31, 2009 and 2008, respectively. The general terms of the loan receivables are three to five years and they are repaid monthly by employees.

20. DEFERRED COST

Deferred cost represents costs of packaging materials, computer disks and cards in relation to the provision of entertainment software and application software service and the sale of application software products in advance of the revenue being recognised.

21. LONG-TERM PREPAYMENTS

	GROUP	
	2009	**2008**
	RMB'000	**RMB'000**
Prepayments for investments	**—**	1,620
Deposit for land use right	**38,738**	10,000
	38,738	11,620

The long-term prepayments are unsecured and interest-free.

22. INVENTORIES

	GROUP	
	2009	**2008**
	RMB'000	**RMB'000**
Packaging materials	**1,977**	210
Packaged goods	**3,407**	4,476
	5,384	4,686

23. 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 estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Bad debts are written off as incurred. The Group generally does not require collateral from its customers.

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:

	GROUP	
	2009 RMB'000	**2008 RMB'000**
0–30 days	**43,029**	33,664
31–60 days	**38,002**	17,124
61–90 days	**26,393**	20,780
91–365 days	**11,180**	11,935
Over one year	**1,774**	1,316
	120,378	84,819

The aged analysis of certain of the Group's trade receivables at December 31, 2009 is prepared based on the invoice date, as compared to the customers' confirmation date of the invoices of those receivables from the respective customers, as applied for the preparation of aged analysis in the prior year. Prior year's comparative amounts have been reclassified to conform with the current year's presentation.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	GROUP	
	2009 RMB'000	**2008 RMB'000**
Prepayments	**18,228**	26,233
Value-added tax receivable	**5,339**	3,449
Deposits	**6,714**	10,076
Loan to shareholders of a subsidiary (note 36(a)(i))	**13,912**	—
Loan to shareholder of a jointly-controlled entity*	**4,000**	—
Other receivables	**11,882**	15,380
	60,075	55,138

* Loan to shareholder of a jointly-controlled entity is unsecured, interest-free and repayable within three years.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

	COMPANY	
	2009	2008
	RMB'000	RMB'000
Prepayment	**373**	477
Loan to shareholders of a subsidiary (note 36(a)(i))	**13,912**	—
Other receivables	**20**	11
Total	**14,305**	488

25. CREDIT-LINKED DEPOSIT

At December 31, 2008, the Group held an asset in the form of a credit-linked deposit. The Group placed a deposit with a financial institution and the deposit was credit-linked to debt securities ("reference securities") issued by other entities ("reference entities"). The ultimate repayment of the deposit was dependent on the occurrence of a credit event, such as bankruptcy or default by the reference entities. In addition, as those reference securities were denominated in a currency other than the principal amount of the credit-linked deposit, the credit-linked deposit also contained cross-currency swap. The Group received deposit interests periodically under a predetermined rate. If a credit event occurred, the Group may suffer a loss on its credit-linked deposit because the financial institution can terminate the interest payment and settle the Group's credit-linked deposit with cash received from the sale of the reference securities, if any, or by transferring the reference securities to the Group.

The credit-linked deposit was considered as a financial asset at fair value through profit or loss and is measured at fair value at each reporting date with changes in fair value recorded in the consolidated income statement.

The details of the credit-linked deposit held by the Group at December 31, 2008 are disclosed as follows:

CREDIT-LINKED DEPOSIT REFERENCED TO	PRINCIPAL AMOUNT	DUE DATE	FAIR VALUE AND CARRYING VALUE RMB'000
Bank of Korea 4.94% Monetary Stabilisation Bonds	HK$123,377 thousand	January 10, 2009	111,708

The above credit-linked deposit was matured during the year.

The Group does not hold any credit-linked deposits as at December 31, 2009.

26. CASH AND CASH EQUIVALENTS

	GROUP 2009 RMB'000	GROUP 2008 RMB'000
Cash and bank balances	**258,975**	219,080
Time deposits with original maturity of three months or less when acquired	**146,620**	397,875
	405,595	616,955
Time deposits with original maturity of over three months when acquired	**862,503**	390,160
	1,268,098	1,007,115

	COMPANY 2009 RMB'000	COMPANY 2008 RMB'000
Cash and bank balances	**47,498**	49,678
Time deposits with original maturity of three months or less when acquired	**38,056**	105,926
	85,554	155,604

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and a year depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The carrying amounts of the cash and cash equivalents as at December 31, 2009 and 2008 approximate to their fair values.

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB1,126,688 thousand (2008: RMB809,953 thousand). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the end of the reporting period is as follows:

	GROUP 2009 RMB'000	GROUP 2008 RMB'000
0–30 days	**8,746**	4,813
31–60 days	**422**	223
61–90 days	**726**	224
91–365 days	**1,270**	580
Over one year	**1,433**	1,809
	12,597	7,649

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

28. ACCRUED EXPENSES AND OTHER PAYABLES

	GROUP	
	2009 RMB'000	2008 RMB'000
Deposits received from customers	**12,504**	12,616
Other payables	**136,204**	112,678
Other taxes payable	**15,550**	14,296
Accruals	**22,638**	21,382
	186,896	160,972

Other payables are non-interest-bearing.

The Company's accrued expenses are related to accruals of administrative expenses.

29. DEFERRED REVENUE

	GROUP	
	2009 RMB'000	2008 RMB'000
Entertainment software	**105,784**	119,536
Application software	**82,667**	83,225
Government grants	**12,336**	11,863
	200,787	214,624
Less: Current portion	**(158,643)**	(183,445)
Non-current portion	**42,144**	31,179

30. AUTHORISED AND ISSUED CAPITAL

	2009 RMB'000	2008 RMB'000
Authorised:		
2,400,000,000 (2008: 2,400,000,000) ordinary shares of US$0.0005 each	**9,260**	9,260
Issued and fully paid:		
1,094,365,133 (2008: 1,073,366,708) ordinary shares of US$0.0005 each	**4,434**	4,362

30. AUTHORISED AND ISSUED CAPITAL (continued)

During the years ended December 31, 2008 and 2009, the movements in the Company's issued share capital were as follows:

	NOTES	NUMBER OF SHARES IN ISSUE	ISSUED SHARE CAPITAL RMB'000	SHARE PREMIUM ACCOUNT RMB'000	SHARES HELD FOR SHARE AWARD SCHEME RMB'000	TOTAL RMB'000
At January 1, 2008		1,061,726,020	4,322	735,510	—	739,832
Issuance of share certificates for ordinary shares subscribed		895,000	3	316	—	319
Exercise of share options		10,745,688	37	10,190	—	10,227
Capital contribution from shareholders	(a)	—	—	32,741	—	32,741
Proposed final 2008 dividend		—	—	(139,723)	—	(139,723)
Shares purchased for share award scheme	(b)	(17,138,000)	—	—	(40,050)	(40,050)
At December 31, 2008 and January 1, 2009		**1,056,228,708**	**4,362**	**639,034**	**(40,050)**	**603,346**
Exercise of share options		**20,998,425**	**72**	**28,958**	**—**	**29,030**
Proposed final 2009 dividend		**—**	**—**	**(141,575)**	**—**	**(141,575)**
Shares purchased for share award scheme	(b)	**(8,501,000)**	**—**	**—**	**(43,050)**	**(43,050)**
Vested awarded shares transferred to employees		**3,203,000**	**—**	**—**	**10,735**	**10,735**
Dividend on shares issued for employee share options exercised after 31 December 2008		**—**	**—**	**(1,068)**	**—**	**(1,068)**
At December 31, 2009		**1,071,929,133***	**4,434**	**525,349**	**(72,365)**	**457,418**

* Excluded the number of shares held by the Share Award Scheme Trust of 22,436,000 shares as at December 31, 2009.

30. AUTHORISED AND ISSUED CAPITAL (continued)

(a) On August 18, 2006, 3,571,429 shares of US$0.01 each were issued for cash at a subscription price of US$4.00 per share (the "Share Subscription and Purchase Agreement"). Pursuant to the Share Subscription and Purchase Agreement, the purchase price for the newly issued shares is subject to a future upward adjustment if the adjusted audited 2007 net profit of the Group exceeds US$25,000 thousand according to a predetermined formula, with a cap at US$5.60.

In April 2008, based on the audited financial statements of the Company for the year ended December 31, 2007, the purchase price was adjusted from US$4.0 per share to US$5.6 per share less the portion of IPO expenses to be paid by the Pre-IPO Investors on April 29, 2008. In accordance with the Share Subscription and Purchase Agreement, Pre-IPO Investors paid HK$36,854 thousand (approximately RMB32,741 thousand) to the Company as an additional contribution to the Company.

(b) The Company adopted the Share Award Scheme in 2008, as set out in note 7(b). During the year ended December 31, 2009, the Share Award Scheme Trust acquired 8,501,000 shares of the Company (2008: 17,138,000) through purchases on the open market for the Share Awarded Scheme. The total cost (including related transaction costs) was approximately RMB43,050 thousand (2008: RMB40,050 thousand), and has been deducted from shareholders' equity.

31. INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES

	COMPANY 2009 RMB'000	COMPANY 2008 RMB'000
Unlisted shares, at cost	**18,921**	19,073
Capital contribution in respect of employee share-based compensation	**176,139**	147,278
	195,060	166,351

The amounts due from and to subsidiaries are unsecured, interest-free and are repayable on demand.

Particulars of the subsidiaries are as follows:

NAME	NOTES	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	NOMINAL VALUE OF ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE COMPANY AS AT DECEMBER 31, 2009	PRINCIPAL ACTIVITIES
Zhuhai Kingsoft Digital Technology Co., Ltd.		PRC/Mainland China	RMB198,048,000	100	Investment holding
Zhuhai Juntian Electronic Technology Co., Ltd.		PRC/Mainland China	RMB18,952,000	100	Investment holding, research, development and distribution of security software
Zhuhai Kingsoft Software Co., Ltd. ("Zhuhai Software")		PRC/Mainland China	RMB215,500,000	100	Research, development and distribution of consumer application software
Beijing Kingsoft Software Co., Ltd.		PRC/Mainland China	RMB10,000,000	100	Marketing and distribution of application software

31. INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES (continued)

NAME	NOTES	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	NOMINAL VALUE OF ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE COMPANY AS AT DECEMBER 31, 2009	PRINCIPAL ACTIVITIES
Beijing Kingsoft Digital Entertainment Co., Ltd. ("Beijing Digital Entertainment")	(a)	PRC/Mainland China	RMB10,000,000	100	Marketing and operation of SMS and wireless service of online games and application software, ICP license holder
Zhuhai Xishanju Software Co., Ltd.		PRC/Mainland China	RMB2,200,000	100	Investment holding
Dalian Kingsoft Interactive Entertainment Co., Ltd ("Kingsoft Dalian")		PRC/Mainland China	RMB30,000,000	80	Research, development and distribution of games
Chengdu Kingsoft Digital Entertainment Co., Ltd. ("Chengdu Digital Entertainment")	(b)	PRC/Mainland China	RMB10,000,000	100	Marketing and operation of entertainment software products, ICP license holder
Chengdu Kingsoft Interactive Entertainment Co., Ltd. ("Chengdu Interactive Entertainment")		PRC/Mainland China	RMB100,000,000	100	Research and development of games
Beijing Kingsoft Qijian Digital Technology Co., Ltd. ("Kingsoft Qijian")	(a)	PRC/Mainland China	RMB1,500,000	100	Investment holding

31. INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES (continued)

NAME	NOTES	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	NOMINAL VALUE OF ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE COMPANY AS AT DECEMBER 31, 2009	PRINCIPAL ACTIVITIES
Shenzhen Kingsoft Information Security Technology Co., Ltd.		PRC/Mainland China	RMB20,000,000	100	Research and development for, and sales operations of application software business
Zhuhai Kingsoft Online Game Technology Co., Ltd.*		PRC/Mainland China	RMB10,000,000	100	Research and development for online games
Shell Internet (Beijing) Security Technology Co., Ltd.*		PRC/Mainland China	RMB3,500,000	60	Provision of internet security service for individuals and enterprises
Beijing Kingsoft Internet Security Software Co., Ltd.*		PRC/Mainland China	RMB8,000,000	100	Sales and operation of internet security software
Kingsoft Entertainment Software Corporation Limited		Hong Kong	HK$1	100	Investment holding
Kingsoft Application Software Corporation Limited		Hong Kong	HK$1	100	Investment holding
Kingsoft Internet Security Software Corporation Limited*		Hong Kong	HK$1	100	Investment holding
Kingsoft Entertainment Software Holdings Limited ("Kingsoft Entertainment Holdings")*		Cayman Islands	US$1	100	Investment holding

31. INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES (continued)

NAME	NOTES	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	NOMINAL VALUE OF ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE COMPANY AS AT DECEMBER 31, 2009	PRINCIPAL ACTIVITIES
Kingsoft Application Software Holdings Limited ("Kingsoft Application Holdings")		Cayman Islands	HK$1	100	Investment holding
Kingsoft Internet Security Software Holdings Limited ("Kingsoft Internet Security Holdings")*		Cayman Islands	US$1	100	Investment holding
Kingsoft (M) SDN. BHD ("Kingsoft Malaysia")		Malaysia	MYR1,000,000	100	Import and export software and hardware related business
Kingsoft Japan		Japan	JPY447,875,000	51	Development and sales of the security software and office application software

* Companies established during the year ended December 31, 2009

All the above companies are with limited liability. They are indirectly held by the Company, except for Kingsoft Application Holdings, Kingsoft Entertainment Holdings, Kingsoft Internet Security Holdings, Kingsoft Malaysia and Kingsoft Japan, which are directly held by the Company.

Notes:

(a) In March 2007, the two individual equity holders of Kingsoft Qijian ("Kingsoft Qijian's equity holders") entered into a loan agreement with Chengdu Interactive Entertainment. The loans are secured by the respective equity interests of the equity holders in Kingsoft Qijian. Chengdu Interactive Entertainment has been granted an exclusive irrevocable option to purchase the equity interests in Kingsoft Qijian held by Kingsoft Qijian's equity holders. Kingsoft Qijian's equity holders entrusts all of their respective voting rights in Kingsoft Qijian to Chengdu Interactive Entertainment. Kingsoft Qijian's equity holders give up the dividends in Kingsoft Qijian and Chengdu Interactive Entertainment is entitled to dividends if Kingsoft Qijian declares dividend. The Company has rights to obtain the majority of the benefits from Kingsoft Qijian's operations, and therefore may be exposed to risks incident to the activities of Kingsoft Qijian. Accordingly, Kingsoft Qijian is accounted for as a subsidiary by virtue of the Company's control over it.

31. INTERESTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES (continued)

Kingsoft Qijian wholly owns Beijing Digital Entertainment. Further to the contractual arrangements stated in the above paragraph, Beijing Digital Entertainment (as the licensee) entered into license agreement with Zhuhai Software (as the licensor) and the Company, via Zhuhai Software, has rights to obtain the majority of the benefits from Beijing Digital Entertainment's operations. Therefore, the Company may be exposed to risks incident to the activities of Beijing Digital Entertainment. Accordingly, Beijing Digital Entertainment continues to be accounted for as a subsidiary by virtue of the Company's control over it.

(b) As at December 31, 2009, Chengdu Digital Entertainment is 99% owned by Beijing Digital Entertainment, which is accounted for as subsidiary as detailed in note (a) above. The minority equity holder of Chengdu Digital Entertainment borrowed a loan from Chengdu Interactive Entertainment for its investment in Chengdu Digital Entertainment and the loan is secured by its equity interests in Chengdu Digital Entertainment. Chengdu Interactive Entertainment is granted an exclusive call option to buy at its sole discretion at any time part or all of the equity holding held by the minority equity holder in Chengdu Digital Entertainment. During the pledge period, the minority equity holder forfeits the right to dividends from Chengdu Digital Entertainment and Chengdu Interactive Entertainment is entitled to this portion of dividend from Chengdu Digital Entertainment. Chengdu Digital Entertainment (as the licensee) entered into license agreement with Chengdu Interactive Entertainment (as the licensor) and the Company, via Chengdu Interactive Entertainment, has rights to obtain the majority of the benefits from Chengdu Digital Entertainment's operations, and therefore may be exposed to risks incident to the activities of Chengdu Digital Entertainment. Accordingly, Chengdu Digital Entertainment is accounted for as a wholly owned subsidiary by virtue of the Company's control over it.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the year ended December 31, 2009 are presented in the consolidated statement of changes in equity.

In accordance with the regulations in the PRC and the respective articles of association, the PRC subsidiaries of the Group are required to make an appropriation of retained earnings equal to at least 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations. Such appropriations are classified in the consolidated balance sheet as statutory reserves and start from the first period in which after-tax profits exceed all prior year accumulated losses. Appropriations to these reserves are not required after these reserves have reached 50% of the registered capital of the respective companies.

The statutory reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such reserve balance is maintained at minimum of 25% of the registered capital before its increase.

In addition, as determined by respective board of directors, the PRC subsidiaries may allocate a portion of their after-tax profits to the discretionary reserves.

These statutory reserves are not transferable to the Company in the form of dividends, advances or loans. There are no legal requirements in the PRC to fund these reserves by transfer of cash to any restricted accounts, and the Group does not do so.

32. RESERVES (continued)

(b) Company

	NOTE	SHARE PREMIUM RMB'000	EMPLOYEE SHARE-BASED CAPITAL RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	ACCUMULATED LOSSES RMB'000	TOTAL RMB'000
At January 1, 2008		735,510	144,233	(35,098)	(125,511)	719,134
Total comprehensive income for the year		—	—	(35,607)	(13,421)	(49,028)
Issuance of share certificates for ordinary shares subscribed		316	—	—	—	316
Dividend on shares issued for employee share options exercised after December 31, 2007		—	—	—	(421)	(421)
Contribution from shareholders		32,741	—	—	—	32,741
Exercise of share options		10,190	—	—	—	10,190
Share-based compensation costs		—	49,790	—	—	49,790
Proposed final 2008 dividend	11	(139,723)	—	—	—	(139,723)
At December 31, 2008 and January 1, 2009		**639,034**	**194,023**	**(70,705)**	**(139,353)**	**622,999**
Total comprehensive income for the year		**—**	**—**	**(663)**	**(9,904)**	**(10,567)**
Dividend on shares issued for employee share options exercised after December 31, 2008		**(1,068)**	**—**	**—**	**—**	**(1,068)**
Exercise of share options		**28,958**	**—**	**—**	**—**	**28,958**
Share-based compensation costs		**—**	**41,060**	**—**	**—**	**41,060**
Proposed final 2009 dividend	11	**(141,575)**	**—**	**—**	**—**	**(141,575)**
Vested awarded shares transferred to employees		**—**	**(10,735)**	**—**	**—**	**(10,735)**
At December 31, 2009		**525,349**	**224,348**	**(71,368)**	**(149,257)**	**529,072**

33. BUSINESS COMBINATION

On July 31, 2008, the Group acquired the business of Shenzhen Zhaoshangzhuoer Infogate Co., Ltd., an unlisted company specialising in the manufacture of Unified Threat Management defence system products. According to the acquisition contract, the business acquired was defined as “INFOGATE Business”. The purchase consideration for the acquisition was in the form of cash, of RMB14,520 thousand.

The fair values of the identifiable assets of the INFOGATE Business as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	NOTES	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000	PREVIOUS CARRYING AMOUNT RMB'000
Property, plant and equipment	13	354	544
Inventories		1,591	1,865
Software	15	5,670	1,210
Other intangible assets	15	5,080	—
Deferred income tax liabilities		(552)	—
NET ASSETS		12,143	3,619
Goodwill on acquisition	14	2,377	
TOTAL CONSIDERATION, SATISFIED BY CASH		14,520	

An analysis of net outflow of cash equivalents in respect of the acquisition of business is as follows:

	RMB'000
Cash consideration	14,520
Cash and bank balances acquired	—
NET CASH OUTFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE ACQUISITION OF BUSINESS	14,520

Since the acquisition of INFOGATE Business, it contributed RMB2,963 thousand to the Group's turnover and led to a loss of RMB1,725 thousand to the Group for the year ended December 31, 2008.

Had the business combination taken place at the beginning of the year ended December 31, 2008, the revenue of the Group and the profit of the Group for the year ended December 31, 2008 would have been RMB823,409 thousand and RMB303,550 thousand, respectively.

34. NOTES TO THE CONSOLIDATED STATEMENT CASH FLOWS

Supplemental cash flow information

	2009 RMB'000	2008 RMB'000
Cash received from interest	**17,044**	26,409
Cash paid for income tax for operating activities	**(41,146)**	(23,966)

35. COMMITMENTS

Operating lease commitments — Group as lessee

The Group has entered into commercial leases for office premises and electronic equipment. These non-cancellable leases have remaining terms of between one and five years. There are no restrictions placed upon the lessees by entering into these leases. Future minimum lease payments under these leases as at the end of the reporting period are as follows:

	GROUP	
	2009 RMB'000	2008 RMB'000
Within one year	**25,508**	29,284
After one year but not more than five years	**785**	3,560
	26,293	32,844

As at December 31, 2009, some of the operating lease arrangements for electronic equipment provided for the calculation of lease payments were based on the actual number of users of the relevant servers. The rental expense under these operating leases was RMB11,103 thousand for the year ended December 31, 2009 (2008: RMB4,991 thousand). As future lease payments for these arrangements are based on the actual number of users and thus cannot be reasonably estimated, they are not included in the minimum lease payments shown above.

Capital commitments

		GROUP	
	NOTES	2009 RMB'000	2008 RMB'000
Contracted, but not provided for:			
Purchase of electronic equipment		**3,168**	5,219
Acquisition of land and buildings	(a)	**1,000,000**	1,074,710
Investment	(b)	**5,360**	63,787
Acquisition of intangible assets		**4,317**	1,998
		1,012,845	1,145,714

35. COMMITMENTS (continued)

Capital commitments (continued)

	NOTE	COMPANY 2009 RMB'000	2008 RMB'000
Contracted, but not provided for:			
Investment	(c)	**1,360**	56,037

(a) The capital commitment for land and buildings mainly represented the commitment to purchase a land use right in Zhuhai. The total consideration was RMB38,738 thousand, among which RMB10,000 thousand and RMB28,738 thousand were paid as deposit in 2008 and 2009 respectively. In addition, the Group will invest an aggregate of RMB1,000,000 thousand in five years in the construction of the land according to the land acquisition agreement.

(b) In addition to the Group's investment in Kingsoft Lianking, the Group will pay an additional RMB4,000 thousand in aggregate to Kingsoft Lianking upon the fulfillment of the predetermined condition by Kingsoft Lianking.

(c) The Company has entered into an agreement to contribute US$199 thousand (equivalent to RMB1,360 thousand) for 19.9% interest in Kim Quang Software and Technology Joint Stock Company, a company engaged in software business in Vietnam. The transaction has not been completed as of December 31, 2009.

Moreover, the Group was contracted to acquire a 19.9% interest in Shanghai Zhixiong Network Technology Co., Ltd. ("Shanghai Zhixiong"), a company specified in research and development of online games in the PRC, at a total consideration of RMB4,970 thousand. The Group has paid RMB1,420 thousand in 2008 and RMB3,550 thousand in 2009.

36. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	NOTES	GROUP 2009 RMB'000	2008 RMB'000
Loan to shareholders of a subsidiary included in other receivables	(i)	**13,912**	—
Advertisement fees paid to a company with a common director of the Company	(ii)	**1,389**	—

(i) The balance represents loan to shareholders of a subsidiary. The loan is subject to interest rate of HIBOR + 1.5% per annum and should be repaid in 4 years after the payment of the loan. The loan is secured by certain equity interest of the subsidiary held by the aforementioned shareholders.

(ii) The directors of the Company consider that the advertisement fees were paid according to the rates similar to those offered to the major customers of the supplier.

36. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties:

(i) On May 27, 2008, the Group entered into an agreement with Dalian Shang Shang Wang Digital Technology & Co., Ltd. ("Dalian SSW"), pursuant to which the Group acquired a further 29.4% equity interest in Kingsoft Dalian (a 51% held subsidiary of the Group prior to the transaction), from Dalian SSW at a total cash consideration of RMB30,300 thousand. With the completion of the transaction, Kingsoft Dalian has become an 80.4% owned subsidiary of the Group.

(ii) On December 18, 2008, the Company entered into an agreement with Sky Profit and its subsidiaries (collectively, the "Sky Profit Group"), its shareholders, and Shanghai Qinhe Internet Technology Software Development Co., Ltd. and Shanghai Qiao Heng Internet Technology Co., Ltd., the latter two are effectively controlled by the Sky Profit Group (collectively, the "Sky Profit Companies") through control contract arrangements. Pursuant to the aforesaid agreement, (1) the Company shall acquire, in two tranches of subscription, preferred shares of Sky Profit (representing in aggregate approximately 30.03% of the entire enlarged issued share capital of Sky Profit) at a total consideration of US$8,000 thousand; and (2) the Company shall enter into a strategic business partnership arrangement with the Sky Profit Companies, for purposes of mutual promotion and expansion. A substantial shareholder of Sky Profit is Jun Lei, a substantial shareholder and non-executive director of the Company.

During the year, the first tranche of above transaction was completed and the second tranche was cancelled due to non-fulfillment of the conditions.

(c) Compensation of key management personnel of the Group

	GROUP	
	2009	**2008**
	RMB'000	**RMB'000**
Salaries, allowances and benefits in kind	**9,043**	6,702
Pension plan contributions	**156**	48
Share-based compensation costs	**6,514**	11,284
Total compensation paid to key management personnel	**15,713**	18,034

Further details of the directors' remuneration are included in note 8.

The above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	GROUP				
	2009		2008		
FINANCIAL ASSETS	LOANS AND RECEIVABLES RMB'000	TOTAL RMB'000	DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000	LOANS AND RECEIVABLES RMB'000	TOTAL RMB'000
Loan receivables	**2,649**	**2,649**	—	2,520	2,520
Trade receivables	**120,378**	**120,378**	—	84,819	84,819
Financial assets included in prepayments and other receivables	**36,508**	**36,508**	—	25,456	25,456
Credit-linked deposit	**—**	**—**	111,708	—	111,708
Cash and cash equivalents	**1,268,098**	**1,268,098**	—	1,007,115	1,007,115
Total	**1,427,633**	**1,427,633**	111,708	1,119,910	1,231,618

	GROUP	
FINANCIAL LIABILITIES	2009 FINANCIAL LIABILITIES AT AMORTISED COST RMB'000	2008 FINANCIAL LIABILITIES AT AMORTISED COST RMB'000
Trade payables	**12,597**	7,649
Financial liabilities included in accrued expenses and other payables	**136,204**	112,678
Total	**148,801**	120,327

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

	COMPANY				
	2009		2008		
FINANCIAL ASSETS	LOANS AND RECEIVABLES RMB'000	TOTAL RMB'000	DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000	LOANS AND RECEIVABLES RMB'000	TOTAL RMB'000
Financial assets included in prepayments and other receivables	**13,932**	**13,932**	—	11	11
Due from subsidiaries	**327,470**	**327,470**	—	319,967	319,967
Credit-linked deposit	**—**	**—**	111,708	—	111,708
Cash and cash equivalents	**85,554**	**85,554**	—	155,604	155,604
Total	**426,956**	**426,956**	111,708	475,582	587,290

	COMPANY	
	2009	2008
FINANCIAL LIABILITIES	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000
Financial liabilities included in accrued expenses and other payables	**2,897**	1,072
Due to subsidiaries	**52,738**	28,936
Total	**55,635**	30,008

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk management objectives and policies

The Group operates in the PRC and other Asian countries, which generates revenue and incurs expenses in US$, JPY, HK$, MYR and RMB. The Group's operations are exposed to liquidity risk, foreign currency risk, interest rate risk and credit risk. The Group's overall risk management approach is to moderate the effects of such volatility on its financial performance. Financial risk management policies are periodically reviewed and approved by the board of directors.

As part of overall corporate governance, the Group has set up an internal control department to oversee the management of financial risks exposure of all group entities. The internal control department establishes internal policies to define authority levels, oversight responsibilities, risk identification and measurement protocols, policy structures to manage risks that arise from the use of financial instruments. On a day-to-day basis, the chief executive officer and chief financial officer have the primary responsibility for measuring and managing specific risk exposures while the board of directors exercises independent risk oversight on the group as a whole. The chief executive officer and chief financial officer report to the board of directors directly.

Management reviews and agrees policies for managing each of these risks and they are summarised below.

(b) Liquidity risk

The principal method the Group uses to manage liquidity risk arising from financial liabilities is maintaining an adequate level of cash and cash equivalents with different banks.

The Group recorded net cash flows from operating activities of approximately RMB446,874 thousand and RMB381,472 thousand for the years ended December 31, 2009 and 2008, respectively. For the same period, the Group had net cash flows used in investing activities of approximately RMB503,721 thousand and RMB520,533 thousand, respectively. The Group also recorded net cash flows used in financing activities of approximately RMB153,411 thousand and RMB97,073 thousand for the years ended December 31, 2009 and 2008, respectively.

The Group recorded decreases in cash and cash equivalents of approximately RMB210,258 thousand and RMB236,134 thousand for the years ended December 31, 2009 and 2008, respectively.

The contractual maturity of financial liabilities including trade payables has been disclosed in note 27. For trade payables, they are generally on credit terms of two to three months after the invoice date. For accrued expenses and other payables, there are generally no specified contractual maturity for these liabilities, and they are paid on a regular basis or upon counterparty's formal notification.

With regard to 2009 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain a balance between a continuity of funding and flexibility through the settlements from clients and the subsequent payments to vendors.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Foreign currency risk

Certain expenses of the Group are denominated in currencies other than the RMB. The Group generates foreign currency revenue from license sales made in other Asian countries. The exchange rates of RMB against US$, HK$, JPY and MYR have been comparatively stable in the past.

A majority of the Group's businesses are transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China. However, the unification of the exchange rates does not imply the free convertibility of RMB into US$ or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Commencing on July 21, 2005, PRC reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Under the managed floating exchange rate regime, the RMB is no longer pegged to the US$.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant.

	INCREASE/ (DECREASE) IN PROFIT BEFORE TAX RMB'000
2009	
If RMB strengthens 5% against HK$	**(77)**
If RMB weakens 5% against HK$	**77**
If RMB strengthens 5% against US$	**(269)**
If RMB weakens 5% against US$	**269**
2008	
If RMB strengthens 5% against HK$	(349)
If RMB weakens 5% against HK$	349
If RMB strengthens 5% against US$	(971)
If RMB weakens 5% against US$	971

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Interest rate risk

The Group's earnings are affected by changes in interest rates due to the impact of such changes on interest income from interest-bearing financial assets. The Group's interest-bearing financial assets are predominately denominated in RMB. The Group's financial assets comprised primarily of cash deposits with fixed interest rates and loans and receivables, and the Group does not have any interest-bearing debt obligations as of December 31, 2009. Therefore, the Group considers that the exposure to interest rate risks is insignificant.

(e) Credit risk

The Group places its cash deposits with banks in the PRC. This investment policy limits the Group's exposure to concentration of credit risk. The Group performs ongoing credit evaluations of its customers' financial conditions. With respect to credit risk arising from other financial assets of the Group, comprising loan receivables, trade receivables, and other receivables, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. Concentration of credit risk with respect to trade receivables is limited due to the large number of entities comprising the Group's customer base. The Group generally does not require collateral for trade receivables.

The Group determines concentration of credit risk by monitoring the business and location of its counterparties. At the end of the reporting period, the Group has certain concentrations of credit risk as 24% (2008: 34%) of the Group's trade receivables were due from the Group's largest distributor.

For trade receivables that were past due but not impaired 84% and 85% were aged within one year as at December 31, 2009 and 2008, respectively. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

(f) Fair values

Financial assets of the Group mainly include cash and cash equivalents, credit-linked deposit, trade receivables, other receivables and loan receivables. Financial liabilities of the Group mainly include trade payables, accrued expenses and other payables.

The carrying amounts of the Group's financial instruments approximate to their fair values as at the end of the reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(g) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business. The Group monitors capital using the net cash over debt position, which is cash and cash equivalents less trade payables, accrued expenses and other payables.

	GROUP	
	2009	**2008**
	RMB'000	**RMB'000**
Cash and cash equivalents	**1,268,098**	1,007,115
Trade payables	**(12,597)**	(7,649)
Accrued expenses and other payables	**(186,896)**	(160,972)
Net cash over debt position	**1,068,605**	838,494

39. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

40. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised IFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 25, 2010.