

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code:3888)

**Announcement of the Unaudited Results
For the Three and Six Months Ended June 30, 2010**

The Board (“Board”) of directors (the “Directors”) of Kingsoft Corporation Limited (the “Company”) announces the unaudited results of the Company and its subsidiaries (the “Group” or “Kingsoft”) for the three and six months ended June 30, 2010 prepared in accordance with International Financial Reporting Standards (“IFRSs”). These interim results have been reviewed by Ernst & Young, the auditors of the Company, and the Company’s audit committee (the “Audit Committee”), comprising a majority of the independent non-executive directors of the Company.

FINANCIAL INFORMATION

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended June 30, 2010

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Revenue:					
Entertainment software		158,924	158,251	320,666	321,055
Application software		85,904	78,869	168,137	150,899
Others		1,486	2,861	3,209	4,255
		<u>246,314</u>	<u>239,981</u>	<u>492,012</u>	<u>476,209</u>
Cost of revenue		<u>(31,434)</u>	<u>(29,812)</u>	<u>(62,201)</u>	<u>(59,130)</u>
Gross profit		214,880	210,169	429,811	417,079
Research and development costs, net of government grants		(57,369)	(44,776)	(113,217)	(87,906)
Selling and distribution costs		(33,614)	(30,793)	(60,966)	(59,751)
Administrative expenses		(27,157)	(23,094)	(55,186)	(44,985)
Share-based compensation costs		(14,817)	(11,728)	(21,939)	(24,295)
Other operating costs		(9,949)	(344)	(10,688)	(790)
Other income and gains		150	1,084	635	1,157
Finance income		7,713	5,572	14,602	12,569
Share of profits and losses of:					
Associates		3,174	7,283	7,790	16,222
Jointly-controlled entities		(1,713)	(1,599)	(3,475)	(2,834)
Profit before tax	4	81,298	111,774	187,367	226,466
Income tax expense	5	(13,494)	(14,573)	(29,349)	(28,171)
Profit for the period		67,804	97,201	158,018	198,295
Attributable to:					
Owners of the parent		66,916	96,551	156,657	197,460
Non-controlling interests		888	650	1,361	835
		<u>67,804</u>	<u>97,201</u>	<u>158,018</u>	<u>198,295</u>
Earnings per share attributable to ordinary equity holders of the parent					
Basic	6	0.0614	0.0907	0.1447	0.1862
Diluted		0.0579	0.0835	0.1353	0.1756

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2010

	For the three months ended June 30,		For the six months ended June 30,	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Profit for the period	67,804	97,201	158,018	198,295
Other comprehensive income:				
Exchange differences on translation of foreign operations	<u>(351)</u>	<u>791</u>	<u>216</u>	<u>(715)</u>
Other comprehensive income/(loss) for the period, net of tax	<u>(351)</u>	<u>791</u>	<u>216</u>	<u>(715)</u>
Total comprehensive income for the period, net of tax	<u>67,453</u>	<u>97,992</u>	<u>158,234</u>	<u>197,580</u>
Attributable to:				
Owners of the parent	<u>65,954</u>	<u>97,141</u>	<u>156,258</u>	<u>197,280</u>
Non-controlling interests	<u>1,499</u>	<u>851</u>	<u>1,976</u>	<u>300</u>
	<u>67,453</u>	<u>97,992</u>	<u>158,234</u>	<u>197,580</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2010

	Notes	As at June 30, 2010 RMB'000 (Unaudited)	As at December 31, 2009 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	7	401,381	407,980
Goodwill		—	2,377
Other intangible assets		58,728	48,489
Lease prepayments	8	45,363	6,972
Interests in associates		14,168	6,378
Interests in jointly-controlled entities		32,719	40,112
Loan receivables		3,925	2,649
Deferred tax assets		25,326	28,917
Deferred cost		1,029	1,201
Long-term prepayments		—	38,738
		<u>582,639</u>	<u>583,813</u>
Current assets			
Inventories		6,382	5,384
Trade receivables	9	110,403	120,378
Prepayments, deposits and other receivables		74,909	60,075
Deferred cost		3,233	3,122
Cash and cash equivalents		1,377,039	1,268,098
		<u>1,571,966</u>	<u>1,457,057</u>
Current liabilities			
Trade payables	10	15,416	12,597
Interest-bearing bank loan	11	104,688	—
Dividend payable		911	174
Accrued expenses and other payables		143,109	186,896
Deferred revenue		160,042	158,643
Income tax payable		15,237	19,453
		<u>439,403</u>	<u>377,763</u>
Net current assets		<u>1,132,563</u>	<u>1,079,294</u>
Total assets less current liabilities		<u>1,715,202</u>	<u>1,663,107</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at June 30, 2010

	As at June 30, 2010 RMB'000 (Unaudited)	As at December 31, 2009 RMB'000 (Audited)
Total assets less current liabilities	<u>1,715,202</u>	<u>1,663,107</u>
Non-current liabilities		
Deferred revenue	36,390	42,144
Deferred tax liabilities	<u>11,596</u>	<u>16,653</u>
	<u>47,986</u>	<u>58,797</u>
Net assets	<u><u>1,667,216</u></u>	<u><u>1,604,310</u></u>
Equity attributable to owners of the parent		
Issued capital	4,500	4,434
Share premium	553,267	525,349
Shares held for share award scheme	(66,190)	(72,365)
Statutory reserves	107,817	107,817
Employee share-based capital reserve	236,936	225,011
Foreign currency translation reserve	(66,863)	(66,464)
Retained earnings	879,992	723,335
Proposed final dividends	<u>—</u>	<u>141,575</u>
	<u>1,649,459</u>	<u>1,588,692</u>
Non-controlling interests	<u>17,757</u>	<u>15,618</u>
Total equity	<u><u>1,667,216</u></u>	<u><u>1,604,310</u></u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2010

	Attributable to owners of the parent										
	Issued capital	Share premium	Shares held for share award scheme	Statutory reserves	Employee share-based capital reserve	Foreign currency translation reserve	Retained earnings	Proposed final dividends	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At January 1, 2010	4,434	525,349	(72,365)	107,817	225,011	(66,464)	723,335	141,575	1,588,692	15,618	1,604,310
Total comprehensive income for the period	—	—	—	—	—	(399)	156,657	—	156,258	1,976	158,234
2009 final dividend declared	—	—	—	—	—	—	—	(141,575)	(141,575)	—	(141,575)
Dividend on shares issued for employee share options exercised after December 31, 2009	—	(1,578)	—	—	—	—	—	—	(1,578)	—	(1,578)
Share-based compensation costs	—	—	—	—	18,100	—	—	—	18,100	163	18,263
Vested awarded shares transferred to employees	—	—	6,175	—	(6,175)	—	—	—	—	—	—
Exercise of share options	66	29,496	—	—	—	—	—	—	29,562	—	29,562
At June 30, 2010	4,500	553,267	(66,190)	107,817	236,936	(66,863)	879,992	—	1,649,459	17,757	1,667,216

For the six months ended June 30, 2009

	Attributable to owners of the parent										
	Issued capital	Share premium	Shares held for share award scheme	Statutory reserves	Employee share-based capital reserve	Foreign currency translation reserve	Retained earnings	Proposed final dividends	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 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 period	—	—	—	—	—	(180)	197,460	—	197,280	300	197,580
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	—	—	(11,193)	—	—	—	—	—	(11,193)	—	(11,193)
Share-based compensation costs	—	—	—	—	23,990	—	—	—	23,990	26	24,016
Exercise of share options	43	16,834	—	—	—	—	—	—	16,877	—	16,877
Vested awarded shares transferred to employees	—	—	3,448	—	(3,448)	—	—	—	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	500	500
At June 30, 2009	4,405	654,800	(47,795)	81,481	215,190	(66,308)	559,907	—	1,401,680	13,674	1,415,354

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2010

	For the six months ended June 30,	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	173,166	155,958
Net cash flows from/(used in) investing activities	610,284	(113,878)
Net cash flows used in financing activities	<u>(8,904)</u>	<u>(134,370)</u>
Net increase/(decrease) in cash and cash equivalents	774,546	(92,290)
Cash and cash equivalents at beginning of period	405,595	616,955
Effect of foreign exchange rate changes, net	<u>660</u>	<u>(126)</u>
Cash and cash equivalents at end of period	1,180,801	524,539
Time deposits with original maturity of over three months when acquired	<u>196,238</u>	<u>480,216</u>
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	<u><u>1,377,039</u></u>	<u><u>1,004,755</u></u>

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

The Company was incorporated under the laws of the British Virgin Islands on March 20, 1998. It was continued into the Cayman Islands under the Companies Law of the Cayman Islands on November 15, 2005. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 9, 2007.

The Group is principally involved in the research, development and distribution of software products and the provision of online game services.

The interim condensed consolidated financial statements were approved and authorised for issue in accordance with a resolution of the Board on August 25, 2010.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended June 30, 2010 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2009.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2009, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), except for the adoption of new Standards and Interpretations applicable to the Group as of January 1, 2010, noted below.

2. Basis of preparation and significant accounting policies (continued)

Impact of New and Revised IFRSs

The Group has adopted the following new and revised IFRSs for the first time for the current period's financial statements. The adoption of these new and revised IFRSs has had no significant effect on these financial statements.

IFRS 2	<i>Share-based Payment — Group Cash-settled Share-based Payment Transactions</i>
IFRS 3 (Revised)	<i>Business Combinations</i>
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
IAS 39	<i>Financial Instruments: Recognition and Measurement — Eligible Hedged Items</i>
IFRIC 17	<i>Distribution of Non-cash Assets to Owners</i>
<i>Improvements to IFRSs (issued May 2008)</i>	
<i>Improvements to IFRSs (issued April 2009)</i>	

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

3. Operating segment information

For management purposes, the Group is organised into business units based on their products and services, and has 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 operating 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.

3. Operating segment information (continued)

	Entertainment software RMB'000 (Unaudited)	Application software RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<i>For the six months ended June 30, 2010</i>			
Segment revenue:			
Sales to external customers	<u>320,666</u>	<u>171,346</u>	<u>492,012</u>
Segment results	178,701	74,550	253,251
<u>Reconciliation:</u>			
Administrative expenses			(55,186)
Share-based compensation costs			(21,939)
Other operating costs			(8,311)
Other income and gains			635
Finance income			14,602
Share of profits and losses of:			
Associates			7,790
Jointly-controlled entities			(3,475)
Profit before tax			<u><u>187,367</u></u>
<i>For the six months ended June 30, 2009</i>			
Segment revenue:			
Sales to external customers	<u>321,317</u>	<u>154,892</u>	<u>476,209</u>
Segment results	207,289	62,133	269,422
<u>Reconciliation:</u>			
Administrative expenses			(44,985)
Share-based compensation costs			(24,295)
Other operating costs			(790)
Other income and gains			1,157
Finance income			12,569
Share of profits and losses of:			
Associates			16,222
Jointly-controlled entities			(2,834)
Profit before tax			<u><u>226,466</u></u>

4. Profit before tax

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

	For the three months ended June 30,		For the six months ended June 30,	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Depreciation of property, plant and equipment	14,389	9,635	28,348	14,521
Amortisation of lease prepayments	—	41	347	83
Amortisation of intangible assets:				
Amortisation of capitalised software costs*	2,337	1,258	3,704	2,965
Amortisation of purchased software	1,873	2,604	4,038	5,473
Impairment of interest in a jointly-controlled entity**	3,638	—	3,638	—
Impairment of loan to a shareholder of a jointly-controlled entity**	2,250	—	2,250	—
Impairment of goodwill**	2,377	—	2,377	—
Donation**	1,000	—	1,000	—

* The amortisation of capitalised software costs is included in research and development costs.

** Impairment of interest in a jointly-controlled entity, impairment of loan to a shareholder of a jointly-controlled entity, impairment of goodwill and donation are included in other operating costs.

5. Income tax

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

	For the three months ended June 30,		For the six months ended June 30,	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Current income tax	17,823	17,814	27,769	26,009
Deferred income tax	<u>(4,329)</u>	<u>(3,241)</u>	<u>1,580</u>	<u>2,162</u>
Income tax expense	<u>13,494</u>	<u>14,573</u>	<u>29,349</u>	<u>28,171</u>

No provision for Hong Kong profits tax has been made for the six months ended June 30, 2010 and 2009 as the Group had no estimated assessable profits arising in Hong Kong.

Income tax expense primarily represents the tax charged on the estimated assessable profits arising in the Mainland China and Japan. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to tax holiday and preferential tax rates. In accordance with Japan tax laws, the income tax rate applicable to the Group's subsidiary in Japan is 41%.

6. Earnings per share attributable to ordinary equity holders of the parent

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

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

6. Earnings per share attributable to ordinary equity holders of the parent (continued)

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

	For the six months ended June 30,	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent	<u>156,657</u>	<u>197,460</u>
	Number of shares for the six months ended June 30,	
	2010	2009
	(Unaudited)	(Unaudited)
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme	1,082,521,512	1,060,421,431
Effect of dilution:		
Share options	61,666,424	54,041,806
Awarded shares	13,597,995	10,268,978
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,157,785,931</u>	<u>1,124,732,215</u>

7. Property, plant and equipment

	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net carrying amount at January 1,	407,980	345,626
Additions	21,926	82,844
Disposals	(177)	(33)
Depreciation charge for the period	(28,348)	(14,521)
Net carrying amount at June 30,	<u>401,381</u>	<u>413,916</u>

8. Lease prepayments

	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Net carrying amount at January 1,	6,972	7,138
Additions	38,738	—
Amortisation charge for the period	(347)	(83)
	<hr/>	<hr/>
Net carrying amount at June 30,	45,363	7,055
	<hr/> <hr/>	<hr/> <hr/>

9. Trade receivables

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

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

	As at June 30, 2010 RMB'000 (Unaudited)	As at December 31, 2009 RMB'000 (Audited)
0–30 days	42,983	43,029
31–60 days	17,890	38,002
61–90 days	17,298	26,393
91–365 days	29,654	11,180
Over one year	2,578	1,774
	<hr/>	<hr/>
	110,403	120,378
	<hr/> <hr/>	<hr/> <hr/>

10. Trade payables

An aged analysis of the Group's trade payables is as follows:

	As at June 30, 2010 RMB'000 (Unaudited)	As at December 31, 2009 RMB'000 (Audited)
0–30 days	5,608	8,746
31–60 days	1,442	422
61–90 days	1,699	726
91–365 days	4,837	1,270
Over one year	1,830	1,433
	<u>15,416</u>	<u>12,597</u>

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

11. Interest-bearing bank loan

The interest-bearing bank loan represented a drawdown of HK\$120,000 thousand (equivalent of RMB104,688 thousand) from the Group's banking facilities of term loan amounting to HK\$200,000 thousand. As the undertakings of such banking facility, the Group shall provide an equivalent RMB deposit not less than the amount of this bank loan from time to time outstanding with a maximum of HK\$200,000 thousand.

12. Share-based compensation costs

(a) Share options

The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme (collectively, the “Pre-IPO Share Option Schemes”) on June 30, 2004 and January 22, 2007, respectively. The Pre-IPO Share Option Schemes were terminated on September 3, 2007. No share options were granted since then. The following table illustrates the number of, and movements in, the Company’s share options for the six months ended June 30, 2010 and 2009.

	2010	2009
	Number of shares options (Unaudited)	Number of shares options (Unaudited)
Outstanding at January 1,	98,145,100	123,779,525
Forfeited during the period	(1,253,500)	(4,265,000)
Exercised during the period	(18,987,500)	(12,415,425)
	<u>77,904,100</u>	<u>107,099,100</u>
Outstanding at June 30,	<u>77,904,100</u>	<u>107,099,100</u>

The total expenses recognised for employee services received in respect of the Pre-IPO Share Option Schemes for the six months ended June 30, 2010 was RMB2,713 thousand (unaudited) (six months ended June 30, 2009: RMB12,787 thousand (unaudited)).

(b) Share Award Scheme

On March 31, 2008 (“Adoption Date”), the Board 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. Unless early terminated 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 six months ended June 30, 2010, 8,535,600 shares (unaudited) (six months ended June 30, 2009: 7,612,000 shares (unaudited)) were awarded to a number of employees with vesting period of three years. No shares of the Company were acquired by the Share Award Scheme Trust during the six months ended June 30, 2010. During the six months ended June 30, 2009, the Share Award Scheme Trust acquired 2,453,000 shares of the Company through purchases on the open market, at a total cost (including related transaction costs) of approximately RMB11,193 thousand (unaudited).

12. Share-based compensation costs (continued)

(b) Share Award Scheme (continued)

The following table illustrates the number of and movements in the Company's Awarded Shares during the six months ended June 30, 2010 and 2009.

	2010	2009
	Number of	Number of
	Awarded Shares	Awarded Shares
	(Unaudited)	(Unaudited)
Outstanding at January 1,	20,658,000	15,558,000
Awarded during the period	8,535,600	7,612,000
Forfeited during the period	(6,579,400)	(870,000)
Vested during the period	(2,686,133)	(1,455,000)
	<u>19,928,067</u>	<u>20,845,000</u>
Outstanding at June 30,	<u>19,928,067</u>	<u>20,845,000</u>

The total expenses recognised for employee services received in respect of the Share Award Scheme for the six months ended June 30, 2010 was RMB19,226 thousand (unaudited) (six months ended June 30, 2009: RMB11,456 thousand (unaudited)).

13. Dividends

A final dividend for 2009 of HK\$0.15 per ordinary share was proposed pursuant to a resolution passed by the Board on March 25, 2010, and was approved by the shareholders in the annual general meeting held on May 28, 2010.

The Board has resolved not to declare any interim dividend in respect of the six months ended June 30, 2010 (six months ended June 30, 2009: Nil).

14. Events after the statement of financial position date

On August 1, 2010, the Group entered into an Ordinary Shares Subscription Option Agreement (the "Option Agreement") with Vina Group Corporation ("Vina Game"), a leading online game service provider in Vietnam. According to the Option Agreement, the Group (the "Optionee") or any designated subsidiary of the Optionee is entitled to subscribe from Vina Game a maximum of 1,859,251 ordinary shares each of 10,000 Vietnam Dong par value of Vina Game issued as fully-paid subject to adjustment. 1,549,375 ordinary shares will be exercisable quarterly in equal instalments from the date of the Option Agreement to July 31, 2016 (the "Expiration Date"). If an IPO or liquidation occurs before the Expiration Date, the share options will be immediately exercisable upon the occurrence of such event.

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010
Online games								
Daily Average Peak Concurrent Users	990,855	1,029,611	951,685	953,817	1,061,250	1,131,124	915,212	819,325
Monthly Average Paying Users	1,239,609	1,531,993	1,489,797	1,317,755	1,543,946	1,767,553	1,457,101	1,276,351
Monthly Average Revenue per Paying User (RMB)	40	38	36	39	35	38	36	41
Online Services of Internet securities								
Daily Average Paying Users	8,657,001	8,409,533	8,450,146	8,211,110	8,269,916	8,746,468	8,416,136	7,648,623
Monthly Average Revenue per Paying User (RMB)	<u>1.7</u>	<u>1.9</u>	<u>1.9</u>	<u>2.1</u>	<u>2.1</u>	<u>2.1</u>	<u>2.0</u>	<u>2.2</u>

FINANCIAL HIGHLIGHTS

For the six months ended June 30,

	For the six months ended June 30,	
	2009	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue:		
Entertainment software	321,055	320,666
Application software	150,899	168,137
Others	4,255	3,209
	<u>476,209</u>	<u>492,012</u>
Cost of revenue	(59,130)	(62,201)
Gross profit	417,079	429,811
Research and development costs, net of government grants	(87,906)	(113,217)
Selling and distribution costs	(59,751)	(60,966)
Administrative expenses	(44,985)	(55,186)
Share-based compensation costs	(24,295)	(21,939)
Other operating costs	(790)	(10,688)
Other income and gains	1,157	635
Operating profit	200,509	168,450
Finance income	12,569	14,602
Share of profits and losses of:		
Associates	16,222	7,790
Jointly-controlled entities	(2,834)	(3,475)
Profit before tax	226,466	187,367
Income tax expense	(28,171)	(29,349)
Profit for the period	<u>198,295</u>	<u>158,018</u>
Attributable to:		
Owners of the parent	197,460	156,657
Non-controlling interests	835	1,361
	<u>198,295</u>	<u>158,018</u>
	RMB	RMB
	(Unaudited)	(Unaudited)
Earnings per share attributable to ordinary equity holders of the parent		
Basic	0.1862	0.1447
Diluted	<u>0.1756</u>	<u>0.1353</u>

	For the three months ended		
	June 30, 2009 RMB'000 (Unaudited)	March 31, 2010 RMB'000 (Unaudited)	June 30, 2010 RMB'000 (Unaudited)
Revenue:			
Entertainment software	158,251	161,742	158,924
Application software	78,869	82,233	85,904
Others	2,861	1,723	1,486
	<u>239,981</u>	<u>245,698</u>	246,314
Cost of revenue	<u>(29,812)</u>	<u>(30,767)</u>	(31,434)
Gross profit	210,169	214,931	214,880
Research and development costs, net of government grants	(44,776)	(55,848)	(57,369)
Selling and distribution costs	(30,793)	(27,352)	(33,614)
Administrative expenses	(23,094)	(28,029)	(27,157)
Share-based compensation costs	(11,728)	(7,122)	(14,817)
Other operating costs	(344)	(739)	(9,949)
Other income and gains	1,084	485	150
Operating profit	100,518	96,326	72,124
Finance income	5,572	6,889	7,713
Share of profits and losses of:			
Associates	7,283	4,616	3,174
Jointly-controlled entities	(1,599)	(1,762)	(1,713)
Profit before tax	111,774	106,069	81,298
Income tax expense	<u>(14,573)</u>	<u>(15,855)</u>	(13,494)
Profit for the period	<u>97,201</u>	<u>90,214</u>	67,804
Attributable to:			
Owners of the parent	96,551	89,741	66,916
Non-controlling interests	<u>650</u>	<u>473</u>	888
	<u>97,201</u>	<u>90,214</u>	67,804
	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
Earnings per share attributable to ordinary equity holders of the parent			
Basic	0.0907	0.0834	0.0614
Diluted	<u>0.0835</u>	<u>0.0775</u>	0.0579

MANAGEMENT DISCUSSION AND ANALYSIS

First Half of 2010 Compared to First Half of 2009

Revenue

Revenue increased by 3% year-over-year to RMB492.0 million for the first half year of 2010. Revenue from the entertainment and application software business represented 65% and 34%, respectively, of the Group's total revenue.

Revenue from the entertainment software business held flat year-over-year to RMB320.7 million. Daily average peak concurrent users recorded approximately 0.82 million in the second quarter of 2010, decreased by 14% year-over-year. The monthly average paying users was approximately 1.28 million in the second quarter of 2010, decreased by 3% year-over-year. The decrease in gamer traffic and paying players base mainly resulted from the underperformance of the Group's online games overseas, particularly in Vietnam. The monthly average revenue per paying user ("monthly ARPU") for the Group's online games increased by 5% year-over-year to RMB41 in the second quarter of 2010.

Revenue from the application software business increased by 11% year-over-year to RMB168.1 million. This sequential increase was primarily attributable to the rapid growth of sales of Kingsoft WPS Office both in Chinese and Japanese markets.

The number of subscribers for online services of Kingsoft Internet Security recorded approximately 7.65 million daily average paying users, which represent a decrease of 7% year-over-year. The decrease was largely due to the decline in the amount of paying users acquired from the original equipment manufacturers. Monthly ARPU for online service of Kingsoft Internet Security business increased by 5% year-over-year to RMB2.2. This increase mainly reflected the increased proportion of SMS and bank card subscribers with higher monthly ARPU.

Gross Profit and Cost of Revenue

Gross profit increased by 3% year-over-year to RMB429.8 million. Gross profit margin decreased by one percentage point year-over-year to 87%. Cost of revenue increased by 5% year-over-year to RMB62.2 million.

Research and Development ("R&D") Costs

R&D costs, net of government grants, increased by 29% year-over-year to RMB113.2 million. This was primarily a combined result of an increase in headcount for new online games development, improved staff salaries and welfare, increased depreciation and expenditures associated with new office buildings in Zhuhai and Beijing.

Selling and Distribution Costs

Selling and distribution costs increased by 2% year-over-year to RMB61.0 million.

Administrative Expenses

Administrative expenses increased by 23% year-over-year to RMB55.2 million. This was largely due to the increase in depreciation and expenses associated with the Group's new office buildings and facilities in Beijing and Zhuhai, which began in use in March 2009 and May 2009, respectively.

Share-based Compensation Costs

Share-based compensation costs decreased by 10% year-over-year to RMB21.9 million. The decrease was primarily due to the adoption of the graded vesting of the granted share options and awarded shares.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs decreased by 15% year-over-year to RMB190.4 million. The margin of operating profit excluding share-based compensation costs decreased by eight percentage points year-over-year to 39%.

Share of Profits of Associates

The Group's share of profits of associates, which primarily represented our share of profit of Kingsoft Guangzhou, decreased by 52% year-over-year to RMB7.8 million. The decrease mainly reflected the downward of the profit of Kingsoft Guangzhou and the Group's reduced interest in Kingsoft Guangzhou from 40% to 30% since July, 2009.

Income Tax Expense

Income tax expense increased by 4% year-over-year to RMB29.3 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) increased by three percentage points year-over-year to 14%. This year-over-year increase mainly reflected the accruals of withholding dividend tax.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent decreased by 21% year-over-year to RMB156.7 million.

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

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

We believe the profit attributable to owners of the parent before share-based compensation costs will enhance investors' overall understanding of the Company's operating performance. When assessing our operating performance, you should not consider this data in isolation or as a substitute

for our profit or any other operating performance measure that is calculated in accordance with IFRSs. In addition, our profit attributable to owners of the parent before share-based compensation costs may not be comparable to similarly titled measures utilised by other companies.

Profit attributable to owners of the parent before share-based compensation costs decreased by 19% year-over-year to RMB178.6 million.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at June 30, 2010, the group had major financial resources in the forms of cash and cash equivalents, time deposits with initial term of over three months amounting to RMB1,180.8 million, RMB 196.2 million, respectively, which totally represented 64% of the Group's total assets. The increase of cash and cash equivalent, as compared to RMB524.5 million as at June 30, 2009, was mainly due to a net cash inflow generated from the Group's operations and the increased cash investment proportion in time deposits with initial term of less than three months.

As at June 30, 2010, the Group's gear ratio, which represents total liabilities divided by total assets, was 23%, increased by two percentage points from as at December 31, 2009. This increase resulted from the Group utilised HK\$120,000 thousand (RMB104,688 thousand) from the Group's banking facilities of term loan amounting to HK\$200,000 thousand in June 2010. The loan is repayable in full before June 14, 2011 and bears interest of HIBOR plus 1.1%.

Foreign Currency Risk Management

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

As at June 30, 2010, RMB160.4 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Deferred Revenue

Deferred revenue (including current and non-current portion) decreased by 3% year-over-year to RMB196.4 million as at June 30, 2010. This is mainly due to the decline in the sales of point cards of games.

Net Cash Generated from Operating Activities

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

Net cash generated by operating activities was RMB173.2 million, RMB156.0 million for the six months ended June 30, 2010 and June 30, 2009, respectively.

Capital Expenditure

Capital expenditures represent cash payments for acquisition of property, fixed assets and intangible assets. Cash used for capital expenditures was RMB51.7 million, RMB79.4 million for the six months ended June 30, 2010 and June 30, 2009 respectively. This decrease was primarily due to installment for the decoration of the new buildings in Beijing and Zhuhai were made in the first half of 2009.

Second Quarter of 2010 Compared to The First Quarter of 2010 and Second Quarter of 2009

Revenue

Revenue held flat quarter-over-quarter and increased by 3% year-over-year to RMB246.3 million. Revenue from the entertainment and application software businesses represented 65% and 35%, respectively, of the Group's total revenue for the second quarter of 2010.

Revenue from the entertainment software business decreased by 2% quarter-over-quarter and held flat year-over-year to RMB158.9 million. The quarter-over-quarter decline was mainly attributable to decreased overseas royalty fees as a result of adverse seasonality in Vietnam.

Daily average peak concurrent users decreased by 10% quarter-over-quarter and decreased by 14% year-over-year to 0.82 million. Monthly average paying users declined by 12% quarter-over-quarter and decreased by 3% year-over-year to 1.28 million. This quarter-over-quarter decrease was largely due to the adverse seasonality in Vietnam and the downward of user base from our aged games. The monthly ARPU for the Group's online game increased by 14% quarter-over-quarter and increased by 5% year-over-year to RMB41 in the second quarter of 2010.

Revenue from the application software business increased by 4% quarter-over-quarter and increased by 9% year-over-year to RMB85.9 million. The quarter-over-quarter increase was a result of increased sales of Kingsoft WPS Office in China.

The number of subscribers for online services of Kingsoft Internet Security decreased by 9% quarter-over-quarter and decreased by 7% year-over-year to 7.65 million. The decrease was primarily driven by the decline in users from traditional channels.

Monthly ARPU for online services of Kingsoft Internet Security business increased by 10% quarter-over-quarter and increased by 5% year-over-year to RMB2.2. This was mainly due to the increased proportion of SMS and bank card with higher monthly ARPU.

Gross Profit and Cost of Revenue

Gross profit held flat quarter-over-quarter and increased by 2% year-over-year to RMB214.9 million. The Group's gross profit margin held flat quarter-over-quarter and decreased by one percentage point year-over-year to 87%.

Cost of revenue increased by 2% quarter-over-quarter and increased by 5% year-over-year to RMB31.4 million. The sequential increase was mainly the result of an increase in package costs due to increased sales of enterprise software.

R&D Costs

R&D costs, net of government grants, increased by 3% quarter-over-quarter and increased by 28% year-over-year to RMB57.4 million. This quarter-over-quarter increase mainly reflected reduced capitalised software costs as new version of Kingsoft Internet Security was ready for commercial launch during the reporting period.

Selling and Distribution Costs

Selling and distribution costs increased by 23% quarter-over-quarter and increased by 9% year-over-year to RMB 33.6 million. The quarter-over-quarter increase was primarily attributable to the launching of the new expansion packs for JX3 and JX World.

Administrative Expenses

Administrative expenses decreased by 3% quarter-over-quarter and increased by 18% year-over-year to RMB27.2 million. The sequential decrease was largely as a result of the Group level's expense controls.

Share-based Compensation Costs

Share-based compensation costs increased by 108% quarter-over-quarter and increased by 26% year-over-year to RMB14.8 million. This quarter-over-quarter increase was mainly attributable to the newly awarded shares in the second quarter of 2010.

Operating Profit Excluding Share-based Compensation Costs

Operating Profit excluding share-based compensation costs decreased by 16% quarter-over-quarter and decreased by 23% year-over-year to RMB86.9 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs decreased by seven percentage points quarter-over-quarter and decreased by twelve percentage points year-over-year to 35%.

Share of Profits of Associates

The Group's share of profits of associates decreased by 31% quarter-over-quarter and decreased by 56% year-over-year to RMB3.2 million. This quarter-over-quarter decrease was primarily due to the decline in profit from Kingsoft Guangzhou.

Income Tax Expense

Income tax expense decreased by 15% quarter-over-quarter and decreased by 7% year-over-year to RMB13.5 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) held flat quarter-over-quarter and increased by two percentage points year-over-year to 14%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent decreased by 25% quarter-over-quarter and decreased by 31% year-over-year to RMB66.9 million.

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

The Group's profit attributable to owners of the parent before share-based compensation costs decreased by 16% quarter-over-quarter and decreased by 25% year-over-year to RMB81.7 million. The net profit margin excluding the effect of share-based compensation costs was 33%, 39% and 45% for the three months ended June 30, 2010, March 31, 2010 and June 30, 2009, respectively.

BUSINESS OUTLOOK

“Our second quarter revenue held flat sequentially and up by 3% year-over-year,” commented Mr. Kau Pak Kwan, Chairman and CEO of Kingsoft, “The quarterly bottom line was impacted by increased level of promotion related to new expansion packs for JX3 and JX World, newly awarded restricted shares and impairment of a game studio we invested.”

“The online game industry in China recently experienced a slow-down in supply of new traffic, over-supply of low quality games and shifting online entertainment behavior to social networks from online game communities. To remain competitive and achieve higher game success rate, we have been undertaking measures to improve studio and game operation efficiency, and stringent company-wide cost cutting. In the second half of 2010, we plan to launch FS3, DUGUJIUJIAN and the Legend of Moon, a new sequel of JX franchise.”

“Our new free-based internet security suite, Kingsoft Security Defender (金山安全卫士) has recorded rapid growth of users base since launched on March 6, 2010. In addition, to enhance our user experience, we are also preparing to introduce a number of add-ons of value-added-services to the new version of Kingsoft Internet Security in the second half of 2010.”

OTHER INFORMATION

Employee and Remuneration Policies

As at June 30, 2010, the Group had 2,685 employees. Employee remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. The remuneration policy and package of the Group's employees are periodically reviewed. Apart from pension funds and in-house training programmes, discretionary bonuses, pre IPO share options, medical insurance and mandatory provident fund, share awards may be granted to employees according to the assessment of individual performance.

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

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

Review by Audit Committee

The Audit Committee of the Company has been established since year 2007 with responsibility of assisting the Board in providing an independent review of the financial statements and internal control system. It acts in accordance with its terms of reference which clearly defines its membership, authority, duties and frequency of meetings. The Audit Committee is chaired by an independent non-executive director, Mr. Shun Tak Wong and currently comprises 2 other members including an independent non-executive director, Mr. Guangming George Lu, and a non-executive director Mr. Shuen Lung Cheung.

The Audit Committee of the Company has reviewed the interim results for the six months ended June 30, 2010. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (The "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended June 30, 2010.

Code on Corporate Governance Practices

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the six months ended June 30, 2010 except for the deviation from code provision A.2.1 (role of the chairman and chief executive officer should be separated).

Details of this deviation and considered reason have been set out in the corporate governance report in the 2009 annual report of the Company dated March 25, 2010. 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.

Appreciation

On behalf of the Board, I would like to extend our sincere thanks to our shareholders and investors for their continuous support and confidence in us. I would like to extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the period.

By Order of the Board
Pak Kwan KAU
Chairman

Hong Kong, August 25, 2010

As at the date of this announcement, the Executive Directors are Messrs. Pak Kwan KAU, Donghui WANG and Tao ZOU; the Non-executive Directors are Messrs. Jun LEI and Shuen Lung CHEUNG; the Independent Non-Executive Directors are Messrs. Shun Tak WONG, Guangming George LU and Mingming HUANG.