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Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 3888)

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 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 months ended March 31, 2010 prepared in accordance with International Financial Reporting Standards (“IFRSs”). These results have been reviewed by the Company’s audit committee (the “Audit Committee”), comprising a majority of the independent non-executive directors of the Company.

FINANCIAL HIGHLIGHTS

	For the three months ended			YoY* Change %	QoQ* Change %
	March 31, 2009 RMB’000	December 31, 2009 RMB’000	March 31, 2010 RMB’000		
Revenue	236,228	300,104	245,698	4	(18)
Profit attributable to owners of the parent**	100,909	120,700	89,741	(11)	(26)
	RMB cent	RMB cent	RMB cent		
Basic earnings per share	9.55	11.28	8.34	(13)	(26)
Diluted earnings per share	9.20	10.41	7.75	(16)	(26)

* YoY change % represents a comparison between the current reporting period and the same period last year. QoQ change % represents the comparison between the current reporting period and the previous period.

** Profit attributable to owners of the parent excluding the effect of share-based compensation costs is RMB96.9 million, RMB127.2 million and RMB113.5 million for the three months ended at March 31, 2010, December 31, 2009 and March 31, 2009, respectively. This represents a YoY decrease of 15% and QoQ decrease of 24%.

OPERATIONAL HIGHLIGHTS

For the three months ended

	March 31, 2009	December 31, 2009	March 31, 2010	YoY change %	QoQ change %
Online Games					
Daily Average Peak					
Concurrent Users	951,685	1,131,124	915,212	(4)	(19)
Monthly Average					
Paying Users	1,489,797	1,767,553	1,457,101	(2)	(18)
Monthly Average					
Revenue per Paying User in (RMB)	36	38	36	—	(5)
Online Services of Internet securities					
Daily Average Paying Users	8,450,146	8,746,468	8,416,136	—	(4)
Monthly Average					
Revenue per Paying User in (RMB)	1.9	2.1	2.0	5	(5)

The Board announces the unaudited results of the Group for the three months ended March 31, 2010.

The unaudited condensed consolidated income statement, unaudited condensed consolidated statement of comprehensive income, unaudited condensed consolidated statement of financial position and unaudited condensed consolidated statement of cash flows of the Group are listed below:

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the three months ended		
	March 31, 2009 RMB'000 (Unaudited)	December 31, 2009 RMB'000 (Unaudited)	March 31, 2010 RMB'000 (Unaudited)
REVENUE:			
Entertainment software	162,804	200,401	161,742
Application software	72,030	96,833	82,233
Others	1,394	2,870	1,723
	<u>236,228</u>	<u>300,104</u>	<u>245,698</u>
Cost of revenue	<u>(29,318)</u>	<u>(33,968)</u>	<u>(30,767)</u>
GROSS PROFIT	206,910	266,136	214,931
Research and development costs, net of government grants	(43,130)	(50,542)	(55,848)
Selling and distribution costs	(28,958)	(49,191)	(27,352)
Administrative expenses	(21,891)	(28,608)	(28,029)
Share-based compensation costs	(12,567)	(6,493)	(7,122)
Other operating costs	(446)	(1,379)	(739)
Other income and gains	73	1,401	485
OPERATING PROFIT	<u>99,991</u>	<u>131,324</u>	<u>96,326</u>
Finance income	6,997	6,629	6,889
Share of profits/(losses) of:			
Associates	8,939	3,329	4,616
Jointly-controlled entities	(1,235)	(2,255)	(1,762)
PROFIT BEFORE TAX	<u>114,692</u>	<u>139,027</u>	<u>106,069</u>
Income tax expense	<u>(13,598)</u>	<u>(18,184)</u>	<u>(15,855)</u>
PROFIT FOR THE PERIOD	<u><u>101,094</u></u>	<u><u>120,843</u></u>	<u><u>90,214</u></u>
Attributable to:			
Owners of the parent	100,909	120,700	89,741
Non-controlling interests	185	143	473
	<u>101,094</u>	<u>120,843</u>	<u>90,214</u>
	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	0.0955	0.1128	0.0834
Diluted	0.0920	0.1041	0.0775

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	March 31, 2009	December 31, 2009	March 31, 2010
	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>101,094</u>	<u>120,843</u>	<u>90,214</u>
OTHER COMPREHENSIVE INCOME:			
Exchange differences on translation of foreign operations	<u>(1,506)</u>	<u>(464)</u>	<u>567</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>(1,506)</u>	<u>(464)</u>	<u>567</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>99,588</u>	<u>120,379</u>	<u>90,781</u>
Attributable to:			
Owners of the parent	<u>100,139</u>	<u>120,695</u>	<u>90,304</u>
Non-controlling interests	<u>(551)</u>	<u>(316)</u>	<u>477</u>
	<u>99,588</u>	<u>120,379</u>	<u>90,781</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at March 31, 2010 RMB'000 (Unaudited)	As at December 31, 2009 RMB'000 (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	409,565	407,980
Goodwill	2,377	2,377
Other intangible assets	54,938	48,489
Lease prepayments	45,602	6,972
Interests in associates	10,994	6,378
Interests in jointly-controlled entities	38,303	40,112
Loan receivables	3,113	2,649
Deferred tax assets	25,165	28,917
Deferred cost	1,117	1,201
Long-term prepayments	—	38,738
	<u>591,174</u>	<u>583,813</u>
CURRENT ASSETS		
Inventories	5,387	5,384
Trade receivables	125,669	120,378
Prepayments, deposits and other receivables	57,705	60,075
Deferred cost	3,274	3,122
Cash and cash equivalents	1,314,468	1,268,098
	<u>1,506,503</u>	<u>1,457,057</u>
CURRENT LIABILITIES		
Trade payables	10,704	12,597
Dividend payable	154	174
Accrued expenses and other payables	141,106	186,896
Deferred revenue	154,079	158,643
Income tax payable	20,626	19,453
	<u>326,669</u>	<u>377,763</u>
NET CURRENT ASSETS	<u>1,179,834</u>	<u>1,079,294</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,771,008</u>	<u>1,663,107</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at March 31, 2010 RMB'000 (Unaudited)	As at December 31, 2009 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,771,008</u>	<u>1,663,107</u>
NON-CURRENT LIABILITIES		
Deferred revenue	40,391	42,144
Deferred tax liabilities	<u>18,811</u>	<u>16,653</u>
	<u>59,202</u>	<u>58,797</u>
Net assets	<u><u>1,711,806</u></u>	<u><u>1,604,310</u></u>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	4,455	4,434
Share premium	534,721	525,349
Shares held for share award scheme	(71,438)	(72,365)
Statutory reserves	107,817	107,817
Employee share-based capital reserve	231,406	225,011
Foreign currency translation reserve	(65,901)	(66,464)
Retained earnings	813,076	723,335
Proposed final dividends	<u>141,575</u>	<u>141,575</u>
	1,695,711	1,588,692
Non-controlling interests	<u>16,095</u>	<u>15,618</u>
Total equity	<u><u>1,711,806</u></u>	<u><u>1,604,310</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	March 31, 2009	December 31, 2009	March 31, 2010
	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	88,083	139,606	59,594
NET CASH FLOWS FROM/ (USED IN) INVESTING ACTIVITIES	(104,224)	(93,915)	512,770
NET CASH FLOWS FROM FINANCING ACTIVITIES	1,760	4,005	9,393
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(14,381)	49,696	581,757
Cash and cash equivalents at beginning of period	616,955	356,341	405,595
Effect of foreign exchange rate changes, net	(1,506)	(442)	614
Cash and cash equivalents at end of period	601,068	405,595	987,966
Time deposits with original maturity of over three months when acquired	494,759	862,503	326,502
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	<u>1,095,827</u>	<u>1,268,098</u>	<u>1,314,468</u>

Notes

1. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the three months ended March 31, 2010 have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

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, except for the adoption of new Standards and Interpretations applicable to the Group as of January 1, 2010, noted below:

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. 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED 31 MARCH, 2010

Revenue

Revenue decreased by 18% quarter-over-quarter and increased by 4% year-over-year to RMB245.7 million. Revenue from the entertainment and application software businesses represented 66% and 33%, respectively, of the Group's total revenue.

Revenue from the entertainment software business decreased by 19% quarter-over-quarter and decreased by 1% year-over-year to RMB161.7 million. This quarter-over-quarter decrease was mainly due to the adverse seasonality and the termination of operation of the licensed online game Shui Hu Q Zhuan in November, 2009.

Daily average peak concurrent users, a measure we use to monitor the popularity of the Group's online games, decreased by 19% quarter-over-quarter and decreased by 4% year-over-year to 0.9 million. The monthly average paying users decreased by 18% quarter-over-quarter and decreased by 2% year-over-year to 1.5 million.

The monthly average revenue per paying user ("monthly ARPU") for the Group's online games decreased by 5% quarter-over-quarter and held flat year-over-year to RMB36.

Revenue from the application software business decreased by 15% quarter-over-quarter and increased by 14% year-over-year to RMB82.2 million. This quarter-over-quarter decrease was mainly due to the adverse seasonality of enterprise software.

The number of subscribers for online services of Kingsoft Internet Security recorded 8.4 million daily average paying users, which represent an decrease of 4% quarter-over-quarter and held flat year-over-year. Monthly ARPU for online services of Kingsoft Internet Security business decreased by 5% quarter-over-quarter and increased by 5% year-over-year to RMB2.0. This quarter-over-quarter decrease reflected increasing competition from free anti-virus software.

Gross Profit and Cost of Revenue

Gross profit decreased by 19% quarter-over-quarter and increased by 4% year-over-year to RMB214.9 million. The Group's gross profit margin decreased by two percentage points quarter-over-quarter and decreased by one percentage point year-over-year to 87%.

Cost of revenue decreased by 9% quarter-over-quarter and increased by 5% year-over-year to RMB30.8 million.

Research and Development ("R&D") Costs

R&D costs, net of government grants, increased by 10% quarter-over-quarter and increased by 29% year-over-year to RMB55.8 million. This quarter-over-quarter increase was primarily attributable to increased staff costs.

Selling and Distribution Costs

Selling and distribution expenses decreased by 44% quarter-over-quarter and decreased by 6% year-over-year to RMB27.4 million. This quarter-over-quarter decrease was mainly due to reduced level of advertising and promotion.

Administrative Expenses

Administrative expenses decreased by 2% quarter-over-quarter and increased by 28% year-over-year to RMB28.0 million.

Share-based Compensation Costs

Share-based compensation costs increased by 10% quarter-over-quarter and decreased by 43% year-over-year to RMB7.1 million. This quarter-over-quarter increase was primarily due to the newly awarded shares in the first quarter of 2010.

Share of Profits of Associates

The Group's share of profits of associates increased by 39% quarter-over-quarter and decreased by 48% year-over-year to RMB4.6 million. This quarter-over-quarter increase was mainly due to the increased profit from Kingsoft Guangzhou.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs decreased by 25% quarter-over-quarter and decreased by 8% year-over-year to RMB103.4 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs decreased by four percentage points quarter-over-quarter and decreased by six percentage points year-over-year to 42%.

Income Tax Expense

Income tax expense decreased by 13% quarter-over-quarter and increased by 17% year-over-year to RMB15.9 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) increased by two percentage points quarter-over-quarter and increased by three percentage points year-over-year to 14%. This quarter-over-quarter increase was primarily due to the increased proportion of profit associated with Kingsoft Japan, which was applicable to a tax rate of 42%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent decreased by 26% quarter-over-quarter and decreased by 11% year-over-year to RMB89.7 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 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 decreased by 24% quarter-over-quarter and decreased by 15% year-over-year to RMB96.9 million. The profit margin excluding the effect of share-based compensation costs was 39%, 42% and 48% for the three months ended March 31, 2010, December 31, 2009 and March 31, 2009, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at March 31, 2010, 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 RMB988.0 million, RMB326.5 million, respectively, which totally represented 63% of the Group’s total assets.

As at March 31, 2010, the Group’s gearing ratio, which represents total liabilities divided by total assets, was 18%, decreased by three percentage points from 21% as at December 31, 2009. As at March 31, 2010, 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 March 31, 2010, RMB154.2 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 3% quarter-over-quarter and decreased by 4% year-over-year to RMB194.5 million as at March 31, 2010. This quarter-over-quarter decrease was mainly due to the declined sales of point cards of on-line games.

Net Cash Generated from Operating Activities

Cash generated by the operating activities reflects the Group's profit for the three months periods, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalised software costs, and share-based compensation costs, as well as the effect of changes in certain balance sheet items, such as deferred revenue and accrued expenses and other payables. Net cash generated by operating activities was RMB59.6 million, RMB139.6 million and RMB88.1 million for the three months ended March 31, 2010, December 31, 2009 and March 31, 2009, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of property, fixed assets and intangible assets such as software. Cash used for capital expenditures was RMB21.2 million, RMB31.6 million and RMB73.0 million for the three months ended March 31, 2010, December 31, 2009 and March 31, 2009, respectively.

Management Comments

Mr. Pak Kwan KAU, our Chairman and CEO commented, "In the first quarter, our game revenue was negatively impacted by stronger than expected seasonality and increased level of competition. However, we believe that by launching new expansion packs for JX3 and JX World in the 2nd quarter and new titles, such as FS3 and Legend of Moon, in the 2nd half will continue to grow our top line."

By Order of the Board
Kingsoft Corporation Limited
Pak Kwan KAU
Chairman

Hong Kong, May 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.