KINGSOFT CORPORATION LIMITED

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

KINGSOFT CORPORATION LIMITED
2011 Annual Report




Beijing / Zhuhai / Chengdu / Dalian / Japan / Malaysia

Kingsoft Corporation Limited

Contents

CORPORATE INFORMATION

Legal Name of the Company

Kingsoft Corporation Limited

Stock Code

03888

Date of Listing

9 October 2007

Head Office and Principal Place of Business

Kingsoft Tower

No.33, Xiaoying West Road

Haidian District

Beijing 100085

PRC

Principal Place of Business in Hong Kong

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

Registered Office

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman KY1-1108

Cayman Islands

Executive Directors

Mr. HongJiang Zhang

Mr. Shun Tak Wong

Mr. Tao Zou

Non-executive Directors

Mr. Jun Lei (Chairman)

Mr. Pak Kwan Kau

Mr. Chi Ping Lau

Independent Non-executive Directors

Mr. Tat Joel, Chang

Mr. Guangming George Lu

Mr. Chuan Wang

Audit Committee

Mr. Tat Joel, Chang (Chairman)

Mr. Guangming George Lu

Mr. Chuan Wang

Remuneration Committee

Mr. Guangming George Lu (Chairman)

Mr. Jun Lei

Mr. Tat Joel, Chang

Mr. Chuan Wang

Nomination Committee

Mr. Guangming George Lu (Chairman)

Mr. Chi Ping Lau

Mr. Chuan Wang

Board Secretary/Company Secretary

Ms. Michelle Feng Harnett

Authorised Representatives

Mr. Pak Kwan Kau

Ms. Michelle Feng Harnett

Principal Share Registrar and Transfer Office

Appleby Trust (Cayman) Ltd.

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman KY1-1108

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17/F.

Hopewell Centre

183 Queen's Road East

Hong Kong

Auditors

Ernst & Young

Certified Public Accountants

22th Floor, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

Legal Advisers on Hong Kong law

Hui & Lam

Rooms 1505–6, 15/F

The Center

99 Queen's Road Central

Hong Kong

Principal Bankers

Industrial and Commercial Bank of China (Asia) Limited

DBS Bank Limited

DBS Bank (China) Limited — Beijing Branch

The Bank of East Asia, Limited

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

Standard Chartered Bank (China) Limited

Australia and New Zealand Bank (China) Company Limited — Beijing Branch

Bank of Beijing — Zhongguancun Branch

China Merchants Bank Beijing — Beijing Dayuncun sub-branch

Bank of Communications — Zhuhai Jida Branch

Investor and Media Relations

Tel: (86) 10 82325515

Fax: (86) 10 82335757

Email: ir@kingsoft.com

Website: www.kingsoft.com

FINANCIAL HIGHLIGHTS

Consolidated Income Statement

	Year ended 31 December				
	2007 RMB'000	**2008 RMB'000**	**2009 RMB'000**	**2010 RMB'000**	**2011 RMB'000**
Revenue:					
Entertainment software	396,440	553,723	684,242	640,917	**689,519**
Application software	160,174	267,221	338,170	330,480	**326,098**
Others	—	—	—	—	**4,891**
	556,614	820,944	1,022,412	971,397	**1,020,508**
Cost of revenue	(95,484)	(110,935)	(128,467)	(130,998)	**(147,812)**
Gross profit	461,130	710,009	893,945	840,399	**872,696**
Research and development costs, net of government grants	(68,450)	(124,926)	(199,611)	(271,046)	**(303,848)**
Selling and distribution costs	(108,723)	(148,565)	(171,634)	(129,216)	**(125,873)**
Administrative expenses	(65,785)	(93,772)	(101,630)	(111,143)	**(127,498)**
Share-based compensation costs	(103,764)	(49,909)	(41,312)	(42,119)	**(17,266)**
Other income and gains	11,531	18,898	26,867	31,528	**44,051**
Other expenses	(2,249)	(4,822)	(2,598)	(38,203)	**(10,747)**
Operating profit	123,690	306,913	404,027	280,200	**331,515**
Fair value gain/(loss) on a financial asset at fair value through profit or loss	—	—	—	13,785	**(1,973)**
Gain on disposal of an associate	—	—	—	105,189	**—**
Finance income	22,775	31,022	25,523	33,162	**65,130**
Finance costs	(1,211)	—	—	(721)	**(3,461)**
Share of profits and losses of:					
Jointly-controlled entities	—	(1,278)	(6,952)	(6,360)	**(1,945)**
Associates	(2,460)	27,263	25,715	14,433	**(4,070)**
Profit before tax	142,794	363,920	448,313	439,688	**385,196**
Income tax expense	12,658	(59,885)	(59,459)	(65,155)	**(50,162)**
Profit for the year	155,452	304,035	388,854	374,533	**335,034**
Attributable to:					
Owners of the parent	164,678	307,501	387,224	372,480	**324,729**
Non-controlling interests	(9,226)	(3,466)	1,630	2,053	**10,305**
	155,452	304,035	388,854	374,533	**335,034**
Proposed final and special dividends	95,710	139,723	141,575	376,000	**92,241**
	RMB	RMB	RMB	RMB	**RMB**
Earnings per share attributable to ordinary equity holders of the parent					
Basic	0.1815	0.2895	0.3638	0.3416	**0.2886**
Diluted	0.1725	0.2774	0.3368	0.3213	**0.2790**

Consolidated Statement of Financial Position (Selected items)

	As at 31 December				
	2007 RMB'000	**2008 RMB'000**	**2009 RMB'000**	**2010 RMB'000**	**2011 RMB'000**
Cash and cash equivalents	1,246,077	1,007,115	1,268,098	1,656,157	**1,953,770**
Credit-linked deposit	—	111,708	—	—	**—**
Pledged deposit	—	—	—	—	**85,000**
Total assets	1,499,921	1,739,223	2,040,870	2,444,813	**3,014,519**
Total equity	1,133,657	1,328,365	1,604,310	1,934,061	**2,213,120**

Consolidated Statement of Cash Flows (Selected Items)

	Year ended 31 December				
	2007 RMB'000	**2008 RMB'000**	**2009 RMB'000**	**2010 RMB'000**	**2011 RMB'000**
Net cash flows from operating activities	345,474	381,472	446,874	391,336	**451,768**
Net cash flows from/(used in) investing activities	(395,659)	(520,533)	(503,721)	390,305	**(616,353)**
Net cash flows from/(used in) financing activities	647,412	(97,073)	(153,411)	464	**179,199**
Net increase/(decrease) in cash and cash equivalents	597,227	(236,134)	(210,258)	782,105	**14,614**

CHAIRMAN'S STATEMENT

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

Business Review

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

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

Kingsoft WPS Office reached a new milestone with sales in domestic market and Japan exceeded RMB120 million during 2011. Benefiting from the continued improvement in copyright protection in China, WPS has been the choice of office solution by more and more government agencies and enterprises. In the second half of 2011, we launched Kingsoft Kuaipan and Kingsoft WPS Office for Android in both China and Japan.

Prospects

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

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

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

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

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

To highlight all these achievements, I'am very pleased to present our 2011 annual report. I would like to thank the management and staff for their hard work, and thank all of our shareholders and investors for their support and confidence in Kingsoft.

Jun Lei
Chairman

Hong Kong, 27 March 2012

For the Year Ended 31 December 2011

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

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

	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR	**335,034**	374,533
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation of foreign operations	**(3,885)**	(498)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(3,885)**	(498)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**331,149**	374,035
Attributable to:		
Owners of the parent	**321,339**	370,319
Non-controlling interests	**9,810**	3,716
	331,149	374,035

Revenue

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

— *Entertainment Software*

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

— *Application Software*

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

Cost of Revenue and Gross Profit

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

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

R&D Costs

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

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

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

Selling and Distribution Costs

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

Administrative Expenses

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

Share-based Compensation Costs

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

Other Income and Gains

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

Other Expenses

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

Operating Profit Excluding Share-based Compensation Costs

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

Fair value Gain/(Loss) on Financial Asset at Fair Value through Profit or Loss ("Fair Value Gain/(Loss)")

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

Gain on Disposal of an Associate

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

Finance Income

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

Income Tax Expense

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

Profit attributable to Owners of the Parent

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

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

Profit attributable to owners of the parent before share-based compensation costs for the year of 2011 decreased 18% year-over-year to RMB340.6 million.

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

Liquidity and Financial Resource

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

As at 31 December 2011, the Group's gearing ratio, which represents total liabilities divided by total assets, was 27%, increased from 21% as at 31 December 2010. As at 31 December 2011, the Group had USD42.0 million (equivalent to RMB265.6 million) and HKD100.0 million (equivalent to RMB81.1 million) bank loans.

Foreign Currency Risk Management

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

As at 31 December 2011, RMB163.8 million of the Group's financials assets were held in deposits and investments denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Net Cash Generated from Operating Activities

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

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

Capital Expenditures

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

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

HongJiang ZHANG, aged 51, is an executive director and the chief executive officer of the Company. Before joining the Company he was the chief technology officer for Microsoft Asia-Pacific Research and Development Group (ARD) and the managing director of the Microsoft Advanced Technology Center (ATC) and Microsoft Distinguished Scientist (DS). In his duals role, Dr. ZHANG led Microsoft's research and development agenda in China, including strategy, planning, R&D and incubation for products, services and solutions. With his leadership, ARD has been developed into a key global research, innovation and product development base for Microsoft, with a team of over three thousands engineers and researchers, covering all Microsoft core product lines and emerging businesses. Dr. Zhang was also a member of Executive Management Committee of Microsoft (China) Limited, a committee that defines and leads Microsoft's strategy and business development in the Greater China.

Dr. Zhang was the deputy managing director and a founding member of Microsoft Research Asia. His outstanding leadership and achievement, marked by high impact in academia and Microsoft's products, are critical in establishing Microsoft Research Asia into a world class basic research center in computer science, and a technology powerhouse in Microsoft, and have made him one of the 10 Microsoft Distinguished Scientists.

As a Fellow of the Institute of Electric and Electronic Engineers (IEEE) and Association of Computing Machines (ACM), Dr. Zhang is well known in the research community for his leadership in media computing and his pioneering work in video and image content analysis and search. He was the recipient of the 2010 IEEE Computer Society Technical Achievement Award and the winner of 2008 "Asian-American Engineer of the Year" award. He has authored four books, over 400 scientific papers and holds over 102 US patents, and many of his research works have become classic references in their respective research areas.

Dr. ZHANG received a Ph.D. in Electrical Engineering from the Technical University of Denmark, and a Bachelor of Science degree from Zhengzhou University, China. Prior to joining Microsoft, Dr. ZHANG was a research manager at Hewlett-Packard Labs at Palo Alto, CA. He also worked at the Institute of Systems Science, National University of Singapore.

Dr. ZHANG became the chief executive officer of the Company in October 2011 and has been an executive director of our company since 14 December 2011.

Dr. Zhang is also a director of certain subsidiaries of our Group.

Shun Tak WONG, aged 51, is a senior vice president and the chief financial officer of the Company. He had been an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of the Company between April 2007 and September 2011. Mr. WONG became the chief financial officer of the Company in October, 2011 and has been an executive director of our company since December 14, 2011. He 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. Before taking up the chief financial officer role of the Company, Mr. WONG served as vice president of finance & corporate controller at Alibaba Group since August 2007.

Mr. Wong is also a director of certain subsidiaries of our Group.

Tao ZOU, aged 36, is currently a senior vice president and the CEO of Westhouse Holdings Limited who is responsible for the overall management of Westhouse Holdings Limited and its subsidiaries of our Group, including the research and development of online games of Westhouse Studios and also participates in major decision making of our Group's gaming business sector. Mr. Zou graduated from Tianjin Nankai University in 1997. Mr. Zou joined us in 1998 and was responsible for the development of our Kingsoft PowerWord. Mr. Zou has been responsible for our entertainment software business since 2004. Mr. Zou became a senior vice president of the Group in December 2007 and has been an executive director of our company since August 2009.

Mr. Zou is also a director of certain subsidiaries of our Group.

Non-executive Directors

Pak Kwan KAU, aged 47, was re-designated from an executive director to a non-executive director of our company with effect from 24 October 2011. 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 other listed public companies. Mr. Kau was appointed as an acting chief executive officer of the company in December 2007. He was the Chief Executive Officer of the Company from May 2008 to 24 October 2011 when he resigned from the post. Mr. Kau was the Chairman of the board of our company until 5 July 2011.

Mr Kau is also a director of certain subsidiaries of our Group.

Jun LEI, aged 42, is a non-executive Director, the Chairman of the Board, a member of the remuneration committee, 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 had 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 utilizes 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 was appointed as the Chairman of the Board of our company on 5 July 2011. On 28 July 2011, Mr. Lei was appointed as the chairman of the remuneration committee of our company and subsequently with effect from 30 March 2012, Mr. Lei ceased to be the chairman of the remuneration committee, but remains as a member of the remuneration committee. Mr. Lei is also a director of certain subsidiaries of our Group.

Mr. Lei 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 since January 2007. 2020 CHINACAP ACQUIRCO, INC. is listed on AMEX since 8 November 2007.

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.

Mr. Lei is also famous angel investor, and he has invested Vancl and become the director in 2007.

Chi Ping LAU, aged 38, is a non-executive director and a member of the nomination committee of the Company. He is also an executive director and president of Tencent Holdings Limited ("Tencent") (a company listed on The Stock Exchange of Hong Kong Limited, Stock Code: 700), a substantial shareholder of the Company. He joined Tencent in 2005 as a chief strategy and investment officer and was responsible for corporate strategies, investment, M&A and investor relations. In 2006, he was promoted as president of Tencent to assist Mr. MA Huateng, chairman of the board of directors and chief executive officer of Tencent, in managing the day-to-day operation of Tencent. In 2007, he was appointed as an executive director of Tencent. Prior to Tencent, he was an executive director at Goldman Sachs (Asia) L.L.C's investment banking division and a chief operating officer of its Telecom, Media and Technology Group. Prior to that, he worked at Mckinsey & Company, Inc. as a management consultant. Mr. LAU has over 14 years' experience in IPO, merger and acquisitions and management consulting.

Mr. LAU received his Bachelor of Science Degree in Electrical Engineering from the University of Michigan, a Master of Science Degree in Electrical Engineering from Stanford University and a MBA Degree from Kellogg Graduate School of Management, Northwestern University. Mr. LAU was appointed as a non-executive director of the Company on 28 July 2011.

Independent Non-executive Directors

Guangming George LU, aged 47, is an independent non-executive director of our Company. He is also a member of the audit committee, the chairman of the nomination committee, and a member and the chairman of the remuneration committee of the Company. He was appointed to be a member and the chairman of the remuneration committee of our company with effect from 30 March 2012. 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. From April 2004 to December 2010, Mr. Lu served as 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. Since March 2008, Mr. Lu has been the Chairman and Group Chief Executive of Acquity Group (a 2020 portfolio investment). He also served as the president of Digital Li Ning Company Limited, a joint venture between Acquity Group and Li Ning Company Limited whose shares are listed on the Hong Kong Stock Exchange. Mr. Lu joined us in April 2007.

Tat Joel, CHANG, aged 43, is an independent non-executive Director , a member of the remuneration committee, and a member and chairman of the audit committee of our Company. He has considerable strategic financial and advisory experience. He is one of the founder of AID Partners Capital Ltd ("AID Partners"), an Asian-based private equity investment company established in 2007. He is currently the managing partner and an investment committee member of AID Partners, and is responsible for its strategic investment planning and overseeing its investment portfolio.

He was formerly the executive director and chief financial officer of Orange Sky Golden Harvest Entertainment (Holdings) Limited (1132.HK), shares of which are listed on the Stock Exchange of Hong Kong Limited, between April 2010 and May 2011. Prior to the establishment of AID Partners, he was the chief investment officer of Investec Asia Limited and a managing director of China Everbright Capital Limited and an Executive Director of BNP Prime Peregrine Capital Limited. He is also a member of the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor's degree in economics from Monash University in 1990.

Mr. Tat Joel, Chang was appointed as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of the Company with effect from 1 October 2011.

Chuan WANG, aged 42, is an independent non-executive director, a member of the audit committee, the remuneration committee and the nomination committee of the Company. He is also a general manager of 創建北京多看科技有限公司 since 2009. In 1996, he was appointed as a general manager of 創建北京雷石世紀科技有限公司. Mr. WANG received his bachelor's degree in Computer Science from Beijing University of Technology. He was appointed as an independent non-executive director, a member of the audit committee, the remuneration committee and the nomination committee of the Company on 28 July 2011.

Senior Management

HongJiang ZHANG, aged 51, is an executive director and the chief executive officer of the Company. Before joining the Company he was the chief technology officer for Microsoft Asia-Pacific Research and Development Group (ARD) and the managing director of the Microsoft Advanced Technology Center (ATC) and Microsoft Distinguished Scientist(DS). In his duals role, Dr. ZHANG led Microsoft's research and development agenda in China, including strategy, planning, R&D and incubation for products, services and solutions. With his leadership, ARD has been developed into a key global research, innovation and product development base for Microsoft, with a team of over three thousands engineers and researchers, covering all Microsoft core product lines and emerging businesses. Dr. Zhang was also a member of Executive Management Committee of Microsoft (China) Limited, a committee that defines and leads Microsoft's strategy and business development in the Greater China.

Dr. Zhang was the deputy managing director and a founding member of Microsoft Research Asia. His outstanding leadership and achievement, marked by high impact in academia and Microsoft's products, are critical in establishing Microsoft Research Asia into a world class basic research center in computer science, and a technology powerhouse in Microsoft, and have made him one of the 10 Microsoft Distinguished Scientists.

As a Fellow of the Institute of Electric and Electronic Engineers (IEEE) and Association of Computing Machines (ACM), Dr. Zhang is well known in the research community for his leadership in media computing and his pioneering work in video and image content analysis and search. He was the recipient of the 2010 IEEE Computer Society Technical Achievement Award and the winner of 2008 "Asian-American Engineer of the Year" award. He has authored four books, over 400 scientific papers and holds over 102 US patents, and many of his research works have become classic references in their respective research areas.

Dr. ZHANG received a Ph.D. in Electrical Engineering from the Technical University of Denmark, and a Bachelor of Science degree from Zhengzhou University, China. Prior to joining Microsoft, Dr. ZHANG was a research manager at Hewlett-Packard Labs at Palo Alto, CA. He also worked at the Institute of Systems Science, National University of Singapore.

Dr. ZHANG became the chief executive officer of the Company in October 2011 and has been an executive director of our company since 14 December 2011.

Dr. Zhang is also a director of certain subsidiaries of our Group.

Shun Tak WONG, aged 51, is a senior vice president and the chief financial officer of the Company. He had been an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of the Company between April 2007 and September 2011. Mr. WONG became the chief financial officer of the Company in October, 2011 and has been an executive director of our company since December 14, 2011. He 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. Before taking up the chief financial officer role of the Company, Mr. WONG served as vice president of finance & corporate controller at Alibaba Group since August 2007.

Mr. Wong is also a director of certain subsidiaries of our Group.

Tao ZOU, aged 36, is currently a senior vice president and the CEO of Westhouse Holdings Limited who is responsible for the overall management of Westhouse Holdings Limited and its subsidiaries of our Group, including the research and development of online games of Westhouse

Studios and also participates in major decision making of our Group's gaming business sector. Mr. Zou graduated from Tianjin Nankai University in 1997. Mr. Zou joined us in 1998 and was responsible for the development of our Kingsoft PowerWord. Mr. Zou has been responsible for our entertainment software business since 2004. Mr. Zou became a senior vice president of the Group in December, 2007 and has been an executive director of our company since August, 2009.

Mr. Zou is also a director of certain subsidiaries of our Group.

Sheng FU, aged 33, is currently a senior vice president and the CEO of Kingsoft Internet Securities Software Holdings Limited who is responsible for the overall business of Kingsoft internet security business sector. Mr. Fu joined the Company in November 2010. Mr. Fu was the product manager of 3721 Internet Real Name and 3721 Internet Assistant, as well as the general manager of 360 Security Guard. He was the vice president of Matrix Partners China from November 2008, and CEO and chairman of Conew Network Technology (Beijing) Co., Ltd from September 2009. Mr. Fu has become a senior vice president of the Group since March 7, 2011. Mr. Fu graduated from the faculty of Information Management and Information System in Shandong Institute of Business and Technology in 1999.

Mr. Fu is also a director of certain subsidiaries of our Group.

Ke GE, aged 39, is currently a senior vice president of the Group, and the CEO of Kingsoft Application Software Holdings Limited. 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 office 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.

Mr. Ge is also a director of certain subsidiaries of the Group.

Xin WANG, aged 39, is currently a vice president of the Group, and the general manager of Kingsoft PowerWord. 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. 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.

CORPORATE GOVERNANCE REPORT

OVERVIEW OF CORPORATE GOVERNANCE PRACTICES

2011 was the start of a new era for Kingsoft, during this period Kingsoft has gone through a lot of changes in its business focus, strategy and direction, and in its management team. The Group's core value for the new era is "Standing high and aiming far, while being earnest and down-to-earth (志存高遠，腳踏實地). Dream, Responsibility and Honesty are the fundamental elements of the core value of the Group. The board of directors (the "Board") and management of Kingsoft Corporation Limited (the "Company", or "Kingsoft") and its subsidiaries (hereinafter collectively referred to as the "Group") believe that strict adherence to highest corporate governance standards is crucial to fulfilling its corporate responsibilities as a listed company. The Group always endeavours to enhance its enterprise value, ensure the Company's long-term and stable development and benefit its shareholders and other stakeholders. The Company inherited a sound and prudent management style. 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 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 31 December 2011, save as disclosed below, the Company complied with the code provisions set out in the code on Corporate Governance Practices (the "Code") in Appendix 14 to the 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. During the year 2011, up until 5 July 2011, Mr. Pak Kwan Kau was both the Chairman and CEO of the Company. The Board considered that through the Company's effective internal control mechanism, and the supervision of the Board and the independent non-executive directors, this arrangement would not impair the balance of power and authority between the Board and the management of the Company. Due to Mr. Kau's personal development plan, Mr. Kau resigned the post of Chairman on 5 July 2011 and resigned the post of CEO on 24 October 2011. After considering Mr. Kau's recommendation, the Board appointed Mr. Jun Lei to be the Chairman of the Company on 5 July 2011. With effect from 24 October 2011, Mr. HongJiang Zhang was appointed to be the CEO of the Company. With Mr. Jun Lei being the Chairman and Mr. HongJiang Zhang being the CEO of the Company, the roles of the Chairman and CEO of the Company are separated and performed by different persons, thus the Company complies with code A.2.1 of the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company 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") of the Company 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.

THE BOARD

The Responsibilities of the Board

The Board is the core function of the Company's corporate governance structure. The principal responsibilities of the Board are to set an overall framework of corporate governance within which the management conducts business and to monitor the Group's operations. The Company's overall framework of corporate governance contains many internal guidelines, internal control policies and procedures that have been formed over the years. The Board empowers the senior management team to implement the decisions of the Board. The management is responsible for the Group's daily operation under the supervision of the CEO who reports to the Board.

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 our corporate governance practices and updates them as and when appropriate.

The Board oversees specific areas affecting the interests of all shareholders including the execution of resolutions, annual budget, formulation of major decisions for operations, financial proposals and policies, the Company's management system, recommendation/declaration of dividend or other distributions, notifiable and connected transactions under the Listing Rules, recommendation on appointment or reappointment of auditors and other significant operational and financial matters.

The Board is responsible for the preparation of financial statements, so that such financial statements meet the requirements of laws and regulations and applicable accounting standards, and truly and fairly reflect the financial position, the operating results and cash flows of the Group for each reporting period. The Directors also ensures the timely publication of the Group's financial statements. In preparing the financial statements for the year ended 31 December 2011, the Directors adopted appropriate accounting policies and made fair and reasonable judgments and estimates, and the Board was 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 47 of this annual report.

Composition of the Board

As at the date of this annual report, the Board of Directors comprises 9 Directors with 3 executive Directors (the "Executive Director", "Executive Directors"), 3 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"). The Company's Independent Non-executive Directors constitute one-third of the Board members and are professionals in the fields of accounting, finance, technology and management with extensive experience in their respective professional areas. All of the Independent Non-executive Directors of the Company 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 Directors, their respective biographies and their relationship with others, if any, are set out on pages 11 to 13 of this annual report. Save for the disclosure in the biographies of the directors set out on pages 11 to 13 of this annual report, there is no other relationship among the Board to the best knowledge of the Board members as at the date of this annual report.

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. Pak Kwan KAU resigned from the position of Chairman on 5 July 2011, and with effect from 24 October 2011, he ceased to be the CEO of the Company and was re-designated to a non-executive director; (ii) Mr. Jun LEI was appointed as the Chairman of the Company on 5 July 2011, was appointed as the chairman of the remuneration committee of the Company on 28 July 2011. Subsequently, with effect from 30 March 2012, Mr. LEI ceased to be the chairman of the remuneration committee and remains to be a member of the remuneration committee, while Mr. Guangming George LU was appointed to be a member and the chairman of the remuneration committee; (iii) Mr. Shuen Lung CHEUNG resigned as a non-executive director of the Company, a member of the audit committee and the nomination committee, and a member and the chairman of the remuneration committee of the Company on 28 July 2011; (iv) Mr. Mingming HUANG resigned as an independent non-executive director of the Company, a member of the remuneration committee and the nomination committee of the Company on 28 July 2011; (v) Mr. Chi Ping LAU was appointed as a non-executive director of the Company and a member of the nomination committee of the Company on 28 July 2011; (vi) Mr. Chuan WANG was appointed as an independent non-executive director of the Company, a member of the audit committee, the remuneration committee and the nomination committee of the Company on 28 July 2011; (vii) Mr. Donghui WANG resigned as an executive director and chief financial officer of the Company with effect from 1 October 2011; (viii) Mr. Shun Tak WONG was appointed as the chief financial officer of the Company with effect from 1 October 2011 and due to the such appointment, Mr. WONG resigned as an independent non-executive director of the Company, the chairman of the audit committee and a member of the remuneration committee of the Company with effect from 1 October 2011. Mr. WONG was appointed to be an executive director of the Company with effect from 14 December 2011; (ix) Mr. Tat Joel, CHANG was appointed as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of the Company with effect from 1 October 2011; and (x) Mr. HongJiang ZHANG was appointed as the CEO of the Company with effect from 24 October 2011, and was appointed to be an executive director with effect from 14 December 2011.

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, internal re-organisation plans, 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. For any ad hoc board meetings, our directors are given as much notice as is reasonable and practicable in the circumstances. Senior managements are invited to attend board meetings from time to time to report on certain matters.

Our Chairman, with the support of our Executive Directors, leads the process of setting the agenda of board meetings. Directors are invited to comment on the agenda and may request to include additional proposals into the agenda for consideration. 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.

Attendance record of individual directors at Board meetings held in 2011

Directors	Number of meeting/ attendance
Executive Directors	
HongJiang ZHANG (appointed on 14 December 2011)	1/0
Shun Tak WONG (resigned the post of independent non-executive director on 1 October 2011, and appointed to be an executive director on 14 December 2011)	13/10
Tao ZOU	15/15
Donghui WANG (resigned on 1 October 2011)	12/12
Non-executive Directors	
Jun LEI *(Chairman)*	15/15
Shuen Lung CHEUNG (resigned on 28 July 2011)	9/9
Pak Kwan KAU (re-designated from an executive director to a non-executive director on 24 October 2011)	15/15

Directors	Number of meeting/ attendance
Chi Ping LAU (appointed on 28 July 2011)	7/7
Independent Non-executive Directors	
Tat Joel, CHANG (appointed on 1 October 2011)	3/3
Guangming George LU	15/15
Mingming HUANG (resigned on 28 July 2011)	9/9
Chuan WANG (appointed on 28 July 2011)	7/7

Chairman and Chief Executive Officer

There is a clear and effective division of accountability and responsibility between the roles of the Company's Chairman and Chief Executive Officer to ensure that no one has unrestrained powers of decision. The positions of the Chairman of the Board and CEO are held by separate individuals to ensure a segregation of duties in order that a balance of power and authority is achieved. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives whereas the CEO has delegated authority of the Board to manage the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

During the year 2011, up until 5 July 2011, Mr. Pak Kwan Kau was both the Chairman and CEO of the Company. The Board considered that through the Company's effective internal control mechanism, and the supervision of the Board and the independent non-executive directors, this arrangement would not impair the balance of power and authority between the Board and the management of the Company. Due to Mr. Kau's personal development plan, Mr. Kau resigned the post of Chairman on 5 July 2011 and resigned the post of CEO on 24 October 2011. After considering Mr. Kau's recommendation, the Board appointed Mr. Jun Lei to be the Chairman of the Company on 5 July 2011. With effect from 24 October 2011, Mr. HongJiang Zhang was appointed to be the CEO of the Company.

As at the date of this annual report, the posts of Chairman and CEO of the Company were held by Mr. Jun Lei and Mr. HongJiang Zhang respectively.

There is no relationship of any kind (including financial, business, family, other material and relevant relationships) between the Chairman and the CEO 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 for 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 who retires may fill the vacated office.

BOARD COMMITTEES

The Board has established four specialized board committees to oversee key aspects of its affairs, namely audit committee (established on 3 September 2007), (the "Audit Committee"), remuneration committee (established on 3 September 2007), (the "Remuneration Committee"), nomination committee (established on 3 September 2007), (the "Nomination Committee"), and strategy committee (established on 20 December 2007), (the "Strategy Committee")

Written terms of reference of our Audit Committee, Remuneration Committee and Nomination Committee cover their respectively specific role, authority and functions, which are available on our website. The Audit Committee, Remuneration Committee and Nomination Committee are mainly consisted of the Independent Non-executive Directors and Non-executive Directors.

In order to discharge their dedicated functions, each of our board committees is provided with sufficient resources, including the provision of external advisors such as financial advisors and valuation firms, to provide professional advice as required at our cost.

The following lists out the membership, responsibilities and the summary of work that the Audit Committee, Remuneration Committee and Nomination Committee performed on behalf of the Board during the financial year:

Audit Committee

Membership and Responsibilities

The Audit Committee has three members. It is chaired by an independent non-executive director, Mr. Tat Joel, Chang and currently comprises two other independent non-executive directors, Mr. Guangming George Lu and Mr. Chuan Wang.

Mr. Shuen Lung Cheung was a member of the Audit Committee until 28 July 2011 when he ceased to be a non-executive director of the Company and a member of the Audit Committee. Mr. Chuan Wang was appointed as an independent non-executive director and a member of the Audit Committee on 28 July 2011. Mr. Shun Tak Wong ceased to be an independent non-executive director, the chairman and a member of the Audit Committee on 1 October 2011. Mr. Tat Joel, Chang was appointed to be an independent non-executive director, the chairman and a member of the Audit Committee on 1 October 2011

None of the Audit Committee members are members of The previous or existing auditors of the Company.

The terms of reference of our Audit Committee sets out its authority, responsibilities, membership and frequency of meetings. The primary duties of the Audit Committee include:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- approving the remuneration and terms of engagement of the external auditors, and resignation or dismissal of the auditors;
- reviewing and monitoring the external auditor's independence, the objectivity and the effectiveness of the audit process in accordance with applicable standard, and reviewing financial information of the Company;
- reviewing the effectiveness and adequacy of the Company's financial reporting system, internal control procedures and risk management system;
- assessing work performed by the Company's internal audit team, and the adequacy of resources, qualifications and experience of the accounting staff of the Company;
- assisting our board in supervising the truthfulness and completeness of the Company's financial statements;
- reviewing the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response; and
- maintaining a whistle blower system to identify and prevent frauds against the Company.

Summary of principal work performed

Principal work performed by the Audit Committee in 2011 includes reviewing and/or approving:

- our Company's unaudited quarterly results, interim consolidated financial statements and audited annual consolidated financial statements, with its recommendations to the board;
- the accounting principles, policies and practices adopted by the Group;
- annual internal audit plan of the Group and quarterly review of internal audit and business control;
- annual audit plan of the Group and review of quarterly external audit progress report;
- the effectiveness of the internal control systems adopted by the Company;
- all connected transactions and continuing connected transactions of the Group;
- the independence, authorities and resource of the internal and external auditors; and
- the terms of engagement and fees of the Company's external auditors.

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2011, and is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

Meetings attendance

Directors	Number of meeting/ attendance
Tat Joel, CHANG *(chairman)* (appointed on 1 October 2011)	1/1
Guangming George LU	5/5
Chuan WANG (appointed on 28 July 2011)	2/2
Shun Tak WONG (ceased to be the chairman and a member of Audit Committee on 1 October 2011)	4/4
Shuen Lung CHEUNG (ceased to be a member of Audit Committee on 28 July 2011)	3/3

Remuneration Committee

Membership and Responsibilities

The Remuneration Committee currently consists of four Directors with three of them being independent non-executive directors, namely the chairman of Remuneration Committee, Mr. Guangming George Lu, Mr. Tat Joel, Chang and Mr. Chuan Wang, and one of them being a non-executive director, namely Mr. Jun Lei.

Mr. Shuen Lung Cheung was the chairman of the Remuneration Committee until 28 July 2011 when he ceased to be a non-executive director, the chairman and a member of the Remuneration Committee. Mr. Jun Lei was appointed to be the chairman and a member of the Remuneration Committee from 28 July 2011 to 30 March 2012 when he ceased to be the chairman of the Remuneration Committee and remains as a member of the Remuneration Committee. Mr. Guangming George Lu was appointed to be the chairman and a member of the Remuneration Committee with effect from 30 March 2012. Mr. Mingming Huang ceased to be an independent non-executive director and a member of the Remuneration Committee with effect from 28 July 2011, while Mr. Chuan Wang was appointed to be an independent non-executive director and a member of the Remuneration Committee with effect from 28 July 2011. With effect from 1 October 2011, Mr. Shun Tak Wong ceased to be an independent non-executive director and a member of the remuneration committee, when Mr. Tat Joel, Chang was appointed to be an independent non-executive director and a member of the Remuneration Committee.

The primary duties of the Remuneration Committee mainly include assisting the Company's Board to formulate overall remuneration policy and structure for the Company's directors and senior management personnel, and establish formal and transparent procedures for developing such remuneration policy; review and determination of the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The Remuneration policy is set to attract, motivate and retain highly performing individuals who are essential to the success of the Company. The emolument package for the Executive Directors, the senior managers and key personnels includes basic salary, benefits in kind, pension rights, 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 individual's 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 2011 is set out in note 8 to the financial statements. When a meeting is convened to discuss certain Directors' remuneration, the Directors in discussion cannot determine his own remuneration.

Summary of principal work performed

In the year ended 31 December 2011, the Remuneration Committee held 4 meetings in which the following activities were resolved to be undertaken:

- Reviewed and approved the remuneration packages (including year-end bonuses, awarded shares and share options) of our executive directors and senior management;

- Reviewed and approved the Company 2011 share options scheme;
- Reviewed and recommended director fee for non executive directors and independent non-executive directors; and
- Reviewed and recommended performance bonus scheme of the Company to the Board.

Meetings attendance

Directors	Number of meeting/ attendance
Guangming George LU (appointed to be the chairman and a member of Remuneration Committee on 30 March 2012)	0/0
Shuen Lung CHEUNG (ceased to be the chairman and a member of Remuneration Committee on 28 July 2011)	2/2
Jun LEI (appointed to be the chairman of Remuneration Committee on 28 July 2011, and ceased to be the chairman of Remuneration Committee on 30 March 2012 and remains to be a member of the Remuneration Committee)	3/3
Shun Tak WONG (ceased to be a member on 1 October 2011)	3/3
Tat Joel, CHANG (appointed on 1 October 2011)	1/1
Mingming HUANG (ceased to be a member on 28 July 2011)	2/2
Chuan WANG (appointed on 28 July 2011)	3/3

Nomination Committee

Membership and Responsibilities

The Nomination Committee has a total of three members, with two being Independent Non-executive Directors, namely Mr. Guangming George Lu (chairman) and Mr. Chuan Wang, and one being Non-executive Director namely Mr. Chi Ping Lau.

Non-executive Director Mr. Shuen Lung Cheung was a member of the Nomination Committee until 28 July 2011 when he ceased to be a non-executive director and a member of Nomination Committee. Mr. Mingming Huang was a member of the Nomination Committee until 28 July 2011 when he ceased to be an Independent Non-executive Director and a member of the Nomination Committee. Mr. Chuan Wang was appointed to be an Independent Non-executive Director and a member of the Nomination Committee on 28 July 2011. Mr. Chi Ping Lau was appointed to be a Non-executive Director and a member of the Nomination Committee on 28 July 2011.

The Nomination Committee is accountable to the Board and regularly reports its work. The primary duties of the Nomination Committee are mainly to lead the process for board appointments, review the structure and composition of the Board regularly, identify and nominate suitable candidates for appointment to our Board, assess the independence of our Independent Non-executive Directors, and make recommendations to the Board on matters relating to succession planning for Directors, particularly the Chairman and the CEO.

Summary of principal work performed

Principal work performed by the Nomination Committee in 2011 includes recommending candidates for the positions of CEO and Chief Financial Officer of the Company, and recommending changes to the composition of the Board and its committees. The Nomination Committee also reviewed and assessed each independent non-executive director's annual confirmation of independence pursuant to rule 3.13 of the Listing Rules.

Meetings attendance

Directors	Number of meeting/ attendance
Guangming George LU *(chairman)*	4/4
Mingming HUANG (ceased to be a member on 28 July 2011)	2/2
Shuen Lung CHEUNG (ceased to be a member on 28 July 2011)	2/2
Mr. Chuan WANG (appointed on 28 July 2011)	3/3
Mr. Chi Ping LAU (appointed on 28 July 2011)	3/3

EXTERNAL AUDITORS

Ernst & Young, Certified Public Accountants, Hong Kong, were engaged as the Company's external auditors for the year ended 31 December 2011. 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 performing any self assessments; or acting in an advocacy role for the Group. Before any engagement with external auditor for non-audit services, external auditors must comply with the independence requirements under Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants. 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 47 of this annual report.

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

For the year ended 31 December 2011, the remuneration paid or payable to Ernst & Young for audit and non-audit services (together with the comparative figures for 2010) is set out as follows:

	2011 **RMB' Mil**	2010 RMB' Mil
Audit services	**6.74**	6.74
Non-audit services	**2.53**	2.71
Total	**9.27**	9.45

INTERNAL CONTROL

Our internal control system is designed to provide reasonable assurance in safeguarding our shareholders' investment and assets, improving corporate governance and risk management, preventing and detecting frauds and irregularities, providing reliable financial information, and ensuring compliance with applicable law and regulations. The Board acknowledges its responsibility to ensure the Company to maintain a solid, complete and effective internal control system and to monitor the effective implementation of such system. The Company has established an integrated framework of internal controls which is consistent with the COSO (the Committee of Sponsoring Organizations of the Treadway Commission) framework.

The Company's 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. Well defined policies and procedures that are properly documented and communicated to employees are essential to the internal control system. Over the past few years, within its internal control framework, the Company has formulated manuals, implemented systems and adopted rules in relation to internal control, which are available on the Company's intranet. The Company's employees receive training of its code of conduct on a regular basis. The Company's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve our business objectives, and aims at providing a reasonable, as opposed to an absolute, assurance in this respect.

While the management is responsible for the design, implementation and maintenance of internal control system, the Board and the Audit Committee oversee the actions of the management and monitor the effectiveness of the established controls. To assist the Audit Committee in its oversight and monitoring activities, the Company has set up an independent internal audit team (the "IA") that reports to the Audit Committee directly. The IA provides independent assessment as to the existence and effectiveness of the Company's internal control system, conducts independent investigations regarding allegations of fraud and violations of our business conduct codes, and advices on managing and controlling of our risks. To enable it to fulfill its mission, the IA has unrestricted access to all corporate operations, records, data files, computer programs, property and personnel. 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 risks. In selecting auditing projects 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, our IA 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 Group's internal reorganization process, the Board foresees issues which might be caused by decentralization. In 2011, our IA initiated and carried out audit projects to assess the authority and delegation of subsidiaries of the Group and timely reported to the Audit Committee the outcome and its opinions and recommendations. All business units are required to carry out rectification in relation to deficiencies identified through internal control assessments. The IA also performed assessments on frauds investigation and actions were taken to reinforce the Company's internal control system. The Company has zero tolerance to any frauds committed by its staff. In order to improve the internal audit function, the Company engaged a professional consulting firm to perform a high level review of the Group's existing internal control system.

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 reduce its operational risk. Continuous monitoring and improvement of management procedures will be carried out to ensure effective internal control system 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, has reviewed the effectiveness of the system of internal control of the Company and its subsidiaries and considers the internal control systems effective and adequate. Such review also took into consideration the adequacy of resources, qualification and experience of staff of the Company's accounting and financial reporting function, as well as their training programs and budget.

COMMUNICATION WITH SHAREHOLDERS

The Board endeavours to maintain an on-going dialogue with our shareholders and in particular, use annual general meetings or other general meetings to communicate with our shareholders and encourage them to participate. We establish and maintain different communication channels with our shareholders through the publication of annual and interim reports, quarterly results announcements, press announcements, as well as news releases to provide extensive information on the Company's activities, business strategies and developments. This information is available on our website, www.kingsoft.com. Our Company welcomes the views of shareholders on matters affecting us and encourages them to actively participate at shareholders' meetings to communicate any concerns that they might have directly to our directors. We regard shareholder meetings as a valuable forum for our shareholders to raise comments and exchange views with our Board. Our directors and senior management will make an effort to be present at shareholder meetings to address queries from our shareholders. All annual general 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. Our 2011 annual general meeting had been held in May 2011. All resolutions put forward at our 2011 annual general meeting were conducted by way of poll in accordance with the requirements of the Listing Rules. Poll results were published and posted on the Stock Exchange's website and our website. Computershare Hong Kong Investor Services Limited was appointed to be the scrutineer to monitor and count the votes cast by poll at our 2011 annual general meeting.

INVESTOR RELATIONS

Kingsoft establishes an investor relations team to promote open, ongoing and effective communications with shareholders, investors and equity analysts. We are committed to proactively providing the investment community all necessary information in a timely manner so that participants in the investment community can make a fair investment decision.

During the year, the Company's senior management presented its results in Singapore, Hong Kong, Beijing and various other cities in the PRC. Through various activities such as analyst briefings, press conferences, conference calls and investor non-deal road shows, our senior management presented and answered the key issues of which investors were mainly concerned. In addition to regular one-on-one investor meetings, our senior management participated in a number of investor conferences held by major international investment banks in order to maintain active communications with global institutional investors. Site visits were also arranged at Kingsoft's R&D centre in Zhuhai in China for participants. 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
Jun Lei
Chairman

Hong Kong, 27 March 2012

DIRECTORS' REPORT

The Board of the Company submits its report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011.

Principal Business

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 online and offline 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.

Results and Appropriations

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 48 of this annual report.

The state of affairs of the Group and the Company as at 31 December 2011 is set out in the consolidated statement of financial position on pages 50 to 51 of this annual report and in the statement of financial position on page 55 of the annual report respectively.

The consolidated statement of cash flows of the Group for the year is set out on page 53 to 54 of this annual report.

During the year, a final dividend for year 2010 of HKD0.15 per ordinary share and a special dividend of HKD0.25 per ordinary share, which excluded the dividend related to the shares held under the Share Award Scheme, was paid to shareholders on 10 June 2011.

The Directors recommend the payment of a final dividend of HKD0.10 per ordinary share totaling approximately HKD113.8 million, which excluded the dividend related to the shares held under the Share Award Scheme, based on the number of total issued shares of 1,167,880,933 as at 31 December 2011 in respect of the year to shareholders whose names appear on the register of members of the Company on 1 June 2012. Such proposed dividends will be subject to approval of the shareholders at the forthcoming annual general meeting ("AGM") to be held on 23 May 2012. Such proposed dividends will be payable on 19 June 2012. This recommendation has been incorporated in the financial statements within the equity section of the statement of financial position.

For the year ended 31 December 2011, the Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

The register of members of the Company will be closed from Friday, 18 May 2012 to Wednesday, 23 May 2012, and from Tuesday, 29 May 2012 to Friday, 1 June 2012, 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 Monday, 28 May 2012 and Thursday, 17 May 2012 respectively.

Reserves

For the year ended 31 December 2011, the profit attributable to owners of the parent company amounted to RMB324.7 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 31 December 2011, the Company had distributable reserves amounting to RMB672.6 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 31 December 2011 are set out in the consolidated statement of changes in equity on page 52 of this annual report, and in note 33(b) to the financial statements, respectively.

Donations

During the year, the Group made charitable and other donations totaling RMB0.5 million (2010: RMB1 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 31 December 2011, the Group employed approximately 2,782 full-time employees (2010: 2,472) inclusive of all its staff in Mainland China and overseas offices, most of whom are based at the Company's offices in Beijing and Zhuhai.

The remuneration policy and package of the Group's employees are periodically reviewed. The principle of the Group's remuneration policy is fairness, motivating, performance-oriented and market-competitive. Apart from salaries, medical insurance, discretionary bonuses and state managed retirement benefit scheme, the Group has also adopted share option scheme and share award scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

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

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 31 December 2011 are set out in note 32 to the financial statements.

Material Investment and Acquisition

No material investment and acquisition incurred during 2011.

Financial Summary

A summary of the published results, assets, and liabilities of the Group for the last five financial years as extracted from the consolidated financial statements for the year ended 31 December 2007, 2008, 2009, 2010 and 2011, is set out as below. The summary does not form part of the audited financial statements.

	YEAR ENDED 31 DECEMBER				
	2007 RMB'000	**2008 RMB'000**	**2009 RMB'000**	**2010 RMB'000**	**2011 RMB'000**
Profit for the year	155,452	304,035	388,854	374,533	**335,034**

	AS AT 31 DECEMBER				
	2007 RMB'000	**2008 RMB'000**	**2009 RMB'000**	**2010 RMB'000**	**2011 RMB'000**
Total assets	1,499,921	1,739,223	2,040,870	2,444,813	**3,014,519**
Total liabilities	366,264	410,858	436,560	510,752	**801,399**

Contract of Significance

Save as disclosed in the section of "Related Party Transactions and Connected Transactions" in Directors' Report, no other contracts of significance to which the Company, its ultimate holding company or its subsidiaries was a party and in which a Director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Bank Borrowings

Particulars of bank loans as at 31 December 2011 are set out in note 28 to the financial statements.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2011 are set out in note 13 to the financial statements. No assets of the Group are charged during the year ended 31 December 2011.

Future Plans for Material Investments or Capital Assets

Save as those disclosed in note 37 to the financial statements, there was no specific plan for material investments and acquisition of material capital assets as at 31 December 2011.

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 31 December 2011 are set out in note 31 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 30 June 2004 and 22 January 2007. The Company's 2011 Share Option Scheme was approved and adopted at its extraordinary general meeting held on 9 December 2011. The details of these schemes and Kingsoft Japan Share Options are stated in note 7(a) to the financial statements.

Details of the movements in share options of the Company for the year ended 31 December 2011 are set out in note 7(a) to the financial statements. During the year, 12,500,000 number of share options have been granted under the 2011 Share Option Scheme, details of these granted share options were included in the Company's announcement on 20 December 2011 and in note 7(a) to the financial statements.

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	2011 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.	To provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest
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 or 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	Any employee (whether full time or part time), directors (including executive or non-executive or independent non-executive) of the Company, its subsidiaries or any entity in which the Group holds any equity interest
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.	The maximum number of shares which may be issued upon exercise of all share options to be granted under the 2011 Share Option Scheme and other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 9 December 2011

	Detail	2004 Pre-IPO Share Option Scheme	2007 Pre-IPO Share Option Scheme	Kingsoft Japan Pre-IPO Share Option Scheme	2011 Share Option Scheme
4.	Maximum entitlement of each participant	Not specified in the scheme	Not specified in the scheme	Not specified in the scheme	The maximum number of shares issuable under share options to each eligible participant in the 2011 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HKD5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting
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	The period set out in the relevant offer letter to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme and that the board may at its discretion determine the minimum period for which the option has to be held before the exercise of the subscription right attaching thereto
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 HKD1 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	Options shall be issued free	Same as 2004 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 USD4.80 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	The exercise price shall be determined by the board, and shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share
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	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 31 March 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. On 25 November 2010, the Board approved to extend the term of the Share Award Scheme until 30 March 2017, for which the Company released an announcement on 1 December 2010. During the year, the Company granted 11,870,000 awarded shares.

The purpose of the Share Award Scheme is to recognise the contributions by certain employees (including without limitation to 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(b) to the financial statements.

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

On 26 May 2011 (the "KIS Adoption Date"), the directors of KIS, a subsidiary of the Company, approved and adopted a share award scheme (the "KIS Share Award Scheme"). Unless early terminated by the directors of KIS, the KIS Share Award Scheme shall be valid and effective for a term of ten years commencing on the KIS Adoption Date. During the year, 51,550,000 shares were awarded to a number of employees under the KIS Share Award Scheme.

The purpose of the KIS Share Award Scheme is to recognise the contributions by certain employees and to give incentives thereto in order to retain them for the continual operation and development of KIS and its subsidiaries ("KIS Group") and to attract suitable personnel for further development of KIS Group.

Pursuant to the terms of the KIS Share Award Scheme, the board of KIS 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 of KIS from time to time) select an employee for participation in the KIS Share Award Scheme and determine the number of the KIS awarded shares. The directors of KIS will not grant any award of shares which would result in the total number of shares which are subject to awards granted by the board of directors of KIS under the KIS Share Award Scheme (but not counting any of which have lapsed or have been forfeited) being greater than 100,000,000 shares as at the date of such grant.

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

Directors

The Directors of the Company during the year and up to the date of this report comprised 9 directors, of which 3 were Executive Directors, 3 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. HongJiang ZHANG (張宏江)	14 December 2011	N/A	N/A
Mr. Shun Tak WONG (王舜德)	14 December 2011	N/A	N/A
Mr. Tao ZOU (鄒濤)	25 August 2009	N/A	N/A
Mr. Donghui WANG (王東暉)	30 May 2008	1 October 2011	N/A
NON-EXECUTIVE DIRECTORS			
Mr. Jun LEI (雷軍)	27 July 1998	N/A	28 August 2008
Mr. Pak Kwan KAU (求伯君)	27 July 1998	N/A	24 October 2011
Mr. Chi Ping LAU (劉熾平)	28 July 2011	N/A	N/A
Mr. Shuen Lung CHEUNG (張旋龍)	25 March 2010	28 July 2011	N/A
INDEPENDENT NON-EXECUTIVE DIRECTORS			
Mr. Tat Joel, CHANG (鄭達祖)	1 October 2011	N/A	N/A
Mr. Guangming George LU (魯光明)	30 April 2007	N/A	N/A
Mr. Chuan WANG (王川)	28 July 2011	N/A	N/A
Mr. Shun Tak WONG(王舜德)	30 April 2007	1 October 2011	N/A
Mr. Mingming HUANG (黃明明)	18 June 2007	28 July 2011	N/A

In accordance with Article 108 of the Articles of Association of the Company, Mr. Tao ZOU, Mr. Jun LEI and Mr. Pak Kwan KAU, and in accordance with Article 112 of the Articles of Association of the Company, Dr. HongJiang ZHANG and Mr. Shun Tak WONG will retire at the forthcoming AGM of the Company to be held on 23 May 2012 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 11 to 15 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 was a party at the end of the year or at any time during the year ended 31 December 2011.

Directors' and Chief Executive's Interests in Securities

As at 31 December 2011, 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)	108,032,566	9.25%
	Personal (Note 2)	1,000,000	0.09%
Jun Lei	Corporate (Note 3)	145,493,580	12.46%
	Other (Note 4)	143,214,003	12.26%
Tao Zou	Personal	108,600	0.01%

Interests in underlying shares of the Company:

NAME OF DIRECTOR	INTERESTS IN UNDERLYING SHARES	NUMBER OF INTERESTS DIRECTLY BENEFICIALLY OWNED
Pak Kwan Kau	Awarded shares (Note 5)	500,000
Tao Zou	Awarded shares (Note 6)	216,000
Shun Tak Wong	Share options (Note 7)	5,000,000
	Awarded shares (Note 8)	2,500,000
HongJiang Zhang	Share options (Note 9)	7,500,000
	Awarded shares (Note 10)	7,000,000

Notes:

1. These shares are held by Topclick Holdings Limited, a BVI company wholly owned by Mr. Pak Kwan Kau. Mr. Jun Lei has interest in these shares because under a voting consent agreement entered into by Mr. Jun Lei, Mr. Pak Kwan Kau and Mr. Shuen Lung Cheung, Mr. Pak Kwan Kau will vote in the same way as Mr. Jun Lei with these shares.

2. Mr. Jun Lei has interest in number of 500,000 out of these shares because under a voting consent agreement entered into by Mr. Jun Lei, Mr. Pak Kwan Kau and Mr. Shuen Lung Cheung, Mr. Pak Kwan Kau will vote in the same way as Mr. Jun Lei with these shares.

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

4. Mr. Jun Lei has interest in these shares because under a voting consent agreement entered into by Mr. Jun Lei, Mr. Pak Kwan Kau and Mr. Shuen Lung Cheung, Mr. Pak Kwan Kau and Mr. Shuen Lung Cheung will vote in the same way as Mr. Jun Lei with these shares.

5. The relevant interests include number of 500,000 out of 1,500,000 awarded shares granted on 13 July 2009 under the Share Award Scheme, which will be exercisable on 13 July 2012. The price for grant is nil.

6. The relevant interests include number of 216,000 out of 324,000 awarded shares granted on 13 October 2008 under the Share Award Scheme, which have been exercisable as of 31 December 2011.

7. The relevant interests include number of share options of 5,000,000 which was granted on 20 December 2011 and its exercise period is from 20 December 2012 to 19 December 2021 with exercise price of HKD2.89.

8. The relevant interests include 2,500,000 number of awarded shares granted on 29 November 2011 under the Share Award Scheme, one fifth of which will be exercisable on 29 November 2012, 29 November 2013, 29 November 2014, 29 November 2015 and 29 November 2016 respectively. The price for grant is nil.

9. The relevant interests include number of share options of 7,500,000 which was granted on 20 December 2011 and its exercise period is from 20 December 2012 to 19 December 2021 with exercise price of HKD2.89.

10. The relevant interests include 7,000,000 number of awarded shares granted on 29 November 2011 under the Share Award Scheme, 1,800,000 number of these awarded shares will be exercisable on 29 November 2012, one fourth of the rest of 5,200,000 awarded shares will be exercisable on 29 November 2013, 29 November 2014, 29 November 2015 and 29 November 2016 respectively. The price for grant is nil.

Save as disclosed above, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2011.

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 31 December 2011, 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 31 DECEMBER 2011
Topclick Holdings Limited[(1)]	Beneficial owner	108,032,566	9.25%
Color Link Management Limited[(2)]	Beneficial owner	145,493,580	12.46%
Tencent Holdings Limited	Beneficial owner	178,407,183	15.28%
Mirae Asset Global Investments (Hong Kong) Limited	Beneficial owner	68,448,115	5.86%

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

2. Mr. 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.

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

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

Competing Interest

As of 31 December 2011, 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 31 December 2011, the 5 largest customers of the Group accounted for 31% of the total revenue, while the largest customer accounted for 16% of the total revenue. For the year ended 31 December 2011, the 5 largest suppliers of the Group accounted for 31% of the total purchases, while the largest supplier accounted for 9% 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

1. Connected Transaction

Deemed Disposal of Shares of Kingsoft Internet Security Software Holdings Limited ("KIS")

On 8 March 2011, the Company through KIS, its non-wholly owned subsidiary, entered into a share subscription agreement with FaX Vision Corporation ("FaX") and the controlling shareholders of FaX, Mr. Sheng Fu and Mr. Xu Ming (the "Share Subscription Agreement"), pursuant to which KIS will issue 100,000,000 new shares of KIS to FaX for an aggregate consideration of USD2,499,000. Pursuant to the Share Subscription Agreement, KIS has also been granted an option to repurchase the KIS shares from FaX if certain conditions are fulfilled.

Pursuant to the Share Subscription Agreement, 30% of the consideration (approximately USD749,700) was paid by FaX upon closing of the Share Subscription Agreement, and the remaining 70% of the consideration (approximately USD1,749,300) was paid within 3 months after closing.

Proceeds from the subscription of the KIS shares will be utilized by KIS to fund further research and development into the antivirus software that KIS currently owns and also as working capital for KIS.

As FaX was at the time interested in 10% or more of KIS, FaX was a connected person of the Company under the Listing Rules. Following completion, the Company's ownership interest in KIS was diluted from 81.25% to 72.22%. As such, under the Listing Rules, the Company was deemed to have disposed of 9.03% interest in KIS and the entering into of the Share Subscription Agreement constituted a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. As the relevant applicable percentage ratios (as defined in the Listing Rules) were higher than 1% but less than 5%, the transactions were subject to reporting and announcement requirements and announcements were published on 8 March 2011 and 18 March 2011.

2. Structure Contracts

According to the Administrative Rules for Foreign Investments in Telecommunications Enterprises, which were issued on 11 December 2001 by the State Council and became effective on 1 January 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 ("ICP") 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 Ministry of Information and Industry of China 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.

Pre-existing Structure Contracts during the 2011 financial year

To streamline the corporate structure of the Group, the Group has commenced an internal reorganization exercise and a similar set of structure contracts relating to Zhuhai Qiwen Application Software Co., Ltd. ("Zhuhai Qiwen") was entered into on 8 February 2010. The Group also entered into a series of structure contracts relating to Beijing Conew Technology Development Co., Ltd. ("Conew Technology") on 25 August 2010.

The structure contracts which were in place during the year ended 31 December 2011 were as follows:

Structure Contracts relating to Kingsoft Qijian

(i) A loan agreement dated 30 March 2007 between Weiqin Qiu, Peili Lei 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"). The loans have no definite maturity date and Chengdu Interactive Entertainment may request repayment at any time. Weiqin Qiu and Peili Lei shall repay the loans by transferring the equity interest they hold in Kingsoft Qijian to Chengdu Interactive Entertainment or any person or entity as it may direct.

(ii) A shareholder voting agreement dated 30 March 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 30 March 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, part 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 30 March 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 the performance of their respective obligations under the above loan agreement, the shareholder voting agreement and the call option agreement, the performance by Kingsoft Qijian of its obligations under the above shareholder voting agreement and the call option agreement, the performance by Chengdu Digital Entertainment of its obligations under the intellectual property license agreements (as described below in "Structure Contracts relating to Chengdu Digital Entertainment" (v)) and the performance by Beijing Digital Entertainment of its obligations under the intellectual property license 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 15 June 2007 for a term of 10 years from 1 January 2007 which will be automatically renewed for one year at the end of the term or any renewed term, unless the licensor notifies otherwise. Zhuhai Software agreed to enter into agreements to license 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 30 March 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 any person or entity nominated by Chengdu Interactive Entertainment.

(ii) A shareholder voting agreement dated 30 March 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 30 March 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, part 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 30 March 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 above shareholder voting agreement, the call option agreement, and 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 15 June 2007 for a term of 10 years from 1 January 2007 which will be automatically renewed for one year at the end of the term or 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.

As Weiqin Qiu is the sister of Pak Kwan Kau, and Peili Lei is an aunt of Jun Lei, with Pak Kwan Kau and Jun Lei being our executive Directors when the above said structure contracts were signed and now our non-executive Directors, 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 structure contracts relating to Kingsoft Qijian, Beijing Digital Entertainment and Chengdu Digital Entertainment and have confirmed that:

- these structure contracts remain unchanged and are consistent with their disclosure in the prospectus of the Company dated 24 September 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 31 December 2011; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

Original Structure Contracts relating to Zhuhai Qiwen

(i) A loan agreement dated 8 February 2010 was entered into between Weiqin Qiu, Jin Wang and Zhuhai Software which provided for interest free loans 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 loans have 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 loans by transferring the equity interest they hold in Zhuhai Qiwen to Zhuhai Software or as it may direct.

(ii) A loan agreement dated 3 August 2010 among Weiqin Qiu, Jin Wang and Zhuhai Software which provided for interest free loans by Zhuhai Software of RMB60,000,000 to Weiqin Qiu and Jin Wang, entirely for the purpose of repaying the liabilities incurred by Weiqin Qiu and Jin Wang in acquiring the 88.235% equity interest in Zhuhai Qiwen. The loans have 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 loans by transferring the equity interest they hold in Zhuhai Qiwen to Zhuhai Software or as it may direct.

(iii) A shareholder voting entrustment agreement dated 8 February 2010 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.

(iv) A call option agreement dated 8 February 2010 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, part 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.

(v) An equity pledge agreement dated 8 February 2010 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 dated 8 February 2010, shareholder voting agreement and call option agreement, and the performance of the obligation by Zhuhai Kingsoft Application Software Co., Ltd. ("Zhuhai Kingsoft Application"), a domestic corporation wholly-owned by Zhuhai Qiwen, under the intellectual property license agreement (as described below).

(vi) An equity pledge agreement dated 3 August 2010 among Weiqin Qiu, Jin Wang, Zhuhai Software and Zhuhai Qiwen entered into following an increase of the authorized and paid-up capital of 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 agreements, shareholder voting agreement and call option agreement, and the performance by Zhuhai Kingsoft Application of its obligation under the intellectual property license agreement (as described below).

(vii) Zhuhai Software (as the licensor) and Zhuhai Kingsoft Application (as the licensee) entered into a framework intellectual property license agreement on 8 February 2010, for a term of 10 years from 22 October 2009 which will be automatically renewed for one year at the end of the term or any renewed term, unless the licensor notifies otherwise. Pursuant to the agreement, Zhuhai Software agreed to license certain intellectual property rights to 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 Director, Pak Kwan Kau, Jin Wang and Weiqin Qiu are associates of Pak Kwan Kau, and therefore are our connected persons. Accordingly, transactions under the structure contracts relating to Zhuhai Qiwen may technically constitute connected transactions.

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. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

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 24 September 2007;
- no dividends or other distributions were made by Zhuhai Qiwen to the holders of their equity interest for the year ended 31 December 2011; and
- these structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the Company and its shareholders as a whole.

The said structure contracts in relation to Zhuhai Qiwen were recloned in 2011, the details of which are disclosed herein below.

Structure Contracts relating to Conew Technology

(i) Each of Sheng Fu and Ming Xu executed a power of attorney dated 25 August 2010 in favour of Conew Network Technology (Beijing) Co., Ltd. ("Conew Network"), under which each of Sheng Fu and Ming Xu irrevocably entrusted all his shareholder rights in Conew Technology to Conew Network, including but not limited to the voting rights and the right to nominate directors of Conew Technology.

(ii) A call option agreement dated 25 August 2010 between Sheng Fu and Conew Network, under which Conew Network was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, part or all of Sheng Fu's equity interest in Conew Technology at anytime, at a nominal amount subject to applicable PRC laws.

(iii) A call option agreement dated 25 August 2010 between Ming Xu and Conew Network, under which Conew Network was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, part or all of Ming Xu's equity interest in Conew Technology at anytime, at a nominal amount subject to applicable PRC laws.

(iv) An equity pledge agreement dated 25 August 2010 among Sheng Fu, Ming Xu and Conew Network, pursuant to which each of Sheng Fu and Ming Xu pledged all of their equity interests in Conew Technology (and any increase in their capital contributions) in favor of Conew Network as security for their obligations and Conew Technology's performance of its obligations under the above call option agreements, and the performance by Conew Technology of its obligations under the exclusive technology support and consultancy agreement (as described below) and the business operation agreement (as described below).

(v) Conew Network (as service provider) and Conew Technology entered into an exclusive technology support and consultancy agreement on 25 August 2010, which term commences from 24 April 2009 for an indefinite term, unless otherwise terminated by either party in accordance with the terms of the agreement.

(vi) Conew Network, Conew Technology, Sheng Fu and Ming Xu entered into a business operation agreement on 25 August 2010 for a term of 10 years, unless otherwise terminated by Conew Network. Conew Technology, Sheng Fu and Ming Xu shall extend the term of the agreement or enter into another business operation agreement with Conew Network upon request of Conew Network.

After the entering into of the structure contracts relating to Conew Technology and as part of the consideration for the transfer of Conew Technology, Sheng Fu has become a substantial shareholder of a subsidiary of the Company and thus a connected person of the Company.

The arrangement relating to Conew Technology was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

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

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or other distributions were made by Conew Technology to the holders of their equity interest for the year ended 31 December 2011; and
- these structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the Company and its shareholders as a whole.

Structure Contracts entered into in the 2011 financial year

In 2011, the Group has entered into several sets of structure contracts with: (i) Shell Internet (Beijing) Security Technology Co., Ltd. ("Shell Internet") and its shareholders Sheng Fu, a substantial shareholder of a subsidiary of the Company, and Weiqin Qiu, the sister of our Director, Pak Kwan Kau; (ii) Zhuhai Kingsoft Online Game Technology Co., Ltd. ("Zhuhai Online Game") and its 25 employees, including Mr. Tao Zou, an executive director of the Company, which enable the Group to exercise control over Shell Internet and Zhuhai Online Game and to consolidate their financial results into the Group's results; and (iii) as part of the Group's internal restructuring, the Group has also recloned the structure contracts in relation to Zhuhai Qiwen. Such arrangements were substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in the annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

Structure Contracts in relation to Shell Internet

(i) Sheng Fu, Weiqin Qiu and Beijing Kingsoft Internet Security Software Co., Ltd. ("Beijing Security Software") entered into a loan agreement on 1 January 2011, pursuant to which Beijing Security Software provided interest free loans of RMB700,000 to Sheng Fu and Weiqin Qiu for repaying the liability incurred by Sheng Fu and Weiqin Qiu for the acquisition of the entire registered capital in Shell Internet. The loans have no fixed maturity date, and Beijing Security Software may demand repayment at any time. Subject to the PRC Laws, Sheng Fu and Weiqin Qiu shall repay the loans by transferring their equity interests in Shell Internet to Beijing Security Software or its designated third party.

(ii) Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into a shareholder voting entrustment agreement on 1 January 2011, pursuant to which Sheng Fu and Weiqin Qiu irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Shell Internet) in Shell Internet to persons designated by Beijing Security Software.

(iii) Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into an exclusive option agreement on 1 January 2011, pursuant to which Beijing Security Software was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interests owned by Sheng Fu and Weiqin Qiu in Shell Internet at any time at a nominal amount subject to applicable PRC laws.

(iv) Beijing Security Software and Shell Internet entered into an exclusive technology development, support and consultation agreement on 1 January 2011, pursuant to which Beijing Security Software agreed to provide to Shell Internet exclusively and Shell Internet agreed to accept the technology development, support and consultation services exclusively provided by Beijing Security Software for an indefinite term unless otherwise terminated by both party in accordance with the terms of the agreement.

(v) Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into a business operation agreement on 1 January 2011, pursuant to which, Sheng Fu, Weiqin Qiu and Shell Internet will make relevant undertakings and guarantee to Beijing Security Software for the daily operation of Shell Internet for a term of 10 years, unless otherwise terminated by Beijing Security Software, to ensure that Shell Internet would perform the obligations under the above exclusive technology development, support and consultation agreement entered into on the same date.

(vi) Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into an equity pledge agreement on 1 January 2011, pursuant to which, Sheng Fu and Weiqin Qiu agreed to pledge all equity interests they respectively held in Shell Internet and any increase in capital contributions in favor of Beijing Security Software, as security for the performance of their obligations under the above loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreement and business operation agreement dated 1 January 2011. In order to comply with the State Administration of Industry and Commerce's requirements relating to equity pledge registration, upon the completion of share registration of Shell Internet, Sheng Fu, Weiqin Qiu, Beijing Security Software and Shell Internet entered into further equity pledge agreement on 17 February 2011 with content substantially the same as the equity pledge agreement dated 1 January 2011.

Structure Contracts in relation to Zhuhai Online Game

(i) Tao Zou, Feizhou Chen, Xi Liu and other parties (the "Borrowers") and Chengdu Westhouse Interactive Entertainment Co., Ltd. ("Chengdu Westhouse") entered into a loan agreement on 24 January 2011, pursuant to which Chengdu Westhouse provided interest free loans of RMB3,636,750 to the Borrowers for the purpose of repaying the liabilities incurred by the Borrowers for the acquisition of the 19.5% registered capital in Zhuhai Online Game. The loans have no fixed maturity date, and Chengdu Westhouse may demand repayment at any time. Subject to the PRC laws, the Borrowers shall repay the loans by transferring their equity interests in Zhuhai Online Game to Chengdu Westhouse or its designated third party.

(ii) The Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into a shareholder voting entrustment agreement on 24 January 2011, pursuant to which the Borrowers irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Zhuhai Online Game) in Zhuhai Online Game to persons designated by Chengdu Westhouse.

(iii) The Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into an exclusive option agreement on 24 January 2011, pursuant to which Chengdu Westhouse was granted an irrevocable exclusive option to acquire, or designate third parties to acquire, all or part of the equity interests owned by the Borrowers in Zhuhai Online Game at anytime at a nominal amount subject to applicable PRC laws.

(iv) The Borrowers, Chengdu Westhouse and Zhuhai Online Game entered into an equity pledge agreement on 24 January 2011, pursuant to which the Borrowers agree to pledge all equity interests they respectively held in Zhuhai Online Game and any increase in capital contributions in favor of Chengdu Westhouse, as security for the performance of their obligations under the above loan agreement, shareholder voting entrustment agreement and exclusive option agreement entered into on the same day.

The Independent Non-executive Directors have reviewed the structure contracts relating to Shell Internet and Zhuhai Online Game and have confirmed that:

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

- no dividend or any other distribution to the holders of their equity interests has been made by Shell Internet and Zhuhai Online Game for the year ended 31 December 2011.
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

Structure Contracts in relation to Zhuhai Qiwen

(i) Weiqin Qiu and each of the other 26 employees of our Group including Ke Ge, Qingyuan Zhang and Bin Xiao ("the 26 New Shareholders") entered into 26 equity transfer agreements on 30 November 2011, pursuant to which Weiqin Qiu transferred part of her equity interests in Zhuhai Qiwen to the 26 New Shareholders at the price calculated based on Weiqin Qiu's contribution amount in registered capital of Zhuhai Qiwen and percentage of the transferred equity interest to each of the 26 New Shareholders. In connection with the above equity transfer agreements, Weiqin Qiu, the 26 New Shareholders and Zhuhai Software entered into a debt assumption agreement on 30 November 2011, pursuant to which the 26 New Shareholders agreed to assume the liability of RMB13,957,896 which was the proportion liable to be paid by Weiqin Qiu to Zhuhai Software under the loan agreements dated 8 February 2010 and 3 August 2010 as a settlement for the transfer of 20.5263% registered capital in Zhuhai Qiwen from Weiqin Qiu.

(ii) Weiqin Qiu, Jin Wang and the 26 New Shareholders (collectively referred to as "New Shareholders") entered into a revised loan agreement ("New Loan Agreement") on 30 November 2011 to replace the loan agreements dated 8 February 2010 and 3 August 2010. Pursuant to the New Loan Agreement, Zhuhai Software provided interest free replacement loans of RMB68,000,000 to New Shareholders for the purpose of repaying the liability incurred by New Shareholders for the acquisition of the entire equity interests in Zhuhai Qiwen. The loans have no fixed maturity date, and Zhuhai Software may demand repayment at any time. Subject to the applicable laws, New Shareholders shall repay the loans by transferring their equity interests in Zhuhai Qiwen to Zhuhai Software or its designated third party.

(iii) New Shareholders, Zhuhai Software and Zhuhai Qiwen entered into a revised shareholder voting entrustment agreement on 30 November 2011 to replace the shareholder voting entrustment agreement ("New Shareholder Voting Agreement") dated 8 February 2010. Pursuant to the New Shareholder Voting Agreement, New Shareholders irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Zhuhai Qiwen) in Zhuhai Qiwen to any party designated by Zhuhai Software.

(iv) New Shareholders, Zhuhai Software and Zhuhai Qiwen entered into a call option agreement ("New Call Option Agreement") on 30 November 2011 to replace the call option agreement dated 8 February 2010. Pursuant to the New Call Option Agreement, Zhuhai Software was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interests owned by New Shareholders in Zhuhai Qiwen at any time at an amount equal to the corresponding portion of liability borne by the respective New Shareholders under the New Loan Agreement.

(v) New Shareholders, Zhuhai Software and Zhuhai Qiwen entered into a revised equity pledge agreement (the "New Equity Pledge Agreement") on 30 November 2011 to replace the equity pledge agreement dated 8 February 2010 and 3 August 2010 respectively. Pursuant to the New Equity Pledge Agreement, New Shareholders agreed to pledge all equity interests they respectively held in Zhuhai Qiwen and any increase in capital contributions in favor of Zhuhai Software, as security for the performance of their obligations under the above New Loan Agreement, New Shareholder Voting Agreement and New Call Option Agreement dated 30 November 2011, and the performance of the obligations by Zhuhai Kingsoft Application under the intellectual property license agreement dated 8 February 2010.

(vi) Zhuhai Software, Beijing Kingsoft Office Software Co., Ltd. ("Beijing Office Software") and New Shareholders entered into a debt transfer agreement ("Debt Transfer Agreement") on 29 December 2011, pursuant to which Zhuhai Software transferred the loan in the amount of RMB68,000,000 receivable from New Shareholders under the New Loan Agreement to Beijing Office Software for a cash consideration of RMB68,000,000 and hence New Shareholders were liable to Beijing Office Software for a loan totaling RMB68,000,000.

(vii) In connection with the Debt Transfer Agreement, Zhuhai Software, Zhuhai Qiwen, New Shareholders and Zhuhai Kingsoft Application entered into a termination agreement on 29 December 2011, pursuant to which Zhuhai Software, Zhuhai Qiwen, New Shareholders and Zhuhai Kingsoft Application agreed to terminate the following agreements, including (1) New Loan Agreement; (2) New Shareholder Voting Agreement; (3) New Call Option Agreement; (4) New Equity Pledge Agreement, and (5) the intellectual property license agreement entered into between Zhuhai Software and Zhuhai Kingsoft Application on 8 February 2010.

(viii) New Shareholders and Beijing Office Software entered into a loan agreement on 29 December 2011 to specify the debt arrangements under the Debt Transfer Agreement, pursuant to which Beijing Office Software provided interest free loans of RMB68,000,000 to New Shareholders. The loans have no fixed maturity date, and Beijing Office Software may demand repayment at any time. Subject to the PRC laws, New Shareholders shall repay the loans by transferring their equity interests in Zhuhai Qiwen to Beijing Office Software or its designated third party.

(ix) New Shareholders, Beijing Office Software and Zhuhai Qiwen entered into a shareholder voting entrustment agreement on 29 December 2011, pursuant to which New Shareholders irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Zhuhai Qiwen) in Zhuhai Qiwen to person designated by Beijing Office Software.

(x) Beijing Office Software, New Shareholders and Zhuhai Qiwen entered into an exclusive option agreement on 29 December 2011, pursuant to which Beijing Office Software was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by New Shareholders in Zhuhai Qiwen at any time at an amount equal to the corresponding portion of liability borne by the respective New Shareholders under a loan agreement entered into on 29 December 2011 as stated in (viii) above.

(xi) Beijing Office Software (as the licensor) and Zhuhai Kingsoft Application (as the licensee) entered into an intellectual property license agreement on 29 December 2011 for a term of 10 years from the date of the agreement which will be automatically renewed for one year at the end of the term or any renewed term, unless Beijing Office Software notifies otherwise, pursuant to which Beijing Office Software agreed to license to Zhuhai Kingsoft Application certain intellectual property rights.

(xii) New Shareholders, Beijing Office Software and Zhuhai Qiwen entered into an equity pledge agreement on 29 December 2011, pursuant to which New Shareholders agreed to pledge all equity interests they respectively held in Zhuhai Qiwen and any increase in their capital contribution in favor of Beijing Office Software as security for the performance of their obligations under the loan agreement, the shareholder voting entrustment agreement, the exclusive option agreement, the equity pledge agreement, and the performance of obligation by Zhuhai Kingsoft Application under the intellectual property license agreement dated 29 December 2011.

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

- these Zhuhai Qiwen structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated September 24, 2007.
- no dividend or any other distribution has been made by Zhuhai Qiwen to the holders of its equity interest for the year ended 31 December 2011.
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

3. Continuing Transactions and Continuing Connected Transactions

Shell Internet Transaction

On 6 September 2011, Shell Internet, a subsidiary of the Company, entered into a supplemental agreement with 深圳市騰訊計算機系統有限公司 (Shenzhen Tencent Computer System Company Limited) ("Tencent Shenzhen"), a subsidiary of Tencent Holdings Limited ("Tencent"), ("Tencent Supplemental Agreement") pursuant to which Shell Internet would provide search interface to Tencent Shenzhen as the primary default search engine by embedding Tencent Shenzhen's search box in Shell Internet's websites.

In return for these services, Shell Internet would charge a monthly service fee calculated based on the market price and the average daily search volume created from Shell Internet's websites.

The term of the Tencent Supplemental Agreement would be from 1 March 2011 to 29 February 2012. The relevant annual cap for the Tencent Supplemental Agreement for the period ended 31 December 2011 was RMB6.9 million and for the period from 1 January 2012 to 29 February 2012 was RMB2.8 million. The annual caps were determined based on the monthly expected number of search by users of Shell Internet's relevant websites.

For the year ended 31 December 2011, the actual amount of the transactions conducted under the said agreement was RMB6.80 million.

After Tencent's acquisition of 15.68% interest in the Company (the "Acquisition"), Tencent became a substantial shareholder of the Company and hence, a connected person of the Company under the Listing Rules. As a result, the transactions under the Tencent Supplemental Agreement constituted continuing connected transactions in respect of which an announcement was published on 6 September 2011.

Continuing Transactions involving KIS and its subsidiaries

After the Acquisition, Tencent, being a substantial shareholder of KIS, held approximately 10% of the then issued capital of KIS, and also was a substantial shareholder and a connected person at the level of the Company. Accordingly, KIS and its subsidiaries (the "KIS Sub-group") became connected persons of the Company pursuant to Rule 14A.11(5) of the Listing Rules and the agreements in respect of various aspects of the operations in the ordinary and usual course of business of the Group already entered into between KIS Sub-group and the other members of the Group may constitute continuing connected transactions in respect of which an announcement was published on 16 March 2012. Details of such agreements are summarized below:

(i) Pursuant to the cooperative operation service agreement between Beijing Kingsoft Internet Security Software Co., Ltd. ("Beijing Security Software"), a member of the KIS Sub-group, and Beijing Kingsoft Digital Entertainment Technology Co., Ltd. ("Kingsoft Digital Entertainment"), a member of the Group, dated 1 January 2011 (the "Cooperative Operation Service Agreement I"), Beijing Security Software rented the servers from Kingsoft Digital Entertainment and paid the service fee with reference to the actual costs incurred by Kingsoft Digital Entertainment in accordance with the price, payment method and other terms as agreed by both parties.

    The term of the Cooperative Operation Service Agreement I was from 1 January 2011 to 31 December 2011.

    For the year ended 31 December 2011, the actual amount of the transactions conducted under the said agreement was RMB4.53 million.

(ii) Pursuant to the housing rental contract between Beijing Security Software and Kingsoft Digital Entertainment dated 1 December 2010 (the "Housing Rental Contract"), Beijing Security Software rented the offices from Kingsoft Digital Entertainment and paid a fixed rent, which covered water charges, electricity charges and management fees, with reference to the actual costs incurred by Kingsoft Digital Entertainment in accordance with the price, payment method and other terms agreed by both parties.

    The term of the Housing Rental Contract was from 1 December 2010 to 31 December 2011.

    For the year ended 31 December 2011, the actual amount of the transactions conducted under the said agreement was RMB0.44 million.

(iii) Pursuant to the users upgrade supporting service transfer contract between Beijing Security Software and Beijing Kingsoft Software Co., Ltd. ("Beijing Kingsoft Software"), a member of the Group, dated 1 December 2009 (the "Users Upgrade Supporting Service Transfer Contract"), Beijing Security Software undertook that, during the upgrading period agreed by Beijing Kingsoft Software with its customers, it will continue to assume the obligation of providing payment services to the customers, and Beijing Kingsoft Software will pay the relevant fees to Beijing Security Software.

    The term of the Users Upgrade Supporting Service Transfer Contract would be from 1 December 2009 onwards.

    For the year ended 31 December 2011, the actual amount of the transactions conducted under the said agreement was RMB3.59 million.

(iv) Pursuant to the cooperative operation service agreement between Beijing Security Software and Kingsoft Digital Entertainment dated 1 December 2009 (the "Cooperative Operation Service Agreement II"), Beijing Security Software rented the servers from Kingsoft Digital Entertainment and paid the service fee with reference to the actual costs incurred by Kingsoft Digital Entertainment in accordance with the price, payment method and other terms agreed by both parties.

The term of the Cooperative Operation Service Agreement II was from 1 December 2009 to 31 December 2011.

For the year ended 31 December 2011, the actual amount of the transactions conducted under the said agreement was RMB0.30 million.

(v) Pursuant to the authorization and licensing agreement between Beijing Security Software, Conew Network Technology (Beijing) Co., Ltd, and Zhuhai Juntian Electronic Technology Co., Ltd., ("Zhuhai Juntian"), all being members of the KIS Sub-group (collectively, the "KIS Sub-group Parties") and Kingsoft Digital Entertainment, Beijing Kingsoft Software and Zhuhai Kingsoft Software Co. Ltd. ("Zhuhai Kingsoft Software"), all being members of the Group (collectively, the "Group Parties") dated 14 January 2011 (the "Authorization and Licensing Agreement"), the Group Parties globally authorized the KIS Sub-group Parties to use and develop the software products with reference to the actual costs incurred by the Group Parties in accordance with the price, payment method and other terms as agreed by all parties.

The term of the Authorization and Licensing Agreement would be from 1 October 2010 to 30 September 2015.

For the year ended 31 December 2011, the actual amount of the transactions conducted under the said agreement was RMB8.09 million.

(vi) Pursuant to the service agreement between Beijing Security Software and Beijing Kingsoft Software dated 1 October 2010 (the "Service Agreement I"), Beijing Kingsoft Software provided comprehensive services, including administrative and logistic services and IT support service to Beijing Security Software and charged service fee with reference to the actual costs incurred by Beijing Kingsoft Software in accordance with the price, payment method and other terms as agreed by both parties.

The term of the Service Agreement I was from 1 October 2010 to 31 December 2011.

For the year ended 31 December 2011, the actual amount of the transactions conducted under the said agreement was RMB2.23 million.

(vii) Pursuant to the cooperative operation service agreement between Beijing Security Software and Zhuhai Kingsoft Software dated 1 January 2011 (the "Cooperative Operation Service Agreement III"), Beijing Security Software rented the servers from Zhuhai Kingsoft Software and paid service fee with reference to the actual costs incurred by the Zhuhai Kingsoft Software in accordance with the price, payment method and other terms agreed by both parties.

The term of the Cooperative Operation Service Agreement III was from 1 January 2011 to 31 December 2011.

For the year ended 31 December 2011, the actual amount of the transactions conducted under the said agreement was RMB0.15 million.

(viii) Pursuant to the exclusive technologies licensing contract between Beijing Security Software and Kingsoft Japan Inc. (日本金山軟件株式會社) ("Kingsoft Japan"), a member of the Group dated 1 December 2009 (the "Exclusive Technologies Licensing Contract"), Beijing Security Software authorized Kingsoft Japan to use the technologies of security products and charged licensing fees with reference to the actual costs incurred by Beijing Security Software in accordance with the price (net of sales agents and distributors' commission and other sales expenses), payment method and other terms agreed by both parties.

The term of the Exclusive Technologies Licensing Contract would be from 1 December 2009 to 30 November 2015 or when Kingsoft Japan is dissolved (whichever is later).

For the year ended 31 December 2011, the actual amount of the transactions conducted under the said agreement was RMB1.70 million.

(ix) Pursuant to the service agreement between Zhuhai Juntian and Zhuhai Kingsoft Software dated 10 March 2011 (the "Service Agreement II"), Zhuhai Kingsoft Software provided comprehensive services, including human resources, finance, taxation, legal and public relations services, to Zhuhau Juntian and charged service fees with reference to the actual costs incurred by Zhuhai Kingsoft Software in accordance with the price, payment method and other terms as agreed by both parties.

The term of the Service Agreement II was from 1 October 2010 to 31 December 2011.

For the year ended 31 December 2011, the actual amount of the transactions conducted under the said agreement was RMB4.52 million.

(x) Pursuant to the loan framework contract between KIS (as the borrower), certain subsidiaries of KIS (as the guarantors) and the Company (as the lender) dated 14 January 2011 (the "Loan Framework Contract"), the Company provided the necessary funding for daily operation and other purposes to KIS based on the interest rate and other terms as agreed by both parties.

The term of the Loan Framework Contract would be from 1 October 2010 to the initial public offering date of KIS or the date of full repayment of the loan and related interest (whichever is earlier).

The Company has not provided any loan to KIS out of the credit limit of RMB110 million pursuant to the Loan Framework Contract, from 1 October 2010 to 31 December 2011.

Beijing Security Software Marketing Platform Service

On 12 December 2011, Beijing Security Software entered into an agreement with Tencent Shenzhen ("Marketing Platform Service Agreement") pursuant to which Beijing Security Software would provide its marketing platform to Tencent Shenzhen. In turn, Beijing Security Software would charge a monthly service fee calculated based on the total monthly installation volume of Tencent's software.

The term of the Marketing Platform Service Agreement would be from 17 October 2011 to 17 October 2012, extendable upon request by either party and agreement by both parties. The actual amount for transactions conducted pursuant to the Marketing Platform Service Agreement for the period ended 31 December 2011 was RMB0.22 million. The relevant annual cap set for the period from 1 January 2012 to 17 October 2012 was RMB2 million determined with reference to the historical transaction amount of the Company.

Tencent was a substantial shareholder of the Company and was therefore a connected person of the Company under the Listing Rules. As a result, the transactions contemplated under the Marketing Platform Service Agreement constituted continuing connected transactions of the Company in respect of which an announcement was published on 30 March 2012.

In respect of the above continuing connected transactions of the Group, the independent non-executive Directors have reviewed the related agreements and transactions contemplated thereunder and confirmed that these transactions were:

(i) entered into in the ordinary and usual course of business of the Group;

(ii) conducted on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties;

(iii) entered into in accordance with the terms of the respective agreements and were fair and reasonable and in the interests of the Company and its shareholders as a whole; and

(iv) the aggregate annual amount of the transactions were within the relevant annual caps (if any).

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

Related Party Transactions

Details of the related party transactions for the year are included in note 38 to the financial statements. Certain related party transactions disclosed in note 38 to the financial statements also constitute connected transactions or continuing connected transactions as disclosed above. The certain transactions between connected persons and the Group as shown above have been entered into and/or are ongoing during the year and the Company had made relevant disclosures to the extent required in accordance with the requirements of the Listing Rules.

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 31 December 2011 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
Jun Lei
Chairman
Hong Kong, 27 March 2012

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Kingsoft Corporation Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 48 to 144, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 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
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

27 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
REVENUE	5	**1,020,508**	971,397
Cost of revenue		**(147,812)**	(130,998)
Gross profit		**872,696**	840,399
Research and development costs, net of government grants		**(303,848)**	(271,046)
Selling and distribution costs		**(125,873)**	(129,216)
Administrative expenses		**(127,498)**	(111,143)
Share-based compensation costs	6	**(17,266)**	(42,119)
Other income and gains	5	**44,051**	31,528
Other expenses	6	**(10,747)**	(38,203)
Fair value gain/(loss) on a financial asset at fair value through profit or loss	21	**(1,973)**	13,785
Gain on disposal of an associate		**—**	105,189
Finance income	6	**65,130**	33,162
Finance costs	6	**(3,461)**	(721)
Share of profits and losses of:			
Jointly-controlled entities	18	**(1,945)**	(6,360)
Associates	19	**(4,070)**	14,433
PROFIT BEFORE TAX	6	**385,196**	439,688
Income tax expense	9	**(50,162)**	(65,155)
PROFIT FOR THE YEAR		**335,034**	374,533
Attributable to:			
Owners of the parent		**324,729**	372,480
Non-controlling interests		**10,305**	2,053
		335,034	374,533
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**28.86 cents**	34.16 cents
Diluted		**27.90 cents**	32.13 cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR	**335,034**	374,533
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation of foreign operations	**(3,885)**	(498)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(3,885)**	(498)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**331,149**	374,035
Attributable to:		
Owners of the parent	**321,339**	370,319
Non-controlling interests	**9,810**	3,716
	331,149	374,035

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**395,328**	392,767
Lease prepayments	14	**44,142**	45,083
Goodwill	15	**14,559**	11,710
Other intangible assets	16	**68,170**	69,045
Long-term prepayment	17	**80,109**	—
Investments in jointly-controlled entities	18	**10,622**	18,793
Investments in associates	19	**930**	—
Available-for-sale investments	20	**4,990**	18,675
Other financial asset	21	**11,812**	13,785
Loan receivables	22	**4,500**	3,542
Deferred tax assets	9	**27,547**	25,670
Deferred cost		**—**	461
Total non-current assets		**662,709**	599,531
CURRENT ASSETS			
Inventories	23	**3,311**	2,856
Trade receivables	24	**80,366**	98,939
Prepayments, deposits and other receivables	25	**90,956**	71,518
Due from related parties	38	**137,502**	13,607
Deferred cost		**905**	2,205
Pledged deposit	26	**85,000**	—
Cash and cash equivalents	26	**1,953,770**	1,656,157
Total current assets		**2,351,810**	1,845,282
CURRENT LIABILITIES			
Trade payables	27	**16,568**	15,571
Interest-bearing bank loans	28	**346,655**	102,108
Other payables and accruals	29	**219,400**	163,461
Deferred revenue	30	**161,210**	161,570
Income tax payable		**17,221**	3,765
Total current liabilities		**761,054**	446,475
NET CURRENT ASSETS		**1,590,756**	1,398,807
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,253,465**	1,998,338

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,253,465**	1,998,338
NON-CURRENT LIABILITIES			
Deferred revenue	30	**20,321**	29,139
Deferred tax liabilities	9	**20,024**	35,138
Total non-current liabilities		**40,345**	64,277
Net assets		**2,213,120**	1,934,061
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	**4,677**	4,527
Share premium account	31	**440,974**	408,241
Shares held for share award scheme	31	**(93,754)**	(57,773)
Statutory reserves	33(a)	**146,654**	140,057
Employee share-based reserve		**145,435**	207,646
Capital reserve	33(a)	**253,914**	16,230
Foreign currency translation reserve		**(72,015)**	(68,625)
Retained earnings		**1,201,707**	883,575
Proposed final and special dividends	11	**92,241**	376,000
		2,119,833	1,909,878
Non-controlling interests		**93,287**	24,183
Total equity		**2,213,120**	1,934,061

Hong Jiang Zhang
Director

Shun Tak Wong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	ATTRIBUTABLE TO OWNERS OF THE PARENT											
	ISSUED CAPITAL (NOTE 31) RMB'000	SHARE PREMIUM ACCOUNT (NOTE 31) RMB'000	SHARES HELD FOR SHARE AWARD SCHEME (NOTE 31) RMB'000	STATUTORY RESERVES (NOTE 33(a)) RMB'000	EMPLOYEE SHARE-BASED RESERVE RMB'000	CAPITAL RESERVE (NOTE 33(a)) RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED EARNINGS RMB'000	PROPOSED FINAL AND SPECIAL DIVIDENDS RMB'000	TOTAL RMB'000	NON-CONTROLLING INTERESTS RMB'000	TOTAL EQUITY RMB'000
At 1 January 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
Profit for the year	–	–	–	–	–	–	–	372,480	–	372,480	2,053	374,533
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(2,161)	–	–	(2,161)	1,663	(498)
Total comprehensive income for the year	–	–	–	–	–	–	(2,161)	372,480	–	370,319	3,716	374,035
Approved and paid final dividend in respect of the previous year	–	(1,578)	–	–	–	–	–	–	(141,575)	(143,153)	–	(143,153)
Share-based compensation costs	–	–	–	–	35,560	–	–	–	–	35,560	1,079	36,639
Profit appropriations (note 33(a))	–	–	–	32,240	–	–	–	(32,240)	–	–	–	–
Exercise of share options	93	80,470	–	–	(38,333)	–	–	–	–	42,230	–	42,230
Vested awarded shares transferred to employees	–	–	14,592	–	(14,592)	–	–	–	–	–	–	–
Proposed final 2010 and special dividends (note 11)	–	(196,000)	–	–	–	–	–	(180,000)	376,000	–	–	–
Changes in the ownership interest in a subsidiary	–	–	–	–	–	16,230	–	–	–	16,230	3,770	20,000
At 31 December 2010 and 1 January 2011	**4,527**	**408,241**	**(57,773)**	**140,057**	**207,646**	**16,230**	**(68,625)**	**883,575**	**376,000**	**1,909,878**	**24,183**	**1,934,061**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**324,729**	**–**	**324,729**	**10,305**	**335,034**
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**(3,390)**	**–**	**–**	**(3,390)**	**(495)**	**(3,885)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(3,390)**	**324,729**	**–**	**321,339**	**9,810**	**331,149**
Approved and paid final and special dividends in respect of the previous year	**–**	**1,043**	**–**	**–**	**–**	**–**	**–**	**–**	**(376,000)**	**(374,957)**	**–**	**(374,957)**
Share purchased for share award scheme	**–**	**–**	**(47,420)**	**–**	**–**	**–**	**–**	**–**	**–**	**(47,420)**		**(47,420)**
Share-based compensation costs	**–**	**–**	**–**	**–**	**9,381**	**–**	**–**	**–**	**–**	**9,381**	**1,432**	**10,813**
Profit appropriations (note 33(a))	**–**	**–**	**–**	**6,597**	**–**	**–**	**–**	**(6,597)**		**–**	**–**	**–**
Exercise of share options	**150**	**123,931**	**–**	**–**	**(60,153)**	**–**	**–**	**–**	**–**	**63,928**	**–**	**63,928**
Vested awarded shares transferred to employees	**–**	**–**	**11,439**	**–**	**(11,439)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Proposed final 2011 dividend (note 11)	**–**	**(92,241)**	**–**	**–**	**–**	**–**	**–**	**–**	**92,241**	**–**	**–**	**–**
Changes in the ownership interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**237,684**	**–**	**–**	**–**	**237,684**	**57,862**	**295,546**
At 31 December 2011	**4,677**	**440,974**	**(93,754)**	**146,654**	**145,435**	**253,914**	**(72,015)**	**1,201,707**	**92,241**	**2,119,833**	**93,287**	**2,213,120**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**335,034**	374,533
Adjustments for:			
Loss on disposal of items of property, plant and equipment	6	**899**	299
Depreciation	6	**63,547**	57,652
Amortisation of lease prepayments	6	**941**	627
Amortisation of other intangible assets	16	**28,080**	25,837
Finance costs	6	**3,461**	721
Interest income		**(26,770)**	(14,375)
Write down of inventories	6	**1,527**	3,223
Fair value loss/(gain) on a financial asset at fair value through profit or loss	6	**1,973**	(13,785)
Gain on disposal of a subsidiary	6	**(828)**	—
Gain on disposal of an associate	6	**—**	(105,189)
Gain on disposal of an available-for-sale investment	6	**(1,440)**	—
Gain on deemed disposal of an associate	6	**(1,500)**	—
Deferred income tax expense	9	**(16,991)**	19,389
Share-based compensation costs		**10,813**	36,639
Impairment of goodwill	6	**—**	2,377
Impairment of other intangible assets	6	**—**	5,160
Impairment of investments in jointly-controlled entities	6	**5,000**	13,974
Impairment of loans to other shareholders of jointly-controlled entities	6	**2,000**	10,250
Share of losses of jointly-controlled entities	18	**1,945**	6,360
Share of losses/(profits) of associates	19	**4,070**	(14,433)
		411,761	409,259
Decrease in trade receivables		**18,573**	21,439
Increase in prepayments, deposits and other receivables		**(34,737)**	(9,503)
Increase in loan receivables		**(958)**	(893)
Increase in inventories		**(1,982)**	(695)
Decrease in deferred cost		**1,761**	1,657
Increase in trade payables		**997**	2,974
Decrease in deferred revenue		**(2,532)**	(10,078)
Increase/(decrease) in other payables and accruals		**45,429**	(7,136)
Increase/(decrease) in income tax payable		**13,456**	(15,688)
Net cash flows from operating activities		**451,768**	391,336

	NOTES	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**20,354**	16,080
Proceeds from disposal of items of property, plant and equipment		**192**	467
Purchases of items of property, plant and equipment		**(69,596)**	(58,394)
Purchases of software	16	**(6,170)**	(2,139)
Addition of capitalised software costs	16	**(7,532)**	(20,177)
Addition of capitalised television program production cost	16	**—**	(19,865)
Addition of long-term prepayment		**(80,109)**	—
(Increase)/decrease in time deposits with original maturity of over three months when acquired	26	**(285,011)**	393,057
Increase in pledged time deposit	26	**(85,000)**	—
Dividend from and proceeds from disposal of an associate	19	**39,500**	86,500
Acquisition of a subsidiary	34	**—**	1,026
Acquisition of a business	34	**(12,000)**	—
Investment in an associate	19	**(3,500)**	—
Purchase of available-for-sale investments	20	**(4,990)**	—
Disposal of a subsidiary	35	**870**	—
Disposal of an available-for-sale investment	6	**1,440**	—
Advance of loan to a related party	38	**(122,801)**	—
Advance of loans to other shareholders of jointly-controlled entities		**(2,000)**	(6,250)
Net cash flows from/(used in) investing activities		**(616,353)**	390,305
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of shares held for share award scheme	7	**(47,420)**	—
Contributions from non-controlling shareholders		**295,546**	—
Exercise of share options		**63,928**	42,230
Dividends paid to owners of the parent	11	**(374,957)**	(143,153)
Repayment of bank loan	28	**(102,108)**	102,108
New bank loans	28	**346,655**	—
Interest paid		**(2,445)**	(721)
Net cash flows from financing activities		**179,199**	464
NET INCREASE IN CASH AND CASH EQUIVALENTS		**14,614**	782,105
Cash and cash equivalents at beginning of year		**1,186,711**	405,595
Effect of foreign exchange rate changes, net		**(2,012)**	(989)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,199,313**	1,186,711
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**296,853**	259,995
Time deposits with original maturity of three months or less when acquired	26	**902,460**	926,716
		1,199,313	1,186,711

STATEMENT OF FINANCIAL POSITION

31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1**	2
Investments in subsidiaries	32	**221,186**	216,725
Investment in a jointly-controlled entity	18	**10,622**	18,793
Total non-current assets		**231,809**	235,520
CURRENT ASSETS			
Prepayments, deposits and other receivables	25	**494**	260
Due from related parties	38	**12,960**	13,607
Due from subsidiaries	32	**662,950**	791,402
Cash and cash equivalents	26	**155,283**	97,015
Total current assets		**831,687**	902,284
CURRENT LIABILITIES			
Interest-bearing bank loans	28	**346,655**	102,108
Other payables and accruals	29	**1,694**	1,333
Due to subsidiaries	32	**113,853**	84,309
Total current liabilities		**462,202**	187,750
NET CURRENT ASSETS		**369,485**	714,534
TOTAL ASSETS LESS CURRENT LIABILITIES		**601,294**	950,054
Net assets		**601,294**	950,054
EQUITY			
Issued capital	31	**4,677**	4,527
Share premium account	31	**440,974**	408,241
Shares held for share award scheme	31	**(93,754)**	(57,773)
Employee share-based reserve	33(b)	**142,851**	208,062
Foreign currency translation reserve	33(b)	**(125,053)**	(88,428)
Retained earnings	33(b)	**139,358**	99,425
Proposed final and special dividends	11	**92,241**	376,000
Total equity		**601,294**	950,054

Hong Jiang Zhang
Director

Shun Tak Wong
Director

1. CORPORATE INFORMATION

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

The principal place of business 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 referred to as the "Group") were involved in the following principal activities:

- research and development of online games, and provision of online games, mobile games and casual game services;
- research and development of information security software, provision of information security service across devices, and provision of online advertising services;
- research, development and distribution of office application software and the provision of the related cloud services, the research, development and distribution of other software including dictionary and typewriting software, and provision of online advertising services.

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, except for other financial asset, which have been measured at fair value. These 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 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are 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. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The Company has set up a trust (the "Share Award Scheme Trust") for the purpose of purchasing, administering and holding the Company's shares for the share award scheme adopted on 31 March 2008 (the "Share Award Scheme", note 7(b)), the Group has the power to govern the financial and operating policies of the Share Award Scheme Trust and it can derive benefits from the services of the employees who have been awarded the awarded shares (the "Awarded Shares") through their continued employment with the Group. The assets and liabilities of the Share Award Scheme Trust are included in consolidated statement of financial position and the shares held by the Share Award Scheme Trust are presented as deduction in equity as shares held for share award scheme.

Kingsoft Internet Security Software Holdings Limited ("KIS Holding"), a subsidiary of the Company, has set up a trust (the "KIS Share Award Scheme Trust") for the purpose of administering and holding the KIS Holding's shares for the share award scheme adopted on 26 May 2011 (the "KIS Share Award Scheme", note 7(c)). The Group has the power to govern the financial and operating policies of the KIS Share Award Scheme Trust and derives benefits from the services of the employees who have been awarded the awarded shares (the "KIS Awarded Shares") through their continued employment with the Group, the assets and liabilities of the KIS Share Award Scheme Trust are included in consolidated statement of financial position.

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.

IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC–Int 14 Amendments	Amendments to IFRIC–Int 14 *Prepayments of a Minimum Funding Requirement*
IFRIC–Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IFRS 3, IAS 1 and IAS 27 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these IFRSs are as follows:

(a) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 38 to the consolidated financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 3 *Business Combinations*: The amendment clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- IAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

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 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
IFRS 9	*Financial Instruments*[5]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 (2011)	*Employee Benefits*[4]
IAS 27 (2011)	*Separate Financial Statements*[4]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
IFRIC-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011

2 Effective for annual periods beginning on or after 1 January 2012

3 Effective for annual periods beginning on or after 1 July 2012

4 Effective for annual periods beginning on or after 1 January 2013

5 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

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

For the fair value option ("FVO") liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC-Int 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-Int 12.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12 and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

Amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

IAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 (2011) from 1 January 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an 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/Company has unilateral control, directly or indirectly, over the joint venture;

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

(c) an associate, if the Group/Company 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/Company 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 operations

A jointly-controlled operation is a joint venture that is set up by joint venture agreements which involve the use of the assets and other resources of the venturers, without the establishment of a separate entity. Under these agreements, assets remain under the ownership and controls of each party. Revenue and expenses derived/incurred in common are shared by the parties according to the contractual arrangement.

Assets that the Group controls and liabilities that it incurs in relation to a jointly-controlled operation are recognised in the Group's consolidated financial position on an accrual basis and are classified according to the nature of the item. The Group's share of the income that it earns from a jointly-controlled operation, together with the expenses that it incurs, is included in the Group's consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

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 investments 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 investments in jointly-controlled entities.

The results of the jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in the jointly-controlled entities are treated as non-current assets and are 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 investments 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 investments in associates and is not individually tested for impairment.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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 31 December. 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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties 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 in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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 any 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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is controlled or jointly controlled by a person identified in (a); and

(vi) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the shorter of the lease term and 50 years
Electronic equipment	33%
Office equipment and fixtures	19%
Motor vehicles	19%
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.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction 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) is stated at cost less any impairment losses and is amortised on the straight-line basis over the shorter of the estimated economic life and the license period, which ranges from 2 to 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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 development costs of website and internally used software 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 satisfied the criteria for development cost capitalisation listed above are capitalised and amortised over the estimated product life of the underlying products not exceeding one to two years, commencing from the date when the products are put into commercial production.

Television program production costs

Television program production costs include capitalisable production costs, production overhead and development costs and are stated at the cost, less accumulated amortisation. Marketing, distribution, and general and administrative costs are expensed as incurred.

Capitalised television program production costs are recognised to costs of revenue based on the percentage of the revenues recognised to the total revenue ("Ultimate Revenues") from all sources on an individual production basis. Ultimate Revenues for television program include revenues that will be earned within ten years from the date of the initial release. These estimates are reviewed on a periodic basis.

Leases

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 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 leases 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, loans and receivables and available-for-sale financial investments, 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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, pledged deposits, trade and other receivables, loan receivables, available-for-sale investments and other financial asset.

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 designated upon initial recognition as at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only the criteria under IAS 39 are satisfied.

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 by 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. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to 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; or
- 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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.

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 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 yet 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 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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loan and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing bank loans.

Loans and borrowings

After initial recognition, interest-bearing bank loans 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 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 finance costs 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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; a discounted cash flow analysis; and option pricing models.

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.

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.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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:

- when 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, associates and joint ventures, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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, associates and 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)

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 an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) *Sale of application software*

Revenue from the sale of application software is recognised when 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.

The Group also enters into multi-year licensing arrangements with certain original equipment manufacturer ("OEM") customers to allow them to install unlimited copies of the Group's application software over a period of one to three years in the OEM customers' products for a fixed cash consideration. During the licensing period, the Group is required to provide when-and-if-available upgrades, technical support and training to the OEM customers. Revenue from multi-year licensing arrangements is recognised as revenue ratably over the licensing period upon the delivery of the software master copy.

(b) *Membership service of information security software*

The Group provides membership services, including a package of services such as restoration of data, remote technical support, computer maintenance and other privilege, to individual users of the Group's information security software. The individual user subscribes for membership services on a monthly basis or for a period of up to several years. Revenue is recognised ratably over the subscription period.

(c) *Online game services*

The Group sells either its prepaid game cards for its online game products to the distributors which in turn sells them to end users, or prepaid online points to end users at the Group's website.

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

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

For item-billing revenue model, end users 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 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 the Virtual Items.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(c) Online game services (continued)

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 includes certain discounts from the face value of the cards. The Group recognises revenue net of the discounts provided to the distributors.

(d) Online game licences

The Group enters into licensing arrangements for the licensees to operate the Group's online games in defined regions and/or countries. The Group is entitled to ongoing usage-based royalties which are determined based on the amount of money charged to the end users' accounts in a given country or region. The usage-based royalties are recognised when they are earned, provided that the collection is probable.

In certain licensing arrangements, the Group provides post contract support services over the licensing period at no additional charge except for the initial fees. In those cases, the total amount of the initial fee is recognised ratably over the contractual licensing period.

(e) Online advertising services

Online 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 and/or websites. 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 and/or websites, the advertisers pay the Group based on number of clicks on the hyperlinks or other performance criteria. The Group recognises revenue when the revenue can be measured reliably and the collectability is reasonably assured.

(f) Television program revenues

The Group recognises revenues from the sale or licensing arrangement of a television program when a copy of the television program has been delivered and the licensing period of the arrangement has begun and the customer can begin its exploitation, exhibition or sale, provided that collection of the arrangement fee is reasonably assured and the Group has no control over customer and expects to receive no further revenues.

(g) 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 application software and prepaid game cards, data centre and transportation costs and other overhead expenses directly attributable to the production of application software and provision of online game services.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred revenue

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

Share-based payment transactions

The Group operates several share option schemes and share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. 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 values of the Company's ordinary shares on the dates of share option grants before the listing of the Company and the fair values of ordinary shares of the subsidiaries who operate a share option scheme or share award scheme were assessed by an external valuer. Further detail of the fair values of share options and awarded shares granted are given in note 7 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity as "Employee share-based 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 vesting is conditional upon a market or non-vesting condition, which are treated as vesting 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.

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Defined contribution plan for PRC employees

Full-time employees of the Group's subsidiary which operates in Mainland China are required to participate in a defined contribution scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of their payroll costs to the defined contribution scheme which includes pension, medical care, unemployment insurance, employee housing fund and other welfare. The contributions are charged to the income statement as they become payable in accordance with the rules of the defined contribution scheme. The Group has no legal obligation for the benefits beyond the contributions made.

Dividends

Final and special 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 ("HKD"), 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. Foreign currency transactions 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 arising on settlement or translation of monetary items 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 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the Company and certain overseas subsidiaries and jointly-controlled entities 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. SIGNIFICANT ESTIMATES

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 described below.

(a) Fair value of ordinary shares subscription option for unlisted equity shares

The fair value of the option obtained from an online game operator in Vietnam is determined by the Black-Scholes valuation model (the "BS Model"). Significant judgement, such as risk-free rate, dividend yield, expected volatility and expected life of option, is required to be made by the directors as the parameters for applying the BS Model. The Company engaged an independent valuer to assess the fair value of the option. The fair value of the option was approximately RMB11,812,000 as at 31 December 2011 (2010: RMB13,785,000). Further details are included in note 21 to the financial statements.

(b) Recognition of share-based compensation costs

The Company granted share options under 2011 share option scheme (the "2011 Scheme") to its employees. The directors have used the binomial model to determine the fair value of the option granted. Significant judgement, such as dividend yield, expected volatility, risk-free interest rate and expected life of options, is required to be made by the directors as the parameters for applying the binomial model. The fair value of the share options granted during the year ended 31 December 2011 as determined by the binomial model was approximately RMB11,483,000.

Pursuant to the KIS Share Award Scheme, KIS Holdings granted KIS Awarded Shares to its employees. The fair value of the KIS Awarded Shares granted is determined by reference to the fair value of KIS Holdings' ordinary shares at grant date, which is valued by an external valuer based on the expected cash flows discounted at a current rate applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about the expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty. The fair value of the KIS Awarded Shares granted during the year ended 31 December 2011 was approximately RMB15,375,000 (2010: Nil).

The grant of awarded shares and options is conditional upon the satisfaction of specified vesting conditions, including service period and performance condition linked to financial performance measure. Judgement is required to take into account the vesting conditions and adjust the number of awarded shares and options included in the measurement of share-based compensation costs.

(c) 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 management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2011, the best estimate of the carrying amount of capitalised development costs was approximately RMB18,461,000 (2010: RMB25,468,000).

3. SIGNIFICANT ESTIMATES (continued)

(d) The useful life of Virtual Items in the Group's item-billing online games

The Virtual Items include items consumed at a single point in time, at a series of times, or within a pre-determined period of time (collectively "Consumable Items"), and items used through the entire life of the game ("Permanent Items"). For Consumable Items, the Group uses historical usage pattern, player behaviour data, and pre-specified usage period of virtual items, to estimate the average useful life of these items. For Permanent Items, the useful life is equivalent to the estimated remaining game life, which is assessed based on historical and planned operation periods of the Group's online games.

(e) 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 the Group 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. The carrying amount of goodwill at 31 December 2011 was approximately RMB14,559,000 (2010: RMB11,710,000). Further details are given in note 15 to the financial statements.

(f) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amounts, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. During the year ended 31 December 2011, impairment loss of RMB5,000,000 (2010: RMB8,400,000) was recognised for investments in jointly-controlled entities. Further details are contained in note 18 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

(b) the information security software segment engages in the research, development of information security software, provision of information security service across devices, and provision of online advertising services; and

(c) the other application software segment engages in the research, development and distribution of office application software and the provision of the related cloud service, and the research, development and distribution of other software including dictionary and typewriting software, and provision of online advertising services.

4. OPERATING SEGMENT INFORMATION (continued)

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

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

YEAR ENDED 31 DECEMBER 2011	ENTERTAINMENT SOFTWARE RMB'000	INFORMATION SECURITY SOFTWARE RMB'000	OTHER APPLICATION SOFTWARE RMB'000	TOTAL RMB'000
SEGMENT REVENUE:				
Sales to external customers	694,410	194,548	131,550	1,020,508
SEGMENT RESULTS	352,798	15,976	74,201	442,975
Reconciliation:				
Administrative expenses				(127,498)
Share-based compensation costs				(17,266)
Other income and gains				44,051
Other expenses				(10,747)
Fair value loss on a financial asset at fair value through profit or loss				(1,973)
Finance income				65,130
Finance costs				(3,461)
Share of losses of:				
Jointly-controlled entities				(1,945)
Associates				(4,070)
PROFIT BEFORE TAX				385,196
OTHER SEGMENT INFORMATION:				
Depreciation and amortisation	37,732	19,306	20,452	77,490

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2010	ENTERTAINMENT SOFTWARE RMB'000	INFORMATION SECURITY SOFTWARE RMB'000 (RESTATED)	OTHER APPLICATION SOFTWARE RMB'000 (RESTATED)	TOTAL RMB'000
SEGMENT REVENUE:				
Sales to external customers	640,917	238,309	92,171	971,397
SEGMENT RESULTS	327,300	91,026	21,811	440,137
Reconciliation:				
Administrative expenses				(111,143)
Share-based compensation costs				(42,119)
Other income and gains				31,528
Other expenses				(38,203)
Fair value gain on a financial asset at fair value through profit or loss				13,785
Gain on disposal of an associate				105,189
Finance income				33,162
Finance costs				(721)
Share of profits and losses of:				
Jointly-controlled entities				(6,360)
Associates				14,433
PROFIT BEFORE TAX				439,688
OTHER SEGMENT INFORMATION:				
Depreciation and amortisation	30,625	11,197	28,512	70,334

Geographical information

(a) *Revenue from external customers:*

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets:

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

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

Information about a major customer

Revenue of approximately RMB95,901,000 (2010: RMB106,575,000) was derived by entertainment software segment from loyalties from a single customer.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and the royalties derived from licensing agreements during the year.

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

	2011 RMB'000	2010 RMB'000
Revenue		
Sales of packaged software	**145,366**	90,967
Rendering of services	**741,567**	738,632
Royalties	**128,684**	141,798
Others	**4,891**	—
	1,020,508	971,397

	2011 RMB'000	2010 RMB'000
Other income and gains		
Government grants	**35,497**	30,048
Gain on deemed disposal of an associate	**1,500**	—
Gain on disposal of an available-for-sale investment	**1,440**	—
Gain on disposal of a subsidiary	**828**	—
Others	**4,786**	1,480
	44,051	31,528

6. PROFIT BEFORE TAX

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

	NOTES	2011 RMB'000	2010 RMB'000
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**286,238**	253,964
Social insurance costs and staff welfare		**57,047**	54,442
Share-based compensation costs		**17,266**	42,119
Pension plan contributions		**26,538**	21,610
		387,089	372,135
Minimum lease payments under operating leases:			
Bandwidth and server		**34,218**	29,487
Buildings		**19,542**	13,616
		53,760	43,103
Depreciation	(a)	**63,547**	57,652
Amortisation of lease prepayments	(a)	**941**	627
Amortisation of other intangible assets*	(a)	**27,940**	24,924
Write down of inventories***		**1,527**	3,223
Loss on disposal of items of property, plant and equipment***		**899**	299
Foreign exchange differences, net		**(2,807)**	1,006
Impairment of goodwill***	15	**—**	2,377
Impairment of other intangible assets***		**—**	5,160
Impairment of investments in jointly-controlled entities***	18	**5,000**	13,974
Impairment of loans to other shareholders of jointly-controlled entities***		**2,000**	10,250
Donation***		**500**	1,000
Auditors' remuneration		**9,268**	9,450
Interest on bank loans		**3,461**	721
Government grants:			
— Recorded as a reduction to research and development cost**		**(21,781)**	(17,075)
— Recorded in other income and gains	5	**(35,497)**	(30,048)
		(57,278)	(47,123)
Gain on disposal of an associate		**—**	(105,189)
Gain on deemed disposal of an associate		**(1,500)**	—
Gain on disposal of an available-for-sale investment		**(1,440)**	—
Gain on disposal of a subsidiary		**(828)**	—
Fair value loss/(gain) on other financial asset	20	**1,973**	(13,785)
Interest income from loans to related parties		**(2,040)**	—
Bank interest income		**(63,090)**	(33,162)

6. PROFIT BEFORE TAX (continued)

* The amortisation of capitalised software costs of RMB14,399,000 is included in "research and development costs" on the face of the consolidated income statement.

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

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

Note:

(a) Depreciation of property, plant and equipment, amortisation of lease prepayments and other intangible assets

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

7. SHARE-BASED COMPENSATION COSTS

(a) Share options schemes

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 22 January 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 terms of the 2007 Scheme are the same as those of the 2004 Scheme, except for 1,333,554 share options granted to directors of the Group in February 2007 are subject to certain performance conditions which have been fully achieved.

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

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options schemes (continued)

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

	GROUP AND COMPANY			
	2011 NUMBER OF SHARE OPTIONS	2011 WAEP USD PER SHARE	2010 NUMBER OF SHARE OPTIONS	2010 WAEP USD PER SHARE
2004 Scheme				
Outstanding at 1 January	**12,480,500**	**0.0789**	17,525,500	0.1078
Forfeited during the year	**—**	**—**	(54,000)	0.2379
Exercised during the year	**(7,337,000)**	**0.0680**	(4,991,000)	0.1788
Outstanding at 31 December	**5,143,500**	**0.0945**	12,480,500	0.0789
Exercisable at 31 December	**5,143,500**	**0.0945**	12,480,500	0.0789
2007 Scheme				
Outstanding at 1 January	**57,017,100**	**0.2411**	80,619,600	0.2410
Forfeited during the year	**(104,000)**	**0.2400**	(1,551,000)	0.2432
Exercised during the year	**(39,136,300)**	**0.2401**	(22,051,500)	0.2407
Outstanding at 31 December	**17,776,800**	**0.2432**	57,017,100	0.2411
Exercisable at 31 December	**17,776,800**	**0.2432**	46,882,720	0.2409
Total outstanding at 31 December	**22,920,300**	**0.2099**	69,497,600	0.2120
Total exercisable at 31 December	**22,920,300**	**0.2099**	59,363,220	0.2069

The weighted average share price at the date of exercise for the options exercised during the year was HKD3.72 (2010: HKD5.63).

The weighted average remaining contractual life for the Company's share options outstanding under the 2004 Scheme as at 31 December 2011 was 3.26 years (2010: 4.05 years), and the range of exercise prices for these outstanding options was USD0.0005 to USD0.2400 (2010: USD0.0005 to USD0.2400).

The weighted average remaining contractual life for the Company's share options outstanding under the 2007 Scheme as at 31 December 2011 was 5.10 years (2010: 6.09 years), and the range of exercise prices for these outstanding options was USD0.2400 to USD0.4616 (2010: USD0.2400 to USD0.4616).

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options schemes (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 31 December 2011 and 2010.

	NUMBER OF SHARE OPTIONS					
NAME OR CATEGORY OF PARTICIPANT	AT 1 JANUARY 2011	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	AT 31 DECEMBER 2011	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS USD PER SHARE
EXECUTIVE DIRECTORS						
Donghui Wang*	**100,000**	**(100,000)**	**—**	**—**	1 December 2006	0.2400
	1,742,000	**(1,742,000)**	**—**	**—**	1 February 2007***	0.2400
	1,842,000	**(1,842,000)**	**—**	**—**		
Tao Zou	**400,000**	**(400,000)**	**—**	**—**	1 December 2006	0.2400
	1,559,000	**(1,559,000)**	**—**	**—**	1 February 2007***	0.2400
	1,959,000	**(1,959,000)**	**—**	**—**		
NON-EXECUTIVE DIRECTORS						
Jun Lei	**5,311,500**	**(5,311,500)**	**—**	**—**	1 August 2004	0.0353
	22,451,800	**(22,451,800)**	**—**	**—**	1 February 2007***	0.2400
	27,763,300	**(27,763,300)**	**—**	**—**		
Shuen Lung Cheung**	**1,000,000**	**—**	**—**	**1,000,000**	1 August 2004	0.0353

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options schemes (continued)

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

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS: AT 1 JANUARY 2011	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	AT 31 DECEMBER 2011	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS USD PER SHARE
OTHER EMPLOYEES						
In aggregate						
	1,700,500	—	—	1,700,500	1 January 2000****	0.0005
	1,281,500	(764,000)	—	517,500	1 August 2004	0.0353
	975,000	(309,500)	—	665,500	1 August 2005	0.2118
	760,000	(350,000)	—	410,000	1 August 2006	0.2118
	952,000	(102,000)	—	850,000	1 December 2006	0.2400
	30,205,300	(13,134,500)	(104,000)	16,966,800	1 February 2007***	0.2400
	609,000	(165,000)	—	444,000	1 April 2007***	0.2400
	165,000	(59,000)	—	106,000	8 May 2007***	0.2400
	285,000	(25,000)	—	260,000	1 August 2007***	0.4616
	36,933,300	(14,909,000)	(104,000)	21,920,300		
	69,497,600	(46,473,300)	(104,000)	22,920,300		

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options schemes (continued)

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

	NUMBER OF SHARE OPTIONS					
NAME OR CATEGORY OF PARTICIPANT	AT 1 JANUARY 2010	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	AT 31 DECEMBER 2010	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS USD PER SHARE
EXECUTIVE DIRECTORS						
Donghui Wang*	800,000	(800,000)	—	—	1 March 2005	0.2118
	600,000	(600,000)	—	—	1 August 2005	0.2118
	800,000	(700,000)	—	100,000	1 December 2006	0.2400
	5,000,000	(3,258,000)	—	1,742,000	1 February 2007***	0.2400
	7,200,000	(5,358,000)	—	1,842,000		
Tao Zou	1,450,000	(1,050,000)	—	400,000	1 December 2006	0.2400
	5,400,000	(3,841,000)	—	1,559,000	1 February 2007***	0.2400
	6,850,000	(4,891,000)	—	1,959,000		
NON-EXECUTIVE DIRECTORS						
Jun Lei	5,311,500	—	—	5,311,500	1 August 2004	0.0353
	22,451,800	—	—	22,451,800	1 February 2007***	0.2400
	27,763,300	—	—	27,763,300		
Shuen Lung Cheung**	1,000,000	—	—	1,000,000	1 August 2004	0.0353

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options schemes (continued)

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

	NUMBER OF SHARE OPTIONS					EXERCISE PRICE OF SHARE OPTIONS USD PER SHARE
NAME OR CATEGORY OF PARTICIPANT	AT 1 JANUARY 2010	EXERCISED DURING THE YEAR	FORFEITED DURING THE YEAR	AT 31 DECEMBER 2010	DATE OF GRANT OF SHARE OPTIONS	
OTHER EMPLOYEES						
In aggregate						
	1,700,500	—	—	1,700,500	1 January 2000****	0.0005
	2,535,000	(1,253,500)	—	1,281,500	1 August 2004	0.0353
	80,000	(80,000)	—	—	1 April 2005	0.2118
	1,155,500	(176,500)	(4,000)	975,000	1 August 2005	0.2118
	41,000	(41,000)	—	—	1 January 2006	0.2118
	800,000	(40,000)	—	760,000	1 August 2006	0.2118
	1,252,000	(250,000)	(50,000)	952,000	1 December 2006	0.2400
	46,208,800	(14,660,000)	(1,343,500)	30,205,300	1 February 2007***	0.2400
	619,000	(10,000)	—	609,000	1 April 2007***	0.2400
	565,000	(215,000)	(185,000)	165,000	8 May 2007***	0.2400
	375,000	(67,500)	(22,500)	285,000	1 August 2007***	0.4616
	55,331,800	(16,793,500)	(1,605,000)	36,933,300		
	98,145,100	(27,042,500)	(1,605,000)	69,497,600		

* Mr. Donghui Wang has resigned as an executive director of the Company on 1 October 2011.

** Mr. Shuen Lung Cheung was appointed as a non-executive director of the Company on 25 March 2010, and resigned on 28 July 2011.

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

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

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options schemes (continued)

2011 Share Option Scheme

The Company operates the 2011 Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Scheme include the Company's directors, including independent non-executive directors, other employees of the Group. The 2011 Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares which may be issued upon exercise of all share options to be granted under the 2011 Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 9 December 2011. The maximum number of shares issuable under share options to each eligible participant in the 2011 Scheme within any 12-month period is limited to 1% of the shares of the Company at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HKD5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HKD1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period determined at the discretion of the board of directors and ends on a date which is no later than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options schemes (continued)

2011 Share Option Scheme (continued)

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

	GROUP AND COMPANY	
	2011 NUMBER OF SHARE OPTIONS	2011 WAEP HKD PER SHARE
Outstanding at 1 January	—	—
Granted during the year	12,500,000	2.89
Forfeited during the year	—	—
Exercised during the year	—	—
Outstanding at 31 December	12,500,000	2.89
Exercisable at 31 December	—	—

The weighted average remaining contractual life for the Company's share options outstanding under the 2011 Scheme as at 31 December 2011 was 9.97 years.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

	NUMBER OF SHARE OPTIONS	EXERCISE PRICE HKD PER SHARE	EXERCISE PERIOD
2011			
Executive directors			
Hongjiang Zhang*	7,500,000	2.89	20 December 2012– 20 December 2016
Shun Tak Wong*	5,000,000	2.89	20 December 2012– 20 December 2016
Total	12,500,000	2.89	20 December 2012– 20 December 2016

* Mr. Hongjiang Zhang and Mr. Shun Tak Wong have been appointed as executive directors of the Company with effect from 14 December 2011.

The fair value of the share options granted during the year was RMB11,483,000.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options schemes (continued)

2011 Share Option Scheme (continued)

The fair value of the share options granted during the year was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2011
Dividend yield (%)	**5.53%**
Expected volatility (%)	**55%**
Risk-free interest rate (%)	**1.9%**
Expected forfeiture rate (%)	**—**
Weighted average share price (HKD per share)	**2.79**

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 35,420,300 share options outstanding under the 2004 Scheme, 2007 Scheme and 2011 Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 35,420,300 additional ordinary shares of the Company and additional share capital of RMB112,000 and share premium of RMB59,379,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 32,738,300 share options outstanding under above three schemes, which represented approximately 2.8% of the Company's shares in issue as at that date.

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

Pursuant to Kingsoft Japan's shareholder resolution dated 2 November 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 4 January 2007, 410 options were granted to certain employees which vest over a period of three years, with one third of options to be vested on the first anniversary of the grant date, and an additional one twelfth to be vested 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 30 March 2007, 90 options, which are exercisable upon the Condition above, were granted to employees and a consultant.

7. SHARE-BASED COMPENSATION COSTS (continued)

(a) Share options schemes (continued)

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

(c) Pursuant to a directors' resolution on 31 July 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 the 710 options, 520 options are vested over a period of two years, with half of the options to be vested on the first anniversary of the grant date or the date when the employee joined the company, whichever is earlier, and an additional one eighth to be vested each three months thereafter; and the remaining 190 options are vested over a period of three years, with one third of the options to be vested on the first anniversary of the grant date or the date when the employee joined the company, whichever is earlier, and an additional one twelfth to be vested after each three months. The exercise of the above options is conditional upon a successful initial public offering of Kingsoft Japan.

No share options were granted or exercised in 2011 and 2010, and no share options were forfeited in 2011 and 2010.

(b) Share Award Scheme

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

The fair value of the Awarded Shares granted under the Share Award Scheme 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.

During the year ended 31 December 2011, 11,870,000 shares (2010: 8,764,600 shares) were granted to a number of employees with vesting period of three years, out of which, 170,000 (2010: 45,000 shares) Awarded Shares were also subject to certain performance conditions.

During the year ended 31 December 2011, the Share Award Scheme Trust acquired 20,000,000 shares (2010: Nil) of the Company through purchases on the open market at a total cost (including related transaction costs) of approximately RMB47,420,000 (2010: Nil).

7. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

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

	2011 NUMBER OF AWARDED SHARES	**2010 NUMBER OF AWARDED SHARES**
Outstanding as at 1 January	**16,596,801**	21,350,000
Granted during the year	**11,870,000**	8,764,600
Forfeited during the year	**(4,214,202)**	(6,988,000)
Cancelled during the year	**(1,440,600)**	—
Exercised and transferred during the year	**(6,604,995)**	(6,529,799)
Outstanding as at 31 December	**16,207,004**	16,596,801
Exercisable as at 31 December	**1,024,000**	864,000

The fair value of the Awarded Shares was determined based on the market value of the Company's shares at the grant date. The weighted average fair value of the Awarded Shares granted during the year ended 31 December 2011 was RMB2.71 each (2010: RMB4.93 each).

As at 31 December 2011, 13,882,002 (2010: 97,200) forfeited or unawarded shares were held by the Share Award Scheme Trust and would be granted in future.

At the date of approval of these financial statements, the Company had 15,509,006 Awarded Shares outstanding under the Share Award Scheme, which represented approximately 1.3% of the Company's shares in issue as at that date.

7. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

The following Awarded Shares were outstanding under the Share Award Scheme during the years ended 31 December 2011 and 2010.

	NUMBER OF AWARDED SHARES						
NAME OR CATEGORY OF PARTICIPANT	AT 1 JANUARY 2011	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	CANCELLED DURING THE YEAR	EXERCISED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2011	GRANT DATE
EXECUTIVE DIRECTORS							
Hongjiang Zhang*	—	7,000,000	—	—	—	7,000,000	29 November 2011
Shun Tak Wong*	—	2,500,000	—	—	—	2,500,000	29 November 2011
Pak Kwan Kau**	1,000,000	—	—	—	(500,000)	500,000	13 July 2009
Donghui Wang***	127,000	—	(127,000)	—	—	—	13 October 2008
	1,000,000	—	(500,000)	—	(500,000)	—	13 July 2009
	57,000	—	—	(57,000)	—	—	26 March 2010
	1,184,000	—	(627,000)	(57,000)	(500,000)	—	
Tao Zou	324,000	—	—	—	(108,000)	216,000	13 October 2008
	78,000	—	—	(78,000)	—	—	26 March 2010
	402,000	—	—	(78,000)	(108,000)	216,000	

7. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

	NUMBER OF AWARDED SHARES						
NAME OR CATEGORY OF PARTICIPANT	AT 1 JANUARY 2011	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	CANCELLED DURING THE YEAR	EXERCISED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2011	GRANT DATE
OTHER EMPLOYEES							
In aggregate							
	1,382,000	—	(333,000)	—	(949,000)	100,000	26 June 2008
	2,239,000	—	(428,000)	—	(1,664,000)	147,000	13 October 2008
	200,000	—	—	—	(200,000)	—	27 November 2008
	50,000	—	—	—	—	50,000	1 December 2008
	1,066,667	—	(533,334)	—	(533,333)	—	1 January 2009
	320,000	—	—	—	(160,000)	160,000	8 June 2009
	53,334	—	—	—	(26,667)	26,667	27 November 2009
	951,000	—	(258,000)	—	(45,000)	648,000	1 December 2009
	350,000	—	(240,000)	—	(110,000)	—	12 January 2010
	4,626,800	—	(862,867)	(1,305,600)	(1,061,666)	1,396,667	26 March 2010
	2,460,000	—	(740,000)	—	(653,331)	1,066,669	26 May 2010
	73,000	—	(8,667)	—	(24,332)	40,001	23 June 2010
	209,000	—	(53,334)	—	(69,666)	86,000	12 July 2010
	30,000	—	(30,000)	—	—	—	26 November 2010
	—	250,000	(100,000)	—	—	150,000	12 January 2011
	—	120,000	—	—	—	120,000	18 April 2011
	—	2,000,000	—	—	—	2,000,000	8 June 2011
	14,010,801	2,370,000	(3,587,202)	(1,305,600)	(5,496,995)	5,991,004	
	16,596,801	11,870,000	(4,214,202)	(1,440,600)#	(6,604,995)	16,207,004	

* Mr. Hongjiang Zhang and Mr. Shun Tak Wong have been appointed as executive directors of the Company with effect from 14 December 2011.

** Mr. Pak Kwan Kau re-designated as a non-executive director of the Company on 24 October 2011.

*** Mr. Donghui Wang resigned as an executive director of the Company on 1 October 2011.

\# During the year ended 31 December 2011, 1,440,600 Awarded Shares granted to certain directors and employees on 26 March 2010 were cancelled with cash compensation of RMB7,520,000.

7. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

	NUMBER OF AWARDED SHARES					
NAME OR CATEGORY OF PARTICIPANT	AT 1 JANUARY 2010	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	EXERCISED AND TRANSFERRED DURING THE YEAR	AT 31 DECEMBER 2010	GRANT DATE
EXECUTIVE DIRECTORS						
Pak Kwan Kau	1,500,000	—	—	(500,000)	1,000,000	13 July 2009
Donghui Wang	254,000	—	—	(127,000)	127,000	13 October 2008
	1,500,000	—	—	(500,000)	1,000,000	13 July 2009
	—	57,000	—	—	57,000	26 March 2010
	1,754,000	57,000	—	(627,000)	1,184,000	
Tao Zou	324,000	—	—	—	324,000	13 October 2008
	2,691,000	—	(2,691,000)	—	—	8 June 2009
	—	78,000	—	—	78,000	26 March 2010
	3,015,000	78,000	(2,691,000)	—	402,000	
OTHER EMPLOYEES						
In aggregate						
	3,519,000	—	(592,000)	(1,545,000)	1,382,000	26 June 2008
	4,511,000	—	(513,000)	(1,759,000)	2,239,000	13 October 2008
	400,000	—	—	(200,000)	200,000	27 November 2008
	100,000	—	—	(50,000)	50,000	1 December 2008
	200,000	—	(200,000)	—	—	25 December 2008
	1,600,000	—	—	(533,333)	1,066,667	1 January 2009
	3,321,000	—	(2,841,000)	(160,000)	320,000	8 June 2009
	80,000	—	—	(26,666)	53,334	27 November 2009
	1,350,000	—	(58,000)	(341,000)	951,000	1 December 2009
	—	350,000	—	—	350,000	12 January 2010
	—	5,492,600	(78,000)	(787,800)*	4,626,800	26 March 2010
	—	2,460,000	—	—	2,460,000	26 May 2010
	—	88,000	(15,000)	—	73,000	23 June 2010
	—	209,000	—	—	209,000	12 July 2010
	—	30,000	—	—	30,000	26 November 2010
	15,081,000	8,629,600	(4,297,000)	(5,402,799)	14,010,801	
	21,350,000	8,764,600	(6,988,000)	(6,529,799)	16,596,801	

* During the year ended 31 December 2010, the Company provided a one-time election to certain employees for them to elect immediate cash settlement for the Awarded Shares granted to them. All the concerned employees had made their elections in May 2010. Consequently, 787,800 Awarded Shares were cash-settled and vested immediately.

7. SHARE-BASED COMPENSATION COSTS (continued)

(c) Share Award Scheme adopted by KIS Holdings

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

The fair value of the KIS Awarded Shares granted under the KIS Share Award Scheme 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 KIS Awarded Shares at grant date.

During the year ended 31 December 2011, 51,550,000 shares were awarded to a number of employees with a vesting period from 0.45 years to four years, of which 2,350,000 shares were vested, and 1,680,000 shares were forfeited.

The fair value of the KIS Awarded Shares was determined by reference to the fair value of KIS Holdings's ordinary shares at the grant date, which was valued by an external valuer using a discounted cash flow method. The weighted average fair value of the KIS Awarded Shares granted during the year ended 31 December 2011 was RMB0.30 each.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	GROUP	
	2011	**2010**
	RMB'000	**RMB'000**
Fees	**579**	663
Other emoluments:		
Salaries, allowances and benefits in kind	**4,747**	2,959
Discretionary bonuses	**768**	1,500
Pension plan contributions	**22**	20
Share-based compensation	**4,022**	9,466
	10,138	14,608

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

(a) Directors' remuneration (continued)

During the year, certain directors were granted Awarded Shares and share options in respect of their services to the Group under the Share Award Scheme and the 2011 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 and share options, which have 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.

Year ended 31 December 2011

	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:						
Hongjiang Zhang[1]	—	718	108	—	853	1,679
Shun Tak Wong[2]	—	889	660	—	313	1,862
Pak Kwan Kau[3]	—	1,218	—	—	1,366	2,584
Donghui Wang[4]	—	682	—	—	940	1,622
Tao Zou	—	875	—	11	488	1,374
Non-executive directors:						
Pak Kwan Kau[3]	—	36	—	—	—	36
Jun Lei	—	201	—	11	62	274
Shuen Lung Cheung[5]	—	128	—	—	—	128
Chi Ping Lau[6]	—	—	—	—	—	—
Independent non-executive directors:						
Tat Joel Chang[7]	63	—	—	—	—	63
Guangming George Lu	194	—	—	—	—	194
Shun Tak Wong[2]	194	—	—	—	—	194
Mingming Huang[8]	128	—	—	—	—	128
Chuan Wang[9]	—	—	—	—	—	—
	579	4,747	768	22	4,022	10,138

1 Mr. Hongjiang Zhang has been appointed as an executive director of the Company with effect from 14 December 2011.

2 Mr. Shun Tak Wong resigned as an independent non-executive director of the Company on 1 October 2011, and has been appointed as an executive director of the Company with effect from 14 December 2011.

3 Mr. Pak Kwan Kau re-designated as a non-executive director of the Company on 24 October 2011.

4 Mr. Donghui Wang resigned as an executive director of the Company on 1 October 2011.

5 Mr. Shuen Lung Cheung resigned as a non-executive director of the Company on 28 July 2011.

6 Mr. Chi Ping Lau has been appointed as a non-executive director of the Company with effect from 28 July 2011, and he agreed to waive his remuneration during the year.

7 Mr. Tat Joel Chang has been appointed as an independent non-executive director of the Company with effect from 1 October 2011.

8 Mr. Mingming Huang retired as an independent non-executive director of the Company on 28 July 2011.

9 Mr. Chuan Wang has been appointed as an independent non-executive director of the Company with effect from 28 July 2011, and he agreed to waive his remuneration during the year.

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

(a) Directors' remuneration (continued)

Year ended 31 December 2010

	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*	—	700	1,500	—	3,253	5,453
Donghui Wang	—	857	—	—	3,984	4,841
Tao Zou	—	957	—	10	853	1,820
Non-executive directors:						
Wing Chung Anders Cheung**	—	46	—	—	—	46
Wai Ming Wong**	—	46	—	—	—	46
Shuen Lung Cheung	—	153	—	—	—	153
Jun Lei	—	200	—	10	1,376	1,586
Independent non-executive directors:						
Guangming George Lu	199	—	—	—	—	199
Shun Tak Wong	265	—	—	—	—	265
Mingming Huang	199	—	—	—	—	199
	663	2,959	1,500	20	9,466	14,608

* Mr. Pak Kwan Kau agreed to waive his allowance from January 2010 and his salary from August 2010 during the year ended 31 December 2010.

** Mr. Wing Chung Anders Cheung and Mr. Wai Ming Wong retired as non-executive directors of the Company on 25 March 2010.

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

(b) Five highest paid individuals

The five highest paid individuals for the year ended 31 December 2011 are all directors, details of whose remuneration are set out above. The five highest paid individuals for the year ended 31 December 2010 included three directors, details of whose remuneration are set out above, and details of the remuneration of the remaining two non-director, highest paid employees are as follows:

	GROUP 2010 RMB'000
Salaries, allowances and benefits in kind	**1,297**
Discretionary bonuses	**987**
Pension plan contributions	**37**
Share-based compensation	**3,326**
	5,647

For the year ended 31 December 2010, the number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	NUMBER OF EMPLOYEES 2010
RMB1,500,001 to RMB2,000,000	1
RMB3,000,001 to RMB3,500,000	1

9. INCOME TAX

PRC corporate income tax represents the tax charged on the estimated assessable profits arising in Mainland China during the year. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to tax holidays and preferential tax rates.

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on estimated assessable profits arising in Hong Kong during the year ended 31 December 2011.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiary in Japan was 41% for the year ended 31 December 2011 (2010: 41%).

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

9. INCOME TAX (continued)

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

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

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	GROUP			
	2011		**2010**	
	RMB'000	**%**	**RMB'000**	**%**
Profit before tax	**385,196**		439,688	
Tax at the respective statutory income tax rate	**96,391**	**25.0**	110,230	25.0
Lower tax rates for entities entitled to tax holiday or a preferential tax rate	**(51,203)**	**(13.3)**	(63,765)	(14.5)
Expenses not deductible for tax	**1,920**	**0.5**	14,070	3.2
Income not subject to tax	**(11,633)**	**(3.0)**	(10,986)	(2.5)
Profits and losses attributable to associates and jointly-controlled entities	**611**	**0.2**	(2,108)	(0.4)
Tax losses not recognised	**8,791**	**2.2**	7,218	1.6
Tax losses and other deductible temporary difference utilised from previous periods	**(715)**	**(0.2)**	(2,408)	(0.5)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**6,000**	**1.6**	12,904	2.9
Tax charge at the Group's effective income tax rate	**50,162**	**13.0**	65,155	14.8

9. INCOME TAX (continued)

Deferred income tax relates to the following:

	CONSOLIDATED STATEMENT OF FINANCIAL POSITION		CONSOLIDATED INCOME STATEMENT	
	2011 RMB'000	**2010 RMB'000**	**2011 RMB'000**	**2010 RMB'000**
Deferred income tax liabilities				
Government grants	**—**	—	**—**	(656)
Deferred cost	**(25)**	(1,163)	**(1,138)**	(1,201)
Waiver of reorganisation consideration	**—**	—	**—**	(583)
Fair value adjustment arising from acquisition of a subsidiary	**(1,905)**	(2,343)	**(438)**	(441)
Gain on disposal of an associate	**—**	(5,825)	**(5,825)**	5,825
Withholding taxes on the distributable profits of the Group's PRC subsidiaries	**(14,100)**	(18,100)	**(4,000)**	12,904
Capitalised software costs	**(3,148)**	(3,906)	**(758)**	191
Others	**(846)**	(3,801)	**(2,955)**	103
	(20,024)	(35,138)	**(15,114)**	16,142
Deferred income tax assets				
Property, plant and equipment	**703**	453	**(250)**	(192)
Deferred revenue	**18,553**	20,068	**1,515**	(327)
Accruals	**2,432**	4,041	**1,609**	41
Government grants	**359**	1,108	**749**	(1,108)
Tax losses carried forward	**—**	—	**—**	4,833
Others	**5,500**	—	**(5,500)**	—
	27,547	25,670	**(1,877)**	3,247
Deferred income tax expense			**(16,991)**	19,389

The share of tax attributable to associates and jointly-controlled entities amounting to nil (2010: RMB2,152,000) and RMB517,000 (tax credit) (2010: tax credit of RMB517,000), respectively, is included in "Share of profits and losses of associates and jointly-controlled entities" in the consolidated income statement.

The Group has tax losses arising in Mainland China of RMB170,463,000 as at 31 December 2011 (2010: RMB82,961,000) that will expire in one to five years for offsetting against future taxable profits.

9. INCOME TAX (continued)

The amounts and expiration dates of the tax losses carried forward at 31 December 2011 and 2010 are listed below:

EXPIRATION DATE	2011 RMB'000	2010 RMB'000
31 December 2011	**—**	93
31 December 2012	**—**	—
31 December 2013	**20,517**	20,679
31 December 2014	**20,714**	24,795
31 December 2015	**29,757**	37,394
31 December 2016	**99,475**	—

The Group also has tax losses arising in Hong Kong of RMB408,000 (2010: RMB312,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of those losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

	2011 RMB'000	2010 RMB'000
Tax losses	**170,463**	82,961
Deductible temporary differences	**21,021**	22,357
	191,484	105,318

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 1 January 2008 and applies to earnings after 31 December 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. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax liability is recognised for the estimated withholding taxes to the extent that it is probable that those subsidiaries will distribute earnings in the foreseeable future. This requires an estimation of the likely timing and level of dividends to be distributed, and a judgement as to whether the dividends are associated to earnings generated from 1 January 2008 or not. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China, for which deferred tax liabilities have not been recognised for withholding taxes that would be payable on the unremitted earnings of these subsidiaries, totalled approximately RMB965 million at 31 December 2011 (2010: RMB730 million). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of RMB39,933,000 (2010: RMB428,682,000) which has been dealt with in the financial statements of the Company.

11. DIVIDENDS

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

Notes:

(a) The actual amount of final 2010 and special dividends paid was RMB374,957,000, after eliminating RMB4,966,000 paid for shares held by the Share Award Scheme Trust.

(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 amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,125,104,224 (2010: 1,090,540,697) in issue during the year.

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

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

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

	2011 RMB'000	2010 RMB'000
EARNINGS		
Profit attributable to ordinary equity holders of the parent	**324,729**	372,480

	NUMBER OF SHARES 2011	 2010
SHARES		
Weighted average number of ordinary shares in issue less shares held for the Share Award Scheme	**1,125,104,224**	1,090,540,697
Effect of dilution — weighted average number of ordinary shares:		
Share options	**29,717,895**	53,925,574
Awarded Shares	**8,934,331**	14,759,825
	1,163,756,450	1,159,226,096

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
31 DECEMBER 2011							
At 31 December 2010, and 1 January 2011:							
Cost	**252,151**	**157,373**	**116,068**	**3,072**	**5,061**	**11,423**	**545,148**
Accumulated depreciation	**(6,876)**	**(100,457)**	**(39,944)**	**(1,359)**	**(3,745)**	**—**	**(152,381)**
Net carrying amount	**245,275**	**56,916**	**76,124**	**1,713**	**1,316**	**11,423**	**392,767**
At 1 January 2011, net of accumulated depreciation	**245,275**	**56,916**	**76,124**	**1,713**	**1,316**	**11,423**	**392,767**
Additions	**4,388**	**38,136**	**1,581**	**1,345**	**3,416**	**23,230**	**72,096**
Acquisition of a business (note 34)	**—**	**105**	**—**	**—**	**—**	**—**	**105**
Government grants received	**—**	**(5,002)**	**—**	**—**	**—**	**—**	**(5,002)**
Disposals	**—**	**(1,043)**	**(48)**	**—**	**—**	**—**	**(1,091)**
Depreciation provided during the year	**(4,120)**	**(33,825)**	**(23,616)**	**(423)**	**(1,563)**	**—**	**(63,547)**
At 31 December 2011, net of accumulated depreciation	**245,543**	**55,287**	**54,041**	**2,635**	**3,169**	**34,653**	**395,328**
At 31 December 2011:							
Cost	**256,539**	**178,319**	**116,999**	**4,417**	**8,437**	**34,653**	**599,364**
Accumulated depreciation	**(10,996)**	**(123,032)**	**(62,958)**	**(1,782)**	**(5,268)**	**—**	**(204,036)**
Net carrying amount	**245,543**	**55,287**	**54,041**	**2,635**	**3,169**	**34,653**	**395,328**
31 DECEMBER 2010							
At 1 January 2010:							
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
At 1 January 2010, net of accumulated depreciation	244,954	64,217	97,031	1,071	404	303	407,980
Additions	4,328	21,830	2,184	1,326	850	11,120	41,638
Acquisition of a subsidiary (note 34)	—	655	294	—	618	—	1,567
Disposals	—	(363)	(157)	(246)	—	—	(766)
Depreciation provided during the year	(4,007)	(29,423)	(23,228)	(438)	(556)	—	(57,652)
At 31 December 2010, net of accumulated depreciation	245,275	56,916	76,124	1,713	1,316	11,423	392,767
At 31 December 2010:							
Cost	252,151	157,373	116,068	3,072	5,061	11,423	545,148
Accumulated depreciation	(6,876)	(100,457)	(39,944)	(1,359)	(3,745)	—	(152,381)
Net carrying amount	245,275	56,916	76,124	1,713	1,316	11,423	392,767

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land included in property, plant and equipment is situated in Mainland China and is held under a medium term lease of 50 years.

During the year ended 31 December 2011, the Company did not acquire property, plant and equipment, and depreciation charge of RMB1,049 was provided during the year. As at 31 December 2011, the cost, accumulated depreciation and net carrying amount of the electronic equipment of the Company amounted to RMB3,239, RMB2,249 and RMB990, respectively.

14. LEASE PREPAYMENTS

	GROUP	
	2011	**2010**
	RMB'000	**RMB'000**
Carrying amount at 1 January	**45,083**	6,972
Addition	**—**	38,738
Amortisation during the year	**(941)**	(627)
Carrying amount at 31 December	**44,142**	45,083
At 31 December:		
Cost	**46,206**	46,206
Accumulated amortisation	**(2,064)**	(1,123)
Net carrying amount	**44,142**	45,083

The Group's lease prepayments represent prepaid land lease payments. The leasehold land is situated in Mainland China and is held under a medium term lease.

15. GOODWILL

GROUP	RMB'000
At 1 January 2010:	
Cost	2,377
Accumulated impairment	—
Net carrying amount	2,377
Cost at 1 January 2010, net of accumulated impairment	2,377
Acquisition of a subsidiary (note 34)	11,710
Impairment during the year	(2,377)
Cost and net carrying amount at 31 December 2010	11,710
At 31 December 2010:	
Cost	14,087
Accumulated impairment	(2,377)
Net carrying amount	11,710
Cost at 1 January 2011, net of accumulated impairment	**11,710**
Acquisition of a business (note 34)	**2,849**
Cost and net carrying amount at 31 December 2011	**14,559**
At 31 December 2011:	
Cost	**14,559**
Accumulated impairment	**—**
Net carrying amount	**14,559**

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the information security software cash-generating unit for impairment testing:

The recoverable amount of the information security software cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is 19%. The growth rate used to extrapolate the cash flows beyond the five-year period is 5% by reference to long-term average growth rate.

15. GOODWILL (continued)

Impairment testing of goodwill (continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	INFORMATION SECURITY SOFTWARE	
	2011	**2010**
	RMB'000	**RMB'000**
Carrying amount of goodwill	**14,559**	11,710

Key assumptions were used in the value in use calculation of the information security software cash-generating units for 31 December 2011. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted revenue – The basis used to determine the value assigned to the budgeted revenue is the revenue achieved in the year immediately before the budget year, increased for expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

GROUP	PURCHASED SOFTWARE RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	CAPITALISED TELEVISION PROGRAM PRODUCTION COST RMB'000	OTHERS RMB'000	TOTAL RMB'000
31 DECEMBER 2011					
Cost at 1 January 2011, net of accumulated amortisation	**21,259**	**25,468**	**19,865**	**2,453**	**69,045**
Addition	**6,170**	**7,532**	**—**	**—**	**13,702**
Acquisition of a business (note 34)	**12,885**	**—**	**—**	**2,161**	**15,046**
Government grants received	**(1,543)**	**—**	**—**	**—**	**(1,543)**
Amortisation provided during the year	**(8,223)**	**(14,539)**	**(4,891)**	**(427)**	**(28,080)**
At 31 December 2011	**30,548**	**18,461**	**14,974**	**4,187**	**68,170**
At 31 December 2011:					
Cost	**61,878**	**77,706**	**19,865**	**4,721**	**164,170**
Accumulated amortisation	**(31,330)**	**(59,245)**	**(4,891)**	**(534)**	**(96,000)**
Net carrying amount	**30,548**	**18,461**	**14,974**	**4,187**	**68,170**
31 DECEMBER 2010					
At 1 January 2010:					
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**
Cost at 1 January 2010, net of accumulated amortisation	21,556	23,362	—	3,571	48,489
Addition	2,139	20,177	19,865	—	42,181
Acquisition of a subsidiary (note 34)	6,812	—	—	2,560	9,372
Amortisation provided during the year	(6,636)	(18,071)	—	(1,130)	(25,837)
Impairment during the year	(2,612)	—	—	(2,548)	(5,160)
At 31 December 2010	21,259	25,468	19,865	2,453	69,045
At 31 December 2010 and at 1 January 2011:					
Cost	47,798	70,174	19,865	7,640	145,477
Accumulated amortisation and impairment	(26,539)	(44,706)	—	(5,187)	(76,432)
Net carrying amount	21,259	25,468	19,865	2,453	69,045

During the years ended 31 December 2011 and 2010, capitalised software costs were related to development expenditure on application software products.

17. LONG-TERM PREPAYMENT

The Group's long-term prepayment as at 31 December 2011 represented deposit for acquisition of land use right of a piece of land in Chengdu, Mainland China, which is unsecured and interest-free.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	GROUP		COMPANY	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Unlisted investment, at cost	**—**	—	**32,566**	34,181
Share of net assets	**6,730**	8,846	**—**	—
Goodwill on acquisition	**19,228**	23,921	**—**	—
Impairment	**(15,336)**	(13,974)	**(21,944)**	(15,388)
	10,622	18,793	**10,622**	18,793

Particulars of the jointly-controlled entities are as follows:

NAME	PLACE OF REGISTRATION/ INCORPORATION	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")	PRC	RMB8,000,600	40	Research and development of games
Sky Profit Limited ("Sky Profit")*	Cayman Islands	USD50,000	26.42#	Research and development of computer software and hardware, system integration, technical training and services

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

\# The Company directly held 3,410,594 preferred shares and 796,026 ordinary shares of USD0.001 each of Sky Profit.

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Pursuant to the cooperative agreement dated 23 May 2009, 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% of the Group's equity interest in 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. On the contrary, 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. As at 31 December 2011, Kingsoft Lianking has not launched its first online game yet.

During the year ended 31 December 2011, Shanghai Zhixiong Network Technology Co., Ltd. ("Shanghai Zhixiong") was derecognised after the completion of its liquidation process. Accordingly, the Group has derecognised its investment in Shanghai Zhixiong.

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

	2011 RMB'000	2010 RMB'000
SHARE OF THE JOINTLY-CONTROLLED ENTITIES' ASSETS AND LIABILITIES:		
Current assets	**2,369**	4,388
Non-current assets	**9,136**	10,147
Current liabilities	**(1,575)**	(2,489)
Non-current liabilities	**(3,200)**	(3,200)
Net assets	**6,730**	8,846
SHARE OF THE JOINTLY-CONTROLLED ENTITIES' RESULTS:		
Revenue	**6,574**	3,991
Other income	**8**	27
	6,582	4,018
Total expenses	**(9,044)**	(10,895)
Tax	**517**	517
Loss after tax	**(1,945)**	(6,360)

18. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

For investments in jointly-controlled entities, the Group assesses at end of each reporting period whether there is objective evidence that an investment is impaired. Each of the above investments is deemed as a separate cash-generating unit as the Group considers not to integrate them with the rest of the Group's other entertainment software or application software business.

(a) Investment in Kingsoft Lianking: The carrying amounting of investment in Kingsoft Lianking was nil after making an impairment of RMB1,936,000 as at 31 December 2010. As at 31 December 2011, the Group performed an assessment and found no indication that the previously recognised impairment losses may no longer exist or may have decreased.

(b) Investment in Sky Profit: The Group performed the impairment assessment as at 31 December 2011. The recoverable amount of the investment has been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect a significant decline in forecasted sales. As a result of this analysis, management has recognised an impairment charge of RMB5,000,000 (2010: RMB8,400,000) against the investment in Sky Profit, which was recorded in other expenses in the consolidated income statement during the year ended 31 December 2011.

19. INVESTMENTS IN ASSOCIATES

	GROUP	
	2011 RMB'000	2010 RMB'000
Share of net assets	930	—

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 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
Zhuhai Kingsoft Kuaikuai Technology Co., Ltd. ("Zhuhai Kuaikuai")*	PRC	RMB5,600,000	62.5	Research and development of computer and network related technology; provision of network service; design and publishing of advertisements

* Zhuhai Kuaikuai was newly established during the year ended 31 December 2011. Zhuhai Kuaikuai is accounted for as an associate as the Group has no control over the financial and operating policies of Zhuhai Kuaikuai.

19. INVESTMENTS IN ASSOCIATES (continued)

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

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

	2011 RMB'000	2010 RMB'000
Assets	**3,716**	—
Liabilities	**(2,228)**	—
Revenue	**3,715**	—
Loss	**(6,512)**	—

20. AVAILABLE-FOR-SALE INVESTMENTS

	GROUP	
	2011 RMB'000	2010 RMB'000
Unlisted equity investment, at fair value	**—**	18,675
Unlisted equity investments, at cost	**4,990**	—

As at 31 December 2011, the unlisted equity investments with a carrying amount of RMB4,990,000 were stated at cost less impairment. The directors are of the opinion that the investees' fair value cannot be reliably measured. The Group has no intention to dispose of the investees in the near future.

On 27 December 2010, the Group, through its wholly owned subsidiary, Beijing Kingsoft Digital Entertainment Technology co., Ltd. ("Beijing Digital Entertainment"), entered into an agreement with the other shareholder (the "Buyer") who held 70% equity interest of Guangzhou Kingsoft Duoyi Internet Technology Co., Ltd. ("Kingsoft Guangzhou"), pursuant to which Beijing Digital Entertainment sold its 30% equity interest in Kingsoft Guangzhou to the Buyer in two steps for a total cash consideration of RMB126,000,000. The first disposal of 25% equity interest in Kingsoft Guangzhou was completed during the year ended 31 December 2010. After the completion of the first disposal, the Group ceased to have significant influence over Kingsoft Guangzhou and accounted for its remaining 5% equity interest in Kingsoft Guangzhou as an available-for-sale investment and measured it at fair value of RMB18,675,000. The second disposal of the remaining 5% equity interest was completed during the year ended 31 December 2011.

In addition, the Group was granted an option to repurchase 15% equity interest in Kingsoft Guangzhou at a consideration of RMB63,000,000 plus 6% interest, which is excisable in the event that Kingsoft Guangzhou succeeds an initial public offering ("IPO") or the equity interest is sold by the Buyer to a venture capital company before 31 December 2013, or any online game entity in which the Buyer holds over 30% equity interest launches its IPO before 31 December 2015. The option is not recognised in the consolidated financial position as of 31 December 2011, as the management considers that the likelihood to exercise the option is low.

21. OTHER FINANCIAL ASSET

	GROUP	
	2011	**2010**
	RMB'000	**RMB'000**
Ordinary shares subscription option	**11,812**	13,785

The ordinary shares subscription option (the "Option") was granted by an online game service provider in Vietnam (the "Grantor") to a subsidiary of the Group on 1 August 2010, whereby the subsidiary or any of its designated subsidiary can subscribe from the Grantor at a predetermined exercise price a maximum of 1,859,251 ordinary shares of the Grantor, issued as fully-paid subject to adjustment. The Option is exercisable in instalments over a six-year period with certain accelerating vesting conditions. The Option was, upon initial recognition, designated as a financial asset at fair value through profit or loss.

22. LOAN RECEIVABLES

The loan receivables are interest-free housing loans granted to employees, which were carried at amortised cost with effective interest rates of 6.90% and 5.96% per annum during the years ended 31 December 2011 and 2010, respectively. The general terms of the loan receivables are three to five years and they are repaid monthly by employees.

23. INVENTORIES

	GROUP	
	2011	**2010**
	RMB'000	**RMB'000**
Packaging materials	**589**	340
Packaged goods	**2,722**	2,516
	3,311	2,856

24. TRADE RECEIVABLES

	GROUP	
	2011	**2010**
	RMB'000	**RMB'000**
Trade receivables	**82,154**	100,506
Impairment	**(1,788)**	(1,567)
	80,366	98,939

24. TRADE RECEIVABLES (continued)

The Group's trading terms with its customers are mainly on credit, except for online sales, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

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

The movements in provision for impairment of trade receivables are as follows:

	2011	**2010**
	RMB'000	**RMB'000**
At 1 January	**1,567**	1,402
Impairment losses recognised	**455**	640
Amount written off as uncollectible	**(234)**	(475)
	1,788	1,567

Included in the above provision for impairment of trade receivables is a provision for individual impaired trade receivables of RMB1,788,000 (2010: RMB1,567,000) with a carrying amount before provision of RMB1,788,000 (2010: RMB1,567,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments.

24. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	GROUP	
	2011	**2010**
	RMB'000	**RMB'000**
Neither past due nor impaired	**44,202**	65,437
0 to 30 days past due	**14,453**	13,718
31 to 60 days past due	**6,505**	5,437
61 to 90 days past due	**5,151**	3,382
91 to 365 days past due	**6,396**	7,588
Over one year past due	**3,659**	3,377
	80,366	98,939

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	GROUP	
	2011	**2010**
	RMB'000	**RMB'000**
Prepayments	**59,057**	30,218
Value-added tax receivable	**11,485**	6,641
Deposits	**5,376**	4,839
Proceeds receivable from disposal of an associate	**—**	20,825
Other receivables	**15,038**	8,995
	90,956	71,518

	Company	
	2011	2010
	RMB'000	RMB'000
Prepayments	**494**	260
Total	**494**	260

None of the above assets is either past due or impaired. The financial assets included in above balances related to receivables for which there was no recent history of default.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSIT

	NOTES	GROUP 2011 RMB'000	GROUP 2010 RMB'000
Cash and bank balances	(a)	**296,853**	259,995
Time deposits with original maturity of three months or less when acquired	(a)	**902,460**	926,716
		1,199,313	1,186,711
Time deposits with original maturity of over three months when acquired	(a)	**839,457**	469,446
Less: Pledged time deposit for bank loan (note 28(b))	(a)	**(85,000)**	—
Cash and cash equivalents		**1,953,770**	1,656,157
Denominated in RMB	(b)	**1,789,950**	1,459,968
Denominated in USD		**33,949**	52,670
Denominated in HKD		**47,049**	76,567
Denominated in JPY		**49,241**	50,354
Denominated in MYR		**33,581**	16,598
		1,953,770	1,656,157

	COMPANY 2011 RMB'000	COMPANY 2010 RMB'000
Cash and bank balances	**12,847**	51,442
Time deposits with original maturity of three months or less when acquired	**142,436**	45,573
	155,283	97,015

(a) 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 bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents as at 31 December 2011 and 2010 approximate to their fair values.

(b) 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, based on the invoice date, is as follows:

	GROUP	
	2011 RMB'000	**2010 RMB'000**
0 to 30 days	**5,557**	6,357
31 to 60 days	**1,794**	1,834
61 to 90 days	**2,022**	2,118
91 to 365 days	**4,976**	2,631
Over one year	**2,219**	2,631
	16,568	15,571

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

28. INTEREST-BEARING BANK LOANS

	NOTES	EFFECTIVE INTEREST RATE	MATURITY	PRINCIPAL AMOUNT RMB'000
Group and Company				
At 31 December 2011				
Current				
Bank loan — unsecured	(a)	LIBOR plus 1.12% per annum	June 2012	265,585
Bank loan — secured	(b)	HIBOR plus 1.18% per annum	June 2012	81,070
				346,655
Group and Company				
At 31 December 2010				
Current				
Bank loan — unsecured		HIBOR plus 1.1% per annum	June 2011	102,108

(a) The interest-bearing bank loan represented a drawdown of USD42,000,000 (equivalent to RMB265,585,000) from the Group's banking facility of USD42,000,000 in June 2011. As an undertaking of such banking facility, the Group provided a RMB deposit of amount not less than the bank loan outstanding from time to time.

(b) The interest-bearing bank loan represented a drawdown of HKD100,000,000 (equivalent to RMB81,070,000) from the Group's banking facilities of HKD200,000,000 in June 2011. The bank loan was secured by the Group's time deposit of RMB85,000,000.

29. OTHER PAYABLES AND ACCRUALS

	GROUP 2011 RMB'000	GROUP 2010 RMB'000
Deposits received from customers	**15,091**	6,034
Other payables	**143,473**	109,706
Other taxes payable	**19,298**	13,641
Contingent consideration for acquiring a business	**6,000**	—
Accruals	**35,538**	34,080
	219,400	163,461

The Company's other payables and accruals are related to accruals of expenses.

Other payables are non-interest-bearing.

30. DEFERRED REVENUE

	GROUP 2011 RMB'000	GROUP 2010 RMB'000
Entertainment software	**121,869**	114,745
Information security software	**32,980**	57,796
Other application software	**6,123**	2,378
Government grants	**20,559**	15,790
	181,531	190,709
Less: Current portion	**(161,210)**	(161,570)
Non-current portion	**20,321**	29,139

31. SHARE CAPITAL

SHARES	2011 RMB'000	2010 RMB'000
Authorised:		
2,400,000,000 (2010: 2,400,000,000) ordinary shares of USD0.0005 each	**9,260**	9,260
Issued and fully paid:		
1,167,880,933 (2010: 1,121,407,633) ordinary shares of USD0.0005 each	**4,677**	4,527

31. SHARE CAPITAL (continued)

During the years ended 31 December 2010 and 2011, the movements in the Company's issued share capital were as follows:

COMPANY	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 1 January 2010		1,071,929,133	4,434	525,349	(72,365)	457,418
Difference between the proposed and the paid dividend in respect of the previous year		—	—	(1,578)	—	(1,578)
Exercise of share options		27,042,500	93	80,470	—	80,563
Vested awarded shares transferred to employees		5,741,999	—	—	14,592	14,592
Proposed final 2010 and special dividends		—	—	(196,000)	—	(196,000)
At 31 December 2010 and 1 January 2011		**1,104,713,632**	**4,527**	**408,241**	**(57,773)**	**354,995**
Difference between the proposed and the paid dividend in respect of the previous year		**—**	**—**	**1,043**	**—**	**1,043**
Shares purchased for a share award scheme	**7(b)**	**(20,000,000)**	**—**	**—**	**(47,420)**	**(47,420)**
Exercise of share options	**7(a)**	**46,473,300**	**150**	**123,931**	**—**	**124,081**
Vested awarded shares transferred to employees	**7(b)**	**6,604,995**	**—**	**—**	**11,439**	**11,439**
Proposed final 2011 dividend		**—**	**—**	**(92,241)**	**—**	**(92,241)**
At 31 December 2011		**1,137,791,927***	**4,677**	**440,974**	**(93,754)**	**351,897**

* Excluded 30,089,006 (2010: 16,694,001) shares held by the Share Award Scheme Trust as at 31 December 2011.

Share options

Details of the Company's share option schemes and the share options issued under these schemes are included in note 7 to the financial statement.

32. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES

	COMPANY	
	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**29,855**	18,393
Capital contribution in respect of employee share-based compensation	**191,331**	198,332
	221,186	216,725

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB662,950,000 (2010: RMB791,402,000) and RMB113,853,000 (2010: RMB84,309,000), respectively, are unsecured, interest-free and are repayable on demand.

Particulars of the subsidiaries are as follows:

NAME	PLACE OF INCORPORATION/ REGISTRATION AND OPERATIONS	NOMINAL VALUE OF ISSUED ORDINARY/ REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY AS AT 31 DECEMBER 2011	PRINCIPAL ACTIVITIES
Kingsoft Entertainment Software Holdings Limited ("KES Holdings")	Cayman Islands	USD1	**100**	Investment holding
Kingsoft Application Software Holdings Limited ("KAS Holdings")	Cayman Islands	HKD1	**100**	Investment holding
KIS Holdings	Cayman Islands	USD25,000	**64.84**	Investment holding
Kingsoft Office Software Holdings Limited* ("KOS Holdings")	Cayman Islands	USD1,950,000	**100**	Investment holding
Westhouse Holdings Limited ("Westhouse Holdings")	Cayman Islands	USD4,000,000	**80**	Investment holding
Kingsoft Jingcai Online Game Holdings Limited ("Kingsoft Jingcai Holdings")	Cayman Islands	USD750,000	**100**	Investment holding
Conew.com Corporation ("Conew")	British Virgin Islands	USD8,250	**64.84**	Investment holding
Kingsoft Entertainment Software Corporation Limited	Hong Kong	HKD1	**100**	Investment holding

32. INVESTMENTS 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 ATTRIBUTABLE TO THE COMPANY AS AT 31 DECEMBER 2011	PRINCIPAL ACTIVITIES
Kingsoft Application Software Corporation Limited		Hong Kong	HKD1	**100**	Investment holding
Kingsoft Internet Security Software Corporation Limited		Hong Kong	HKD1	**64.84**	Investment holding
Kingsoft Office Software Corporation Limited*		Hong Kong	HKD1	**100**	Investment holding
Westhouse Corporation Limited		Hong Kong	HKD18,600,000	**80**	Investment holding
Kingsoft Jingcai Online Game Corporation Limited*		Hong Kong	HKD850,000	**100**	Investment holding
Kingsoft (M) SDN.BHD ("Kingsoft Malaysia")		Malaysia	MYR1,000,000	**100**	Import and export of software and hardware and related business
Kingsoft Japan		Japan	JPY447,875,000	**51**	Development and sale of the security software and office application software
Beijing Kingsoft Software Co., Ltd.#		PRC/Mainland China	RMB10,000,000	**100**	Marketing and distribution of application software
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
Beijing Kingsoft Internet Security Software Co., Ltd. ("Beijing Security Software")#		PRC/Mainland China	RMB8,000,000	**64.84**	Sale and operation of internet security software
Beijing Kingsoft Qijian Digital Technology Co., Ltd. ("Kingsoft Qijian")#	(a)	PRC/Mainland China	RMB1,500,000	**100**	Investment holding

32. INVESTMENTS 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 ATTRIBUTABLE TO THE COMPANY AS AT 31 DECEMBER 2011	PRINCIPAL ACTIVITIES
Beijing Office Software Co., Ltd. (Beijing Kingsoft Office)*#		PRC/Mainland China	—	**100**	Sale and operation of office application software
Beijing Shangshuixuan Network Technology Co., Ltd.*#		PRC/Mainland China	RMB1,000,000	**99**	Sale and operation of games
Shell Internet (Beijing) Security Technology Co., Ltd. ("Shell Internet")#	(e)	PRC/Mainland China	RMB3,500,000	**64.84**	Provision of internet security service
Conew Network Technology (Beijing) Co., Ltd. ("Conew Network")		PRC/Mainland China	USD1,243,813	**64.84**	Research and development for application software and sales operations of related business
Beijing Conew Technology Development Co., Ltd. ("Conew Technology")#	(d)	PRC/Mainland China	RMB300,000	**64.84**	ICP license holder
Dalian Kingsoft Interactive Entertainment Co., Ltd. ("Kingsoft Dalian")#		PRC/Mainland China	RMB30,000,000	**80**	Research, development and distribution of games
Jingcai Online Technology (Dalian) Co., Ltd.#		PRC/Mainland China	—	**80**	Research and development of games
Chengdu Kingsoft Interactive Entertainment Co., Ltd. ("Chengdu Interactive Entertainment")#		PRC/Mainland China	RMB100,000,000	**100**	Research and development 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

32. INVESTMENTS 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 ATTRIBUTABLE TO THE COMPANY AS AT 31 DECEMBER 2011	PRINCIPAL ACTIVITIES
Chengdu Westhouse Interactive Entertainment Co., Ltd. ("Chengdu Westhouse")#		PRC/Mainland China	RMB15,000,000	**80**	Research and development of games
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	**64.84**	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
Zhuhai Xishanju Software Co., Ltd.#		PRC/Mainland China	RMB2,200,000	**100**	Investment holding
Zhuhai Kingsoft Online Game Technology Co., Ltd. ("Zhuhai Online Game")#	(f)	PRC/Mainland China	RMB10,000,000	**80**	Research and development for online games
Zhuhai Qiwen Application Software Co., Ltd. ("Zhuhai Qiwen")#	(c)	PRC/Mainland China	RMB68,000,000	**100**	Investment holding
Zhuhai Kingsoft Application Software Co., Ltd. ("Zhuhai Kingsoft Application")#	(c)	PRC/Mainland China	RMB68,000,000	**100**	Sale and operation of office application software

* Companies established during the year ended 31 December 2011.

\# The English names of these companies represent the best efforts by management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

All the above companies are with limited liability. They are indirectly held by the Company, except for KES Holdings, KAS Holdings, KIS Holdings, KOS Holdings, Kingsoft Malaysia and Kingsoft Japan, which are directly held by the Company.

32. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES (continued)

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, pursuant to which Chengdu Interactive Entertainment provided interest-free loans of RMB1,200,000 and RMB300,000 respectively to Kingsoft Qijian's equity holders. The loans are secured by the respective equity interests in Kingsoft Qijian held by Kingsoft Qijian's equity holders. Chengdu Interactive Entertainment has been granted an exclusive irrevocable option to purchase part or all of the equity interests in Kingsoft Qijian held by Kingsoft Qijian's equity holders. Kingsoft Qijian's equity holders entrust all of their respective shareholder 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 Group has rights to obtain the majority of the benefits from Kingsoft Qijian's operations, but also exposes to risks incidental to the activities of Kingsoft Qijian. Accordingly, Kingsoft Qijian is accounted for as a subsidiary by virtue of the Group's control over it.

Kingsoft Qijian wholly owns Beijing Digital Entertainment. Accordingly, Beijing Digital Entertainment is accounted for as a subsidiary by virtue of the Group's control, through Kingsoft Qijian, over it.

(b) As at 31 December 2011, Chengdu Digital Entertainment is 99% owned by Beijing Digital Entertainment. The non-controlling 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 interest 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 interest held by the non-controlling equity holder in Chengdu Digital Entertainment. During the pledge period, the non-controlling 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 a licensing agreement with Chengdu Interactive Entertainment (as the licensor) and the Group, via Chengdu Interactive Entertainment, has rights to obtain the majority of the benefits from Chengdu Digital Entertainment's operations, but also exposes to risks incidental to the activities of Chengdu Digital Entertainment. Accordingly, Chengdu Digital Entertainment is accounted for as a wholly-owned subsidiary by virtue of the Group's control over it.

(c) In February and August 2010, the two individual equity holders of Zhuhai Qiwen ("Zhuhai Qiwen's equity holders") entered into loan agreements with Zhuhai Software, pursuant to which Zhuhai Software provided interest-free loans of RMB8,000,000 and RMB60,000,000 respectively to Zhuhai Qiwen's equity holders. The loans are secured by the respective equity interests held by Zhuhai Qiwen's equity holders. Zhuhai Software has been granted an exclusive irrevocable option to purchase part or all of the equity interests in Zhuhai Qiwen held by Zhuhai Qiwen's equity holders. Zhuhai Qiwen's equity holders entrust all of their respective shareholder rights in Zhuhai Qiwen to Zhuhai Software. Zhuhai Qiwen's equity holders give up the dividends in Zhuhai Qiwen and Zhuhai Software is entitled to dividends if Zhuhai Qiwen declares dividend. During the year ended 31 December 2011, one of Zhuhai Qiwen's equity holders transferred part of her equity interests in Zhuhai Qiwen to 26 natural persons (together with the original two individual equity holders referred to as the "New Equity Holders") for a consideration of discharging the corresponding portion of her liability under the aforesaid loan agreement, which were assumed by these 26 natural persons. Consequently, Zhuhai Software transferred the loan in the amount of RMB68,000,000 receivable from the New Equity Holders to Beijing Kingsoft Office, a wholly owned subsidiary of the Group, for a cash consideration of RMB68,000,000, and hence the New Equity Holders were liable to Beijing Kingsoft Office a loan in total of RMB68,000,000. The loan was secured by the respective equity interests held by the New Equity Holders in Zhuhai Qiwen. Meanwhile, Beijing Kingsoft Office was granted an irrevocable exclusive option to purchase part or all of the New Equity Holders' equity interests in Zhuhai Qiwen. The New Equity Holders also entrusted all of their respective shareholder rights in Zhuhai Qiwen to person designated by Beijing Kingsoft Office and pledged all of their respective equity interests in Zhuhai Qiwen in favor of Beijing Kingsoft Office. The New Equity Holders give up the dividends in Zhuhai Qiwen and Beijing Kingsoft Office is entitled to dividends if Zhuhai Qiwen declares dividend. The Group, via Beijing Kingsoft Office (and via Zhuhai Software before Beijing Kingsoft Office), has rights to obtain the majority of the benefits from Zhuhai Qiwen's operations, but also exposes to risks incidental to the activities of Zhuhai Qiwen. Accordingly, Zhuhai Qiwen and its wholly-owned subsidiary, Zhuhai Kingsoft Application, are accounted for as subsidiaries by virtue of the Group's control over it.

32. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/(TO) SUBSIDIARIES (continued)

(d) In August 2010, the two individual equity holders of Conew Technology ("Conew Technology's equity holders") entrusted all of their respective shareholder rights in Conew Technology to Conew Network. Conew Network was granted an exclusive irrevocable option to purchase part or all of the equity interests in Conew Technology held by Conew Technology's equity holders. Conew Technology's equity holders give up the dividends in Conew Technology to Conew Network and Conew Network is entitled to dividends if Conew Technology declares dividend. The Group, via Conew Network, has rights to obtain the majority of the benefits from Conew Technology's operations, but also exposes to risks incidental to the activities of Conew Technology. Accordingly, Conew Technology is accounted for as a subsidiary by virtue of the Group's control over it.

(e) In January 2011, the two individual equity holders of Shell Internet ("Shell Internet's equity holders") entered into loan agreements with Beijing Security Software, , pursuant to which Beijing Security Software provided interest-free loans of RMB700,000 respectively to Shell Internet's equity holders. The loans were secured by the respective equity interests held by Shell Internet's equity holders. Beijing Security Software has been granted an irrevocable exclusive option to purchase part or all of the equity interests in Shell Internet held by Shell Internet's equity holders. Shell Internet's equity holders entrusted all of their respective shareholder rights in Shell Internet to person designated by Beijing Security Software and pledged all of their respective equity interests in Shell Internet in favor of Beijing Security Software. Shell Internet's equity holders give up the dividends in Shell Internet and Beijing Security Software is entitled to dividends if Shell Internet declares dividend. The Group, via Beijing Security Software, has rights to obtain the majority of the benefits from Shell Internet's operations, but also exposes to risks incidental to the activities of Shell Internet. Accordingly, Shell Internet is accounted for as a subsidiary by virtue of the Group's control over it.

(f) As at 31 December 2011, Zhuhai Online Game is 80.5% owned by Chengdu Westhouse. The non-controlling equity holders of Zhuhai Online Game borrowed loans from Chengdu Westhouse for repaying the liabilities incurred by them for the acquisition of the 19.5% registered capital in Zhuhai Online Game and the loans were secured by the non-controlling equity holders, respective equity interests in Zhuhai Online Game. Chengdu Westhouse is granted an irrevocable exclusive option to purchase at its sole discretion at any time part or all of the equity interests held by the non-controlling equity holders in Zhuhai Online Game. The non-controlling equity holders entrusted all of their respective shareholder rights in Zhuhai Online Game to person designated by Chengdu Westhouse and pledged all of their respective equity interests in Zhuhai Online Game in favor of Chengdu Westhouse. During the pledge period, the non-controlling equity holders forfeit the right to dividends from Zhuhai Online Game and Chengdu Westhouse is entitled to this portion of dividend from Zhuhai Online Game. The Group, via Chengdu Westhouse, has rights to obtain the majority of the benefits from Zhuhai Online Game's operations, but also exposes to risks incidental to the activities of Zhuhai Online Game. Accordingly, Zhuhai Online Game is accounted for as a wholly-owned subsidiary by virtue of the Group's control over it.

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years ended 31 December 2011 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 financial position 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. In addition, the PRC subsidiaries may, subject to a shareholders' resolution, draw a discretionary reserve from their after-tax profits.

The reserves shall be used to offset accumulated losses, or to increase registered capital of the companies. Where the statutory reserve is converted into capital, the remaining statutory reserve balance shall be no less than 25 % of the registered capital prior to the conversion.

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

During the year ended 31 December 2011, the Group's major equity transactions are as follows:

(i) On 31 March 2011, KIS Holdings issued 100,000,000 ordinary shares (representing 11% of the enlarged equity interest of KIS Holdings) to a company controlled by a key management of the Company, resulting in an increase in capital reserve of RMB10,475,000. Meanwhile, KIS Holdings was granted options from this company to repurchase the above 100,000,000 ordinary shares (the "Repurchase Option") if certain conditions have been fulfilled. The option relating to the repurchase of the 20% of the above shares has been expired as at 31 December 2011, and the option relating to the repurchase of the remaining 80% of the above shares will be expired upon the earlier of: (i) the IPO of KIS Holdings, or (ii) the fourth anniversary from the date of 31 March 2011.

(ii) On 8 April 2011, Westhouse Holdings issued 160,000,000 shares (representing 20% of the enlarged equity interest of Westhouse Holdings) to a company (the "Founder Co.") owned by some founding employees including a director of the Company, resulting in an increase in capital reserve of RMB152,473,000.

(iii) On 7 July 2011, KIS Holdings issued new shares representing 9.29% of enlarged equity interest of KIS Holdings to a subsidiary of Tencent Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited, and a venture company, resulting in an increase in capital reserve of RMB74,736,000.

33. RESERVES (continued)

(b) Company

	NOTE	SHARE PREMIUM ACCOUNT RMB'000	SHARES HELD FOR SHARE AWARD SCHEME RMB'000	EMPLOYEE SHARE-BASED RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	RETAINED EARNINGS RMB'000	TOTAL RMB'000
At 1 January 2010		525,349	(72,365)	224,348	(71,368)	(149,257)	456,707
Total comprehensive income for the year		—	—	—	(17,060)	428,682	411,622
Difference between the proposed and the paid dividend in respect of the previous year		(1,578)	—	—	—	—	(1,578)
Exercise of share options		80,470	—	(38,333)	—	—	42,137
Share-based compensation costs		—	—	36,639	—	—	36,639
Vested awarded shares transferred to employees		—	14,592	(14,592)	—	—	—
Proposed final 2010 and special dividends	11	(196,000)	—	—	—	(180,000)	(376,000)
At 31 December 2010 and 1 January 2011		**408,241**	**(57,773)**	**208,062**	**(88,428)**	**99,425**	**569,527**
Total comprehensive income for the year		**—**	**—**	**—**	**(36,625)**	**39,933**	**3,308**
Difference between the proposed and the paid dividend in respect of the previous year		**1,043**	**—**	**—**	**—**	**—**	**1,043**
Exercise of share options		**123,931**	**—**	**(60,153)**	**—**	**—**	**63,778**
Shares purchased for share award scheme		**—**	**(47,420)**	**—**	**—**	**—**	**(47,420)**
Share-based compensation costs		**—**	**—**	**6,381**	**—**	**—**	**6,381**
Vested awarded shares transferred to employees		**—**	**11,439**	**(11,439)**	**—**	**—**	**—**
Proposed final 2011 dividend	11	**(92,241)**	**—**	**—**	**—**	**—**	**(92,241)**
At 31 December 2011		**440,974**	**(93,754)**	**142,851**	**(125,053)**	**139,358**	**504,376**

The Company operates three share option schemes and a share award scheme as part of the benefits to its employees. The employee share-based reserve comprises the fair value of share options and awarded shares granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be either transferred to the share premium account when the related share options are exercised, or be transferred to shares held for share award scheme when the related awarded shares are vested and transferred.

34. BUSINESS COMBINATION

For the year ended 31 December 2011

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

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

	NOTES	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Property, plant and equipment	13	105
Trademark and websites	16	2,161
Software	16	12,885
Total identifiable net assets at fair value		15,151
Goodwill on acquisition	15	2,849
Satisfied by cash and other payables		18,000

An analysis of the cash flows in respect of the acquisition of the Target Business is as follows:

Cash paid	(12,000)
Net outflow of cash and cash equivalent included in cash flows used in investing activities	(12,000)

The Group did not incur transaction costs for this acquisition. The transaction costs were borne by the Selling Parties.

34. BUSINESS COMBINATION (continued)

Since the acquisition, the Target Business contributed RMB6,904,000 to the Group's revenue and RMB4,500,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the year ended 31 December 2011 would have been RMB1,020,804,000 and RMB335,090,000, respectively.

For the year ended 31 December 2010

On 1 October 2010, the Group, through its wholly-owned subsidiary KIS Holdings, acquired a 100% equity interest in Conew, an unlisted company incorporated in the British Virgin Islands specialising in research and development of anti-virus and photo processing software. The acquisition of Conew can significantly enlarge the range of products in the information security software segment and enhance the management team. The purchase consideration for the acquisition was 150,000,000 newly issued ordinary shares of KIS Holdings, representing 18.75% of its enlarged capital.

The fair values of the identifiable assets and liabilities of Conew as at the date of acquisition were as follows:

	NOTES	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Property, plant and equipment	13	1,567
Cash and cash equivalents		1,026
Other receivables		1,781
Software	16	6,812
Other intangible assets	16	2,560
Other payables and accruals		(113)
Other current liabilities		(3,000)
Deferred tax liabilities		(2,343)
Total identifiable net assets at fair value		8,290
Goodwill on acquisition	15	11,710
Satisfied by 18.75% of the enlarged capital of KIS Holdings		20,000

The fair values of the other receivables as at the date of acquisition amounted to RMB1,781,000. The gross contractual amounts of other receivables were RMB1,781,000.

The Group incurred transaction costs of RMB408,000 for this acquisition. These transaction costs have been expensed and were included in administrative expenses in the consolidated income statement for the year ended 31 December 2010.

34. BUSINESS COMBINATION (continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	—
Cash and bank balances acquired	1,026
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,026
Transaction costs of the acquisition included in cash flows from operating activities	(408)
	618

Since the acquisition, Conew has not contributed any turnover to the Group but incurred a loss of RMB4,797,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year ended 31 December 2010 would have been RMB972,078,000 and RMB368,421,000, respectively.

35. DISPOSAL OF A SUBSIDIARY

	NOTE	2011 RMB'000
Net assets disposed of:		
Cash and bank balances		130
Prepayments and other receivables		851
Other payables and accruals		(809)
		172
Gain on disposal of a subsidiary	6	828
		1,000
Satisfied by:		
Cash		1,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2011 RMB'000
Cash consideration	1,000
Cash and bank balances disposed of	(130)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	870

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Supplemental cash flow information

	2011 RMB'000	2010 RMB'000
Cash received from interest	**55,496**	35,549
Cash paid for income tax related to operating activities	**(49,307)**	(47,294)

37. COMMITMENTS

Operating lease commitments — Group as lessee

The Group leases certain of its office premises and electronic equipment under operating lease arrangements. These non-cancellable leases have remaining terms ranging one to five years.

At 31 December 2011, the Group and the Company had total future minimum lease payments under non-cancelled operating leases falling due as follows:

	GROUP		COMPANY	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Within one year	**21,544**	27,693	**85**	82
After one year but not more than five years	**1,622**	1,552	**—**	88
	23,166	29,245	**85**	170

As at 31 December 2011, the calculation of lease payment of some electronic equipment was based on the actual number of users of the relevant servers. The rental expense under these operating leases was RMB15,413,000 for the year ended 31 December 2011 (2010: RMB12,685,000). 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	2011 RMB'000	2010 RMB'000
Contracted, but not provided for:			
Purchase of electronic equipment		**6,333**	214
Development of land and buildings	(a)	**1,646,500**	990,644
Investment in Vietnam	(b)	**—**	1,318
Acquisition of intangible assets		**430**	11,394
		1,653,263	1,003,570

37. COMMITMENTS (continued)

Capital commitments (continued)

		COMPANY	
	NOTE	2011 RMB'000	2010 RMB'000
Contracted, but not provided for:			
Investment in Vietnam	(b)	—	1,318

(a) The capital commitment for the development of land and buildings represented the commitment to invest an aggregate of RMB926,609,000 before 2014 in the development of a piece of land in Zhuhai and, an aggregate of RMB719,891,000 in the development of a piece of land in Chengdu, the PRC, in accordance with the relevant land acquisition agreement.

(b) In 2008, the Company entered into an agreement to contribute USD199,000 for 19.9% interest in Kim Quang Software and Technology Joint Stock Company, a company engaged in software business in Vietnam. The agreement has been terminated as of 31 December 2011.

38. 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:

		GROUP	
	NOTES	2011 RMB'000	2010 RMB'000
Loan to non-controlling shareholder of a subsidiary	(i)	**122,801**	—
Interest income from non-controlling shareholder of a subsidiary	(i)	**1,741**	—
Provision of services to companies whose parent has a significant influence on the Company	(ii)	**7,523**	—

(i) In connection with the equity transaction mentioned in note 33(a)(ii), the Group, through one of its wholly-owned subsidiary, provided a loan of HKD151,475,000 (equivalent to RMB122,801,000) to the Founder Co. for its acquisition of the 20% equity interest of Westhouse Holdings. The loan bears interest at a rate of Hong Kong Interbank Offered Rate plus 1.3% per annum for initial term and Hong Kong Bank Offered Loan Rate for the succeeding terms, and is secured by 128,000,000 shares of Westhouse Holdings held by the Founder Co.. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied.

(ii) The directors of the Company consider that the provision of services was made according to the published prices and conditions offered to the major customers of the Group.

38. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties:

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

		GROUP	
	NOTE	2011 RMB'000	2010 RMB'000
Due from related parties:			
Loan to non-controlling shareholders of subsidiaries	(i)	**137,502**	13,607
Due from related parties included in trade receivables			
Receivables from companies whose parent has a significant influence on the Company		**2,140**	—
		139,642	13,607

(i) Other than the loan described in note 38(a)(ii), another loan of RMB12,960,000 was due from the non-controlling shareholders of a subsidiary. This loan bears interest at a rate of HIBOR plus 1.5% per annum and will be repaid in four years since June 2009. The loan was secured by certain equity interest of the subsidiary held by the aforementioned shareholders.

(c) Compensation of key management personnel of the Group

Other than the directors' remuneration disclosed in note 8 to the financial statements, the compensation of other key management personnel of the Group is as follows:

	GROUP	
	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	**7,680**	9,248
Pension plan contributions	**168**	177
Share-based compensation costs	**2,645**	5,797
Total compensation paid to key management personnel	**10,493**	15,222

39. 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							
	2011				2010			
FINANCIAL ASSETS	LOANS AND RECEIVABLES RMB'000	AVAILABLE-FOR-SALE INVESTMENTS RMB'000	DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000	TOTAL RMB'000	LOANS AND RECEIVABLES RMB'000	AVAILABLE-FOR-SALE INVESTMENT RMB'000	DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS UPON INITIAL RECOGNITION RMB'000	TOTAL RMB'000
Other financial asset	—	—	11,812	11,812	—	—	13,785	13,785
Available-for-sale investments	—	4,990	—	4,990	—	18,675	—	18,675
Loan receivables	4,500	—	—	4,500	3,542	—	—	3,542
Trade receivables	80,366	—	—	80,366	98,939	—	—	98,939
Due from related parties	137,502	—	—	137,502	13,607	—	—	13,607
Financial assets included in prepayments, deposits and other receivables	20,414	—	—	20,414	34,659	—	—	34,659
Pledged deposit	85,000	—	—	85,000	—	—	—	—
Cash and cash equivalents	1,953,770	—	—	1,953,770	1,656,157	—	—	1,656,157
Total	2,281,552	4,990	11,812	2,298,354	1,806,904	18,675	13,785	1,839,364

	GROUP	
FINANCIAL LIABILITIES	2011 FINANCIAL LIABILITIES AT AMORTISED COST RMB'000	2010 FINANCIAL LIABILITIES AT AMORTISED COST RMB'000
Trade payables	16,568	15,571
Financial liabilities included in other payables and accruals	149,473	109,448
Interest-bearing bank loans	346,655	102,108
Total	512,696	227,127

39. 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)

FINANCIAL ASSETS	COMPANY 2011 LOANS AND RECEIVABLES RMB'000	COMPANY 2010 LOANS AND RECEIVABLES RMB'000
Due from related parties	**12,960**	13,607
Due from subsidiaries	**662,950**	791,402
Cash and cash equivalents	**155,283**	97,015
Total	**831,193**	902,024

FINANCIAL LIABILITIES	COMPANY 2011 FINANCIAL LIABILITIES AT AMORTISED COST RMB'000	COMPANY 2010 FINANCIAL LIABILITIES AT AMORTISED COST RMB'000
Financial liabilities included in other payables and accruals	**425**	1,075
Due to subsidiaries	**113,853**	84,309
Interest-bearing bank loans	**346,655**	102,108
Total	**460,933**	187,492

40. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	CARRYING AMOUNTS		FAIR VALUES	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Financial assets				
Cash and cash equivalents	**1,953,770**	1,656,157	**1,953,770**	1,656,157
Pledged deposit	**85,000**	—	**85,000**	—
Loan receivables	**4,500**	3,542	**4,500**	3,542
Trade receivables	**80,366**	98,939	**80,366**	98,939
Due from related parties	**137,502**	13,607	**137,502**	13,607
Financial assets included in prepayments, deposits and other receivables	**20,414**	34,659	**20,414**	34,659
Available-for-sale investments	**4,990**	18,675	**4,990**	18,675
Other financial asset	**11,812**	13,785	**11,812**	13,785
	2,298,354	1,839,364	**2,298,354**	1,839,364
Financial liabilities				
Trade payables	**16,568**	15,571	**16,568**	15,571
Financial liabilities included in other payables and accruals	**149,473**	109,448	**149,473**	109,448
Interest-bearing bank loans	**346,655**	102,108	**346,655**	102,108
	512,696	227,127	**512,696**	227,127

40. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company

	CARRYING AMOUNTS		FAIR VALUES	
	2011	**2010**	**2011**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial assets				
Cash and cash equivalents	**155,283**	97,015	**155,283**	97,015
Due from related parties	**12,960**	13,607	**12,960**	13,607
Due from subsidiaries	**662,950**	791,402	**662,950**	791,402
	831,193	902,024	**831,193**	902,024
Financial liabilities				
Due to subsidiaries	**113,853**	84,309	**113,853**	84,309
Financial liabilities included in other payables and accruals	**425**	1,075	**425**	1,075
Interest-bearing bank loans	**346,655**	102,108	**346,655**	102,108
	460,933	187,492	**460,933**	187,492

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposit, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and amounts due from/to subsidiaries, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of loan receivables, due from related parties and interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair value of unlisted available-for-sale investments as at 31 December 2010 have been estimated by reference to the proceeds to be received from the second transfer pursuant to the agreement with detail in note 19.

The fair value of other financial asset has been estimated using the BS Model. The valuation technique is based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about life of option, expected volatility, underlying equity value and discount rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in consolidated income statement, are reasonable, and that they were the most appropriate values at the end of the reporting period.

40. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

Group

As at 31 December 2011

	LEVEL 1 RMB'000	LEVEL 2 RMB'000	LEVEL 3 RMB'000	TOTAL RMB'000
Other financial asset at fair value through profit or loss	**—**	**—**	**11,812**	**11,812**
	—	**—**	**11,812**	**11,812**

Group

As at 31 December 2010

	LEVEL 1 RMB'000	LEVEL 2 RMB'000	LEVEL 3 RMB'000	TOTAL RMB'000
Available-for-sale investments	—	18,675	—	18,675
Other financial asset at fair value through profit or loss	—	—	13,785	13,785
	—	18,675	13,785	32,460

40. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Assets measured at fair value: (continued)

The movements in fair value measurements in Level 3 during the year are as follows:

	2011 RMB'000
Other financial asset at fair value through profit or loss:	
At 1 January	13,785
Total loss recognised in the income statement	(1,973)
At 31 December	11,812

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2010: Nil)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations and payment of dividends. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates and loan to related parties bearing a floating interest rate.

The Group's policy is to reduce the interest expenses through a combination of bank loans denominated in USD or HKD and equivalent deposits in RMB. As at 31 December 2011, approximately RMB346,655,000 of the Group's bank loans denominated in USD or HKD bore interest at floating rates. The Group believes that the exposure to the risk of changes in market interest rates is minimal because simultaneously the Group has an equivalent RMB deposit earning at a higher interest rate.

For the year ended 31 December 2011, if the average interest rate on loan to related parties and bank loans had been 5% (2010: 5%) higher/lower with all other variables held constant, the profit of the Group for the year would have been approximately RMB10,458,000 (2010: RMB4,425,000) lower/higher as a result of higher/lower finance costs.

For the year ended 31 December 2011, if the average interest rate on loan to related parties and bank loans had been 5% (2010: 5%) higher/lower with all other variables held constant, the profit of the Company for the year would have been approximately RMB16,685,000 (2010: RMB4,425,000) lower/higher as a result of higher/lower finance costs.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from royalties and licensing revenue derived from overseas markets by operating units in currencies other than the units' functional currency. Approximately 12% (2010: 14%) of the Group's royalties and licensing revenue were denominated in currencies other than the functional currency of the operating units authorising the license.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and HKD exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) for the year:

	Increase/ (decrease) in profit before tax RMB'000
2011	
If RMB strengthens 5% against HKD	**(44)**
If RMB weakens 5% against HKD	**44**
If RMB strengthens 5% against USD	**(263)**
If RMB weakens 5% against USD	**263**
2010	
If RMB strengthens 5% against HKD	(35)
If RMB weakens 5% against HKD	35
If RMB strengthens 5% against USD	(326)
If RMB weakens 5% against USD	326

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposit, loan receivables, loan to related parties and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

At the end of the reporting period, the Group had certain concentrations of credit risk as 14% (2010: 36%) of the Group's trade receivables were due from the Group's largest customer, respectively, within the entertainment software segment.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

The contractual maturity of trade payables and interest-bearing bank loans are disclosed in note 27 and 28 respectively. For trade payables, they are generally on credit terms of two to three months after the invoice date. For other payables and accruals, there are generally no specified contractual maturities for these liabilities, and they are paid on a regular basis or upon counterparty's formal notification.

The Group has been continuously generating cash inflows from its operating activities and recording an increase of cash and cash equivalents. As at 31 December 2011, the Group's cash and cash equivalents balance was approximately RMB1,953,770,000, accounting for 83.1% of the Group's current assets and 64.8% of the Group's total assets. The Group believes that the exposure to liquidity risks is minimal.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

The Group monitors capital using the net cash over debt position, which is cash and cash equivalents less trade payables, other payables and accruals, and interest-bearing bank loans.

	GROUP	
	2011	**2010**
	RMB'000	**RMB'000**
Cash and cash equivalents	**1,953,770**	1,656,157
Trade payables	**(16,568)**	(15,571)
Other payables and accruals	**(219,400)**	(163,461)
Interest-bearing bank loans	**(346,655)**	(102,108)
Net cash over debt position	**1,371,147**	1,375,017

42. CONTINGENT LIABILITIES

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

43. 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.

Due to the restructuring of application software business during the current year, comparative amounts of the segment information in note 4 have been restated to confirm with the current year's presentation and accounting treatment.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2012.