Kingsoft Corporation Limited
金 山 軟 件 有 限 公 司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 3888)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2010

The Board ("Board") of directors (the "Directors") of Kingsoft Corporation Limited (the "Company") announces the annual results of the Company and its subsidiaries (the "Group" or "Kingsoft") for the year ended December 31, 2010. The consolidated financial statements of the Group for the year have been audited by Ernst & Young, the auditors of the Company in accordance with Hong Kong Standards on Auditing. In addition, the results have also been reviewed by the Audit Committee of the Company.

FINANCIAL HIGHLIGHTS

	For the year ended			
	December 31, 2009 RMB'000	**December 31, 2010 RMB'000**	**December 31, 2010** HKD'000**	Year over Year change %
Revenue	1,022,412	**971,397**	**1,141,611**	(5%)
Profit attributable to owners of the parent*	387,224	**372,480**	**437,748**	(4%)
	RMB cent	**RMB cent**	**HKD cent**	
Basic earnings per share	36.38	**34.16**	**40.15**	(6%)
Diluted earnings per share	33.68	**32.13**	**37.76**	(5%)

* Profit attributable to owners of the parent excluding the effect of share-based compensation cost is RMB414.6 million and RMB428.5 million for the years ended December 31, 2010 and December 31, 2009, respectively; representing an decrease of 3% year-over-year.

** The conversion of Renminbi ("RMB") into Hong Kong Dollars ("HKD") in this release is based on RMB 0.8509 to HKD1.00 as published by the People's Bank of China on December 31, 2010. Translations of amounts from RMB into HKD are solely for the convenience of the reader. This convenient translation is not intended to imply that RMB amounts could have been, or could be, converted, realised, or settled into HKD at that rate on December 31, 2010, or at any other rate.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.15 per share for the year ended December 31, 2010 (2009: HKD0.15 per share) and a special dividend of HKD0.25 per share. The final dividend and special dividend, if approved by the shareholders at the Annual General Meeting ("AGM") to be held on May 25, 2011, are expected to be payable on June 10, 2011 to shareholders whose names appear on the register of members of the Company on May 25, 2011.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

	Notes	**2010**	2009
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	9	**392,767**	407,980
Goodwill		**11,710**	2,377
Other intangible assets		**69,045**	48,489
Lease prepayments		**45,083**	6,972
Investments in associates		**—**	6,378
Investments in jointly-controlled entities		**18,793**	40,112
Available-for-sale investment	10	**18,675**	—
Other financial asset	11	**13,785**	—
Loan receivables		**3,542**	2,649
Deferred tax assets		**25,670**	28,917
Deferred cost		**461**	1,201
Long-term prepayments		**—**	38,738
		599,531	583,813
Current assets			
Inventories		**2,856**	5,384
Trade receivables	12	**98,939**	120,378
Prepayments, deposits and other receivables		**85,125**	60,075
Deferred cost		**2,205**	3,122
Cash and cash equivalents		**1,656,157**	1,268,098
		1,845,282	1,457,057

	Notes	2010 RMB'000	2009 RMB'000
Current liabilities			
Trade payables	13	**15,571**	12,597
Interest-bearing bank loan		**102,108**	—
Dividend payable		**258**	174
Accrued expenses and other payables		**163,203**	186,896
Deferred revenue		**161,570**	158,643
Income tax payable		**3,765**	19,453
		446,475	377,763
Net current assets		**1,398,807**	1,079,294
Total assets less current liabilities		**1,998,338**	1,663,107
Non-current liabilities			
Deferred revenue		**29,139**	42,144
Deferred tax liabilities		**35,138**	16,653
		64,277	58,797
Net assets		**1,934,061**	1,604,310
Equity			
Equity attributable to owners of the parent			
Issued capital		**4,527**	4,434
Share premium		**408,241**	525,349
Shares held for share award scheme		**(57,773)**	(72,365)
Statutory reserves		**140,057**	107,817
Employee share-based reserve		**207,646**	225,011
Capital reserve		**16,230**	—
Foreign currency translation reserve		**(68,625)**	(66,464)
Retained earnings		**883,575**	723,335
Proposed final and special dividends		**376,000**	141,575
		1,909,878	1,588,692
Non-controlling interests		**24,183**	15,618
Total equity		**1,934,061**	1,604,310

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue:			
Entertainment software		**640,917**	684,242
Application software		**321,003**	329,196
Others		**9,477**	8,974
		971,397	1,022,412
Cost of revenue		**(130,998)**	(128,467)
Gross profit		**840,399**	893,945
Research and development costs, net of government grants		**(271,046)**	(199,611)
Selling and distribution costs		**(129,216)**	(171,634)
Administrative expenses		**(111,143)**	(101,630)
Share-based compensation costs	5, 6	**(42,119)**	(41,312)
Other income and gains		**31,528**	26,867
Other expenses	5	**(38,203)**	(2,598)
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	5	**33,162**	25,523
Finance costs		**(721)**	—
Share of profits and losses of:			
Associates		**14,433**	25,715
Jointly-controlled entities		**(6,360)**	(6,952)
Profit before tax	5	**439,688**	448,313
Income tax expense	7	**(65,155)**	(59,459)
Profit for the year		**374,533**	388,854
Attributable to:			
Owners of the parent		**372,480**	387,224
Non-controlling interests		**2,053**	1,630
		374,533	388,854
		RMB	RMB
Earnings per share attributable to ordinary equity holders of the parent	8		
Basic		**0.3416**	0.3638
Diluted		**0.3213**	0.3368

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

	2010 RMB'000	2009 RMB'000
Profit for the year	**374,533**	388,854
Other comprehensive income:		
Exchange differences on translation of foreign operations	**(498)**	(632)
Other comprehensive loss for the year, net of tax	**(498)**	(632)
Total comprehensive income for the year	**374,035**	388,222
Attributable to:		
Owners of the parent	**370,319**	386,888
Non-controlling interests	**3,716**	1,334
	374,035	388,222

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2010

	Attributable to owners of the parent											
	Issued capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Statutory reserves RMB'000	Employee share-based reserve RMB'000	Capital reserve 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 January 1, 2009	4,362	639,034	(40,050)	81,481	194,648	—	(66,128)	362,447	139,723	1,315,517	12,848	1,328,365
Profit for the year	—	—	—	—	—	—	—	387,224	—	387,224	1,630	388,854
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(336)	—	—	(336)	(296)	(632)
Total comprehensive income for the year	—	—	—	—	—	—	(336)	387,224	—	386,888	1,334	388,222
Final dividend in respect of the previous year approved and paid	—	(1,068)	—	—	—	—	—	—	(139,723)	(140,791)	—	(140,791)
Shares purchased for share award scheme	—	—	(43,050)	—	—	—	—	—	—	(43,050)	—	(43,050)
Share-based compensation costs	—	—	—	—	41,098	—	—	—	—	41,098	36	41,134
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	—	1,400	1,400
Profit appropriations	—	—	—	26,336	—	—	—	(26,336)	—	—	—	—
Exercise of share options	72	28,958	—	—	—	—	—	—	—	29,030	—	29,030
Vested awarded shares transferred to employees	—	—	10,735	—	(10,735)	—	—	—	—	—	—	—
Proposed final 2009 dividend	—	(141,575)	—	—	—	—	—	—	141,575	—	—	—
At December 31, 2009 and January 1, 2010	**4,434**	**525,349**	**(72,365)**	**107,817**	**225,011**	**—**	**(66,464)**	**723,335**	**141,575**	**1,588,692**	**15,618**	**1,604,310**
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
Final dividend in respect of the previous year approved and paid	—	(1,578)	—	—	—	—	—	—	(141,575)	(143,153)	—	(143,153)
Share-based compensation costs	—	—	—	—	35,560	—	—	—	—	35,560	1,079	36,639
Profit appropriations	—	—	—	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)	—	—	—	—	—	—	—
Changes in the ownership interest in a subsidiary	—	—	—	—	—	16,230	—	—	—	16,230	3,770	20,000
Proposed final 2010 and special dividends	—	(196,000)	—	—	—	—	—	(180,000)	376,000	—	—	—
At December 31, 2010	**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**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
	RMB'000	RMB'000
Net cash flows from operating activities	**407,416**	446,874
Net cash flows from/(used in) investing activities	**374,225**	(503,721)
Net cash flows from/(used in) financing activities	**464**	(153,411)
Net increase/(decrease) in cash and cash equivalents	**782,105**	(210,258)
Cash and cash equivalents at beginning of year	**405,595**	616,955
Effect of foreign exchange rate changes, net	**(989)**	(1,102)
Cash and cash equivalents at end of year	**1,186,711**	405,595
Time deposits with original maturity of over three months when acquired	**469,446**	862,503
Cash and cash equivalents as stated in the consolidated statement of financial position	**1,656,157**	1,268,098

NOTES TO FINANCIAL STATEMENTS

1. Corporate information and basis of preparation

Kingsoft Corporation Limited was incorporated under the Companies Act of the British Virgin Islands on March 20, 1998 as a tax exempted company with limited liability. On November 15, 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 (P.O. BOX 1350 GT). The company's shares have been listed on the Main Board of the The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 9, 2007.

During the year, the Group was involved in the following activities:

- Research, development, operation and distribution of online games, mobile games and casual game services; and

- Research, development, operation and distribution of internet security, dictionary and office application software products and value-added services.

2. Basis of preparation

These financial statements have been prepared under the historical cost conventions, except for available-for-sale investment and other financial asset, which are stated at fair value. The consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

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.

Basis of consolidation

Basis of consolidation from January 1, 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2010. 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.

Losses within a subsidiary are 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.

Basis of consolidation prior to January 1, 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interests), prior to January 1, 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between non-controlling interest and the parent shareholders.

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

3. 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.

IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), amendments to IAS 7, IAS 17, IAS 36 and IFRS 8 included in *Improvements to IFRSs 2009*, the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements.

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

IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after January 1, 2010.

Improvements to IFRSs 2009 issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 7 *Statement of Cash Flows:* Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases:* Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

  The Group has reassessed its leases in Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases.

- IAS 36 *Impairment of Assets:* The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

- IFRS 8 *Operating Segments:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does not review segment assets and liabilities, the Group does not disclose this information in Note 4.

4. Operating segment information

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

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

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

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

Year ended December 31, 2010	**Entertainment software RMB'000**	**Application software RMB'000**	**Total RMB'000**
Segment revenue:			
Sales to external customers	**640,917**	**330,480**	**971,397**
Segment results	**327,300**	**112,837**	**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:			
Associates			**14,433**
Jointly-controlled entities			**(6,360)**
Profit before tax			**439,688**
Other segment information:			
Depreciation and amortisation	**30,625**	**39,709**	**70,334**

Year ended December 31, 2009	Entertainment software RMB'000	Application software RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	684,431	337,981	1,022,412
Segment results	378,600	144,100	522,700
Reconciliation:			
Administrative expenses			(101,630)
Share-based compensation costs			(41,312)
Other expenses			(2,598)
Other income and gains			26,867
Finance income			25,523
Share of profits and losses of:			
Associate			25,715
Jointly-controlled entity			(6,952)
Profit before tax			448,313
Other segment information:			
Depreciation and amortisation	16,585	31,799	48,384

Geographical information

(a) Revenue from external customers:

	2010	2009
	RMB'000	RMB'000
Mainland China	**852,482**	957,422
Hong Kong	**20,572**	—
Japan	**72,646**	53,974
Other countries	**25,697**	11,016
Total	**971,397**	1,022,412

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

(b) Non-current assets:

	2010	2009
	RMB'000	RMB'000
Mainland China	**516,138**	518,399
Japan	**2,030**	697
Other countries	**19,691**	33,151
Total	**537,859**	552,247

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 from continuing operations of approximately RMB106,575 thousand (2009: RMB90,416 thousand) was derived from a single customer under overseas licensing agreements.

5. Profit before tax

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

	2010 **RMB'000**	2009 RMB'000
Employee benefit expense:		
Wages and salaries	**253,964**	209,595
Social insurance costs and staff welfare	**54,442**	44,853
Share-based compensation costs	**42,119**	41,312
Pension plan contributions	**21,610**	19,217
	372,135	314,977
Minimum lease payments under operating leases:		
Servers	**29,487**	33,546
Buildings	**13,616**	14,468
	43,103	48,014
Depreciation	**57,652**	41,220
Amortisation of lease prepayment	**627**	166
Amortisation of intangible assets:		
Amortisation of capitalised software costs*	**17,158**	5,481
Amortisation of purchased software	**6,393**	9,591
Amortisation of other intangible assets	**1,373**	1,065
Write-down of inventories***	**3,223**	—
Loss on disposal of items of property, plant and equipment***	**299**	216
Foreign exchange differences, net***	**1,006**	984
Impairment of goodwill***	**2,377**	—
Impairment of intangible assets***	**5,160**	—
Impairment of investment in an associate***	**—**	400
Impairment of investment in jointly-controlled entities***	**13,974**	—
Impairment of loan to a shareholder of an jointly-controlled entity***	**10,250**	—
Donation	**1,000**	—
Finance costs	**721**	—
Government grants:		
— recorded as a reduction to research and development cost**	**(17,075)**	(14,779)
— recorded in other income and gains	**(30,048)**	(24,524)
	(47,123)	(39,303)
Gain on disposal of an associate	**(105,189)**	—
Fair value gain on other financial asset	**(13,785)**	—
Bank interest income	**(33,162)**	(25,523)

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

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

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

6. Share-based compensation costs

(a) Share options

The Company has adopted two option schemes for the purpose of providing incentives and awards to its employees, senior management and directors: 2004 Pre-IPO Share Option Scheme and 2007 Pre-IPO Share Option Scheme.

The 2004 Scheme and the 2007 Scheme were terminated on September 3, 2007. No share options have been granted since then. The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, the Company's share options for the years ended December 31, 2010 and 2009.

	Group and Company			
	2010 Number of share options	**2010 WAEP US$ per share**	2009 Number of share options	2009 WAEP US$ per share
2004 Scheme				
Outstanding at January 1	**17,525,500**	**0.1078**	23,882,125	0.1083
Forfeited during the year	**(54,000)**	**0.2379**	(110,000)	0.2374
Exercised during the year	**(4,991,000)**	**0.1788**	(6,246,625)	0.1074
Outstanding at December 31	**12,480,500**	**0.0789**	17,525,500	0.1078
Exercisable at December 31	**12,480,500**	**0.0789**	16,325,500	0.0982
2007 Scheme				
Outstanding at January 1	**80,619,600**	**0.2410**	99,897,400	0.2410
Forfeited during the year	**(1,551,000)**	**0.2432**	(4,526,000)	0.2400
Exercised during the year	**(22,051,500)**	**0.2407**	(14,751,800)	0.2408
Outstanding at December 31	**57,017,100**	**0.2411**	80,619,600	0.2410
Exercisable at December 31	**46,882,720**	**0.2409**	47,597,460	0.2407
Total outstanding at December 31	**69,497,600**	**0.2120**	98,145,100	0.2172
Total exercisable at December 31	**59,363,220**	**0.2069**	63,922,960	0.2043

The weighted average share price at the date of exercise for the options exercised in 2010 was US$0.7213 (2009: US$0.6996).

The weighted average remaining contractual life for the Company's share options outstanding under the 2004 Scheme as at December 31, 2010 was 4.05 years (2009: 5.27 years), and the range of exercise prices for these outstanding options was US$0.0005 to US$0.2400 (2009: US$0.0005 to US$0.2400).

The weighted average remaining contractual life for the Company's share options outstanding under the 2007 Scheme as at December 31, 2010 was 6.09 years (2009: 7.09 years), and the range of exercise prices for these outstanding options was US$0.2400 to US$0.4616 (2009: US$0.2400 to US$0.4616).

As of December 31, 2010, the Company had 69,497,600 share options outstanding under the 2004 and 2007 Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 69,497,600 additional ordinary shares of the Company and additional share capital of RMB230 thousand and share premium of RMB97,336 thousand.

(b) Share Award Scheme

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

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

During the year ended December 31, 2010, 8,764,600 shares (2009: 12,042,000 shares) were awarded to a number of employees with vesting period of three years, out of which, 45,000 (2009: 8,382,000 shares) awarded shares were also subject to certain performance conditions. No shares of the Company were acquired by the Share Award Scheme Trust during the year ended December 31, 2010. During the year ended December 31, 2009, the Share Award Scheme Trust acquired 8,501,000 shares of the Company through purchases on the open market at a total cost (including related transaction costs) of approximately RMB43,050 thousand.

The expense recognised for employee services received in respect of the Share Award Scheme for the year ended December 31, 2010 was RMB37,496 thousand (2009: RMB20,844 thousand).

The following table illustrates the number of and movements in the Company's Awarded Shares for the years ended December 31, 2010 and 2009.

	2010 Number of Awarded Shares	2009 Number of Awarded Shares
Outstanding as at January 1	**21,350,000**	15,558,000
Granted during the year	**8,764,600**	12,042,000
Forfeited during the year	**(6,988,000)**	(3,047,000)
Exercised and transferred during the year	**(6,529,799)**	(3,203,000)
Outstanding as at December 31	**16,596,801**	21,350,000
Exercisable as at December 31	**864,000**	692,000

The fair value of the Awarded Shares was based on the market value of the Company's shares at the grant date. The weighted average fair value of the shares awarded during 2010 was RMB4.93 each (2009: RMB3.26 each).

As at December 31, 2010, 97,200 forfeited or unawarded shares were held by the Share Award Scheme Trust and would be awarded in future (2009: 1,086,000).

7. Income tax

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

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on estimated assessable profits arising in Hong Kong during the year ended December 31, 2010.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiary in Japan was 41% for the year ended December 31, 2010 (2009: 43.1%).

The Group's subsidiary in Malaysia was granted the Multimedia Corridor Malaysia Status ("MSC Malaysia Status"). Therefore the online games related activities of the subsidiary were exempted from corporate income tax for the period from December 2009 to December 2014.

The major components of income tax expense for the years ended December 31, 2010 and 2009 are:

	2010 RMB'000	2009 RMB'000
Current — Mainland China	**34,003**	46,532
Current — Hong Kong	**2,460**	—
Current — Elsewhere	**9,303**	3,792
Deferred income tax	**19,389**	9,135
Total tax charge for the year	**65,155**	59,459

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,090,540,697 (2009: 1,064,275,119) in issue during the year.

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

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

	2010 RMB'000	2009 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**372,480**	387,224

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue less shares held for share award scheme	**1,090,540,697**	1,064,275,119
Effect of dilution:		
Share options	**53,925,574**	70,366,460
Awarded Shares	**14,759,825**	15,088,872
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,159,226,096**	1,149,730,451

9. Property, plant and equipment

Group	Leasehold land and buildings RMB'000	Electronic equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2010							
At December 31, 2009, and January 1, 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 January 1, 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 from a business combination	**—**	**655**	**294**	**—**	**618**	**—**	**1,567**
Disposals	**—**	**(363)**	**(157)**	**(246)**	**—**	**—**	**(766)**
Depreciation charge for the year	**(4,007)**	**(29,423)**	**(23,228)**	**(438)**	**(556)**	**—**	**(57,652)**
At December 31, 2010, net of accumulated depreciation	**245,275**	**56,916**	**76,124**	**1,713**	**1,316**	**11,423**	**392,767**
At December 31, 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**
December 31, 2009							
At December 31, 2008, and January 1, 2009:							
Cost	—	100,858	4,343	2,094	13,938	293,880	415,113
Accumulated depreciation	—	(51,944)	(3,325)	(966)	(13,252)	—	(69,487)
Net carrying amount	—	48,914	1,018	1,128	686	293,880	345,626
At January 1, 2009, net of accumulated depreciation	—	48,914	1,018	1,128	686	293,880	345,626
Additions	1,095	33,188	15,964	318	417	52,909	103,891
Transfer from/(to)	246,728	4,925	94,833	—	—	(346,486)	—
Disposals	—	(176)	(8)	—	(133)	—	(317)
Depreciation charge for the year	(2,869)	(22,634)	(14,776)	(375)	(566)	—	(41,220)
At December 31, 2009, net of accumulated depreciation	244,954	64,217	97,031	1,071	404	303	407,980
At December 31, 2009:							
Cost	247,823	137,781	114,696	2,412	7,446	303	510,461
Accumulated depreciation	(2,869)	(73,564)	(17,665)	(1,341)	(7,042)	—	(102,481)
Net carrying amount	244,954	64,217	97,031	1,071	404	303	407,980

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

10. Available-for-sale investment

	Group	
	2010	2009
	RMB'000	RMB'000
Unlisted equity investment, at fair value	**18,675**	—

The Group reclassified its remaining 5% interest in Kingsoft Guangzhou as available-for-sale investment during the year ended December 31, 2010. No gain or loss in respect of the Group's available-for-sale investment was recognised in other comprehensive income during the year ended December 31, 2010.

11. Other financial asset

	Group	
	2010	2009
	RMB'000	RMB'000
Ordinary Shares Subscription Option	**13,785**	—

The ordinary shares subscription option (the "Option") was granted by Vina Group Corporation ("Vina"), an online game service provider in Vietnam, to a subsidiary of the Group on August 1, 2010 for the subsidiary or any of its designated subsidiary to subscribe from Vina at a predetermined exercise price a maximum of 1,859,251 ordinary shares of Vina, issued as fully-paid subject to adjustment. The Option was, upon initial recognition, designated as a financial asset at fair value through profit or loss.

12. Trade receivables

Trade receivables, which are non-interest-bearing and generally on credit terms of 30 to 90 days, are recognised and carried at original invoiced amounts less any impairment loss. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Bad debts are written off as incurred. The Group generally does not require collateral from its customers.

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

	Group	
	2010	2009
	RMB'000	RMB'000
0 to 30 days	**37,948**	43,029
31 to 60 days	**24,233**	38,002
61 to 90 days	**14,966**	26,393
91 to 365 days	**15,749**	11,180
Over one year	**6,043**	1,774
	98,939	120,378

13. Trade payables

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

	Group	
	2010	2009
	RMB'000	RMB'000
0 to 30 days	**6,357**	8,746
31 to 60 days	**1,834**	422
61 to 90 days	**2,118**	726
91 to 365 days	**2,631**	1,270
Over one year	**2,631**	1,433
	15,571	12,597

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

14. Events after the reporting period

(a) On January 4, 2011, Shell Internet (Beijing) Security Technology Co., Ltd. ("Shell Internet") entered into an agreement to acquire the business of Drivers Genius software and Mydrivers series websites (collectively, the "Target Business") from their former owners, which includes the fixed assets, intellectual properties, material contracts and key employees engaged in the Target Business.

As the valuation of the fair values of the identifiable assets and liabilities of the Target Business is still in process, no purchase price allocation is made and initial accounting for the acquisition is not completed.

(b) On January 24, 2011, Westhouse Holdings Limited ("Westhouse Holdings"), a wholly-owned subsidiary of Kingsoft Entertainment Holdings Limited ("Kingsoft Entertainment Holdings"), entered into a share purchase agreement with some founding employees and a company owned by the founding employees (the "Founder Co."), whereby the Founder Co. will subscribe for 160,000,000 shares of Westhouse Holdings at a subscription price of HKD1.1834 per share for an aggregate consideration of approximately HKD189,344 thousand. Concurrently, Kingsoft Entertainment Holdings entered into a loan agreement with the Founder Co., pursuant to which Kingsoft Entertainment Holdings will provide a loan amounting to HKD151,475 thousand to the Founder Co. for the purpose of the share subscription, which bears interest of HIBOR plus 1.3% for the first year and at Hong Kong bank offered loan rate subsequently, and secured by 128,000,000 shares of Westhouse Holdings.

(c) On March 8, 2011, the Company through Kingsoft Internet Security Holdings entered into a share sales agreement with a non-controlling shareholder of Kingsoft Internet Security Holdings, pursuant to which, Kingsoft Internet Security Holdings will issue 100,000,000 new shares for an aggregated consideration of US$2,499 thousand, and Kingsoft Internet Security Holdings has also been granted an option to repurchase these shares if certain conditions have been fulfilled.

(d) On February 21, 2011, the Group entered into a land acquisition agreement, pursuant to which, the Group will purchase a land use right in Chengdu, the PRC, with a consideration of RMB75,004 thousand, and also will invest an aggregate of RMB800,000 thousand in the project relating to the land in the future.

OPRATIONAL HIGHLIGHTS

	For the three months ended							
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	**March 31, 2010**	**June 30, 2010**	**September 30, 2010**	**December 31, 2010**
Online Games								
Daily Average Peak Concurrent Users	951,685	953,817	1,061,250	1,131,124	**915,212**	**817,835**	**773,349**	**771,352**
Monthly Average Paying Users	1,489,797	1,317,755	1,543,946	1,767,553	**1,457,101**	**1,276,351**	**1,325,056**	**1,347,806**
Monthly Average Revenue per Paying Users (RMB)	36	39	35	38	**36**	**41**	**39**	**41**
Online Services of Internet securities								
Monthly Average Paying Users	8,450,146	8,211,110	8,269,916	8,746,468	**8,416,136**	**7,648,623**	**6,598,690**	**3,671,877***
Monthly Average Revenue per Paying Users (RMB)	1.9	2.1	2.1	2.1	**2.0**	**2.2**	**2.2**	**3.0**

*Note: A number of subscribers for online services of Kingsoft Internet Security migrated to be fee-based VIP security value-added service subscribers since we announced the offerings of the free edition on November 10, 2010. As a result of that, most of the traditional off-line subscribers and particularly those of OEMs continued to be our users of the free edition. From this quarter, monthly average paying users represent fee-based VIP security value-added service subscribers.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended December 31, 2010

The following table sets forth the comparative numbers for the three months ended December 31, 2010, September 30, 2010 and December 31, 2009, respectively.

	For the three months ended		
	December 31, 2009 RMB'000 (Unaudited)	September 30, 2010 RMB'000 (Unaudited)	**December 31, 2010 RMB'000 (Unaudited)**
Revenue:			
Entertainment software	200,401	155,203	**165,048**
Application software	96,833	71,880	**80,986**
Others	2,870	2,154	**4,114**
	300,104	229,237	**250,148**
Cost of revenue	(33,968)	(32,162)	**(36,635)**
Gross profit	266,136	197,075	**213,513**
Research and development costs, net of government grants	(50,542)	(70,676)	**(87,153)**
Selling and distribution costs	(49,191)	(34,732)	**(33,518)**
Administrative expenses	(28,608)	(27,056)	**(28,901)**
Share-based compensation costs	(6,493)	(12,998)	**(7,182)**
Other income and gains	1,401	26,722	**4,171**
Other expenses	(1,379)	(272)	**(27,243)**
Operating profit	131,324	78,063	**33,687**
Fair value gain on a financial asset at fair value through profit or loss	—	11,613	**2,172**
Gain on disposal of an associate	—	—	**105,189**
Finance income	6,629	8,698	**9,862**
Finance costs	—	(373)	**(348)**
Share of profits and losses of:			
Associates	3,329	3,603	**3,040**
Jointly-controlled entities	(2,255)	(1,363)	**(1,522)**
Profit before tax	139,027	100,241	**152,080**
Income tax expense	(18,184)	(15,013)	**(20,793)**
Profit for the period	120,843	85,228	**131,287**
Attributable to:			
Owners of the parent	120,700	84,990	**130,833**
Non-controlling interests	143	238	**454**
	120,843	85,228	**131,287**
	RMB	RMB	**RMB**
Earnings per share attributable to ordinary equity holders of the parent			
Basic	0.1128	0.0776	**0.1187**
Diluted	0.1041	0.0733	**0.1142**

	For the three months ended		
	December 31, 2009 RMB'000 (Unaudited)	September 30, 2010 RMB'000 (Unaudited)	**December 31, 2010 RMB'000 (Unaudited)**
Profit for the period	120,843	85,228	**131,287**
Other comprehensive income:			
Exchange differences on translation of foreign operations	(464)	149	**(863)**
Other comprehensive income/(loss) for the period, net of tax	(464)	149	**(863)**
Total comprehensive income for the period, net of tax	120,379	85,337	**130,424**
Attributable to:			
Owners of the parent	120,695	84,496	**129,565**
Non-controlling interests	(316)	881	**859**
	120,379	85,337	**130,424**

Revenue

Revenue increased by 9% quarter-over-quarter and decreased by 17% year-over-year to RMB250.1 million. Revenue from the entertainment and application software businesses represented 66% and 32%, respectively, of the Group's total revenue.

Revenue from the entertainment software business increased by 6% quarter-over-quarter and decreased by 18% year-over-year to RMB165.0 million. The increase was largely attributable to recovery of revenue from JX Online World both in Mainland China and Vietnam.

Daily average peak concurrent users held flat quarter-over-quarter and decreased by 32% year-over-year to 0.8 million. Monthly average paying users increased by 2% quarter-over-quarter and decreased by 24% year-over-year to 1.3 million. This quarter-over-quarter increase in paying users primarily reflected the seasonal recovery of our user base of existing games.

The monthly average revenue per paying user ("monthly ARPU") for the Group's online game increased by 5% quarter-over-quarter and increased by 8% year-over-year to RMB41.

Revenue from the application software business increased by 13% quarter-over-quarter and decreased by 16% year-over-year to RMB81.0 million. This quarter-over-quarter increase was mainly due to the increased sales of Kingsoft WPS Office to state-owned enterprises in Mainland China. This year-over-year decrease was mainly resulted from the increasing competition in the internet security market and the launch of the free edition of Kingsoft Internet Security.

The number of subscribers for online services of Kingsoft Internet Security decreased by 44% quarter-over-quarter and decreased by 58% year-over-year to 3.7 million. The sequential and year-over-year declines were mainly due to the launch of the free simplified Chinese personal edition of Kingsoft Internet Security. From this quarter, monthly average paying users represent fee-based VIP security value-added service subscribers.

Monthly ARPU for online services of Kingsoft Internet Security business increased by 36% quarter-over-quarter and 43% year-over-year to RMB3.0.

Gross Profit and Cost of Revenue

Gross profit increased by 8% quarter-over-quarter and decreased by 20% year-over-year to RMB213.5 million. The Group's gross profit margin decreased by one percentage point quarter-over-quarter and four percentage points year-over-year to 85%. The decline in gross profit margin was primarily due to increased bandwidth costs associated with the surged download volumes of the free edition of Kingsoft Internet Security in the fourth quarter of 2010.

Cost of revenue increased by 14% quarter-over-quarter and 8% year-over-year to RMB36.6 million.

Research and Development ("R&D") Costs

R&D costs, net of government grants, increased by 23% quarter-over-quarter and increased by 72% year-over-year to RMB87.2 million. The quarter-over-quarter increase was primarily attributable to discretionary year-end bonuses. The year-over-year increase mainly resulted from (i) a raise in salaries and benefits; and (ii) reduced capitalised software costs.

The following table sets forth a breakdown of our research and development costs for three months ended December 31, 2010, September 30, 2010 and December 31, 2009:

	For the three months ended		
	December 31, 2009 RMB'000 (Unaudited)	September 30, 2010 RMB'000 (Unaudited)	**December 31, 2010 RMB'000 (Unaudited)**
Staff cost	48,591	51,257	**66,554**
Depreciation & Amortisation	7,756	6,087	**8,190**
Others	15,481	11,316	**13,201**
	71,828	68,659	**87,945**
Less: Capitalised software costs (except share-based compensation costs)	(17,288)	(1,342)	**(1,436)**
Add: Amortisation of capitalised software costs	1,258	6,855	**6,854**
Less: Government grants for research and development activities	(5,256)	(3,497)	**(6,210)**
Total	50,542	70,676	**87,153**

Selling and Distribution Costs

Selling and distribution expenses decreased by 3% quarter-over-quarter and decreased by 32% year-over-year to RMB33.5 million. The decrease was mainly due to lower advertising and promotional expenditures as no new games were released in the fourth quarter of 2010.

Administrative Expenses

Administrative expenses increased by 7% quarter-over-quarter and 1% year-over-year to RMB28.9 million. The quarter-over-quarter increase was largely attributable to the discretionary bonuses.

Share-based Compensation Costs

Share-based compensation costs decreased by 45% quarter-over-quarter and increased by 11% year-over-year to RMB7.2 million. The quarter-over-quarter decline was primarily due to the graded vesting of the granted share options and awarded shares.

Other Income and Gains

Other income and gains decreased by 84% quarter-over-quarter and increased by 198% year-over-year to RMB4.2 million. This quarter-over-quarter decrease was mainly attributable to the recognition of local government's financial incentives amounting to RMB25.3 million in the third quarter of 2010.

Other Expenses

Other expenses were 27.2 million for the fourth quarter of 2010, compared to 0.3 million for the third quarter of 2010 and 1.4 million for the fourth quarter of 2009. The increase was mainly due to the impairment loss of investment related to online games.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs decreased by 55% quarter-over-quarter and decreased by 70% year-over-year to RMB40.9 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs decreased by twenty-four percentage points quarter-over-quarter and thirty percentage points year-over-year to 16%.

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

Fair value gain, which reflected the increase of fair value of an option granted by Vina to the Group to subscribe a number of ordinary shares of Vina at a predetermined price, decreased by 81% quarter-over-quarter to RMB2.2 million.

Share of Profits of Associates

The Group's share of profits of associates decreased by 16% quarter-over-quarter and 9% year-over-year to RMB3.0 million. The decrease was primarily as a result of the Group's disposal of Kingsoft Guangzhou in December 2010.

Gain on Disposal of an Associate

Gain on disposal of an associate recorded RMB105.2 million, which reflected the gain from disposal of the Group's 25% interest in Kingsoft Guangzhou. In December 2010, the Group entered into an agreement, pursuant to which the Group agreed to transfer its 30% interest in Kingsoft Guangzhou for a total consideration of 126 million.

Income Tax Expense

Income tax expense increased by 38% quarter-over-quarter and 14% year-over-year to RMB20.8 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) held flat quarter-over-quarter and increased by one percentage point year-over-year to 13%. These quarterly effective tax rate changes mainly resulted from the combinations of (i) a major subsidiary of the Group's online game business was entitled to a reduced tax rate of 7.5% for the years from 2009 to 2010; (ii) increased non-deductible impairment losses arising from game-related investment and; (iii) the accruals of withholding dividend tax amounting to RMB8.9 million for dividends anticipated to be remitted by PRC subsidiaries in the foreseeable future.

Profit attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the Parent increased by 54% quarter-over-quarter and increased by 8% year-over-year to RMB130.8 million.

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

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

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

The Group's profit attributable to owners of the parent before share-based compensation costs increased by 41% quarter-over-quarter and increased by 9% year-over-year to RMB138.0 million. The net profit margin excluding the effect of share-based compensation costs was 55%, 43% and 42% for the three months ended December 31, 2010, September 30, 2010 and December 31, 2009, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at December 31, 2010, the Group had major financial resources in the forms of cash and cash equivalent, time deposits with initial term of over three months amounting to RMB1,186.7 million, RMB469.4 million, respectively, which totally represented 68% of the Group's total assets.

As at December 31, 2010, the Group's gearing ratio, which represents total liabilities divided by total assets, was 21%, held flat as at December 31, 2009. As at December 31, 2010, the Group had HKD120.0 million (RMB102.1 million) bank loan. The loan is repayable in full before June 14, 2011 and bears interest of HIBOR plus 1.1%.

Foreign Currency Risk Management

Certain expenses of the Group are 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 December 31, 2010, RMB196.2 million of the Group’s financials assets were held in deposits and investments denominated in non-RMB currencies. There is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

Deferred Revenue

Deferred revenue (including current and non-current portion) increased by 1% quarter-over-quarter and decreased by 5% year-over-year to RMB190.7 million as at December 31, 2010.

Net Cash Generated from Operating Activities

Net 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 and accrued expenses and other payables.

Net cash generated by operating activities was RMB171.1 million, RMB63.1 million and RMB139.6 million for the three months ended December 31, 2010, September 30, 2010 and December 31, 2009, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of property, land use right, fixed assets and intangible assets. Cash used for capital expenditures was RMB34.9 million, RMB14.0 million and RMB31.6 million for the three months ended December 31, 2010, September 30, 2010 and December 31, 2009, respectively.

For the Year Ended December 31, 2010

The following table sets forth the comparative numbers for the years ended December 31, 2009 and December 31, 2010, respectively.

	For the year ended	
	December 31, 2010 RMB'000	December 31, 2009 RMB'000
Revenue:		
Entertainment software	**640,917**	684,242
Application software	**321,003**	329,196
Others	**9,477**	8,974
	971,397	1,022,412
Cost of revenue	**(130,998)**	(128,467)
Gross profit	**840,399**	893,945
Research and development costs, net of government grants	**(271,046)**	(199,611)
Selling and distribution costs	**(129,216)**	(171,634)
Administrative expenses	**(111,143)**	(101,630)
Share-based compensation costs	**(42,119)**	(41,312)
Other income and gains	**31,528**	26,867
Other expenses	**(38,203)**	(2,598)
Operating profit	**280,200**	404,027
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**	25,523
Finance costs	**(721)**	—
Share of profits and losses of:		
Associates	**14,433**	25,715
Jointly-controlled entities	**(6,360)**	(6,952)
Profit before tax	**439,688**	448,313
Income tax expenses	**(65,155)**	(59,459)
Profit for the year	**374,533**	388,854
Attributable to:		
Owners of the parent	**372,480**	387,224
Non-controlling interests	**2,053**	1,630
	374,533	388,854
	RMB	RMB
Earnings per share attributable to ordinary equity holders of the parent		
Basic	**0.3416**	0.3638
Diluted	**0.3213**	0.3368

	2010	2009
	RMB'000	RMB'000
Profit for the year	**374,533**	388,854
Other comprehensive income:		
Exchange differences on translation of foreign operations	**(498)**	(632)
Other comprehensive loss for the year, net of tax	**(498)**	(632)
Total comprehensive income for the year	**374,025**	388,222
Attributable to:		
Owners of the parent	**370,319**	386,888
Non-controlling interests	**3,716**	1,334
	374,035	388,222

Revenue

Revenue decreased by 5% year-over-year to RMB971.4 million. Approximately 66% was generated from the entertainment software business segment and 33% was generated from the applications software business segment.

— Entertainment Software

Revenue from the entertainment software decreased by 6% year-over-year to RMB640.9 million. The decrease was mainly due to no new games were released in 2010 and the terminated of operation of the licensed online game Shui Hu Q Zhuan in November 2009.

Daily average peak concurrent users decreased by 32% to 0.8 million year-over-year for the three months ended December 31, 2010.

The monthly ARPU for the Group's online games increased by 8% year-over-year to RMB41 for the three months ended December 31, 2010.

— Application Software

Revenue from the application software business decreased by 2% year-over-year to RMB321.0 million. This decrease was primarily due to the decline in subscription for Kingsoft Internet Security services as we launched the free edition in November, 2010. This was partially offset by the increase of sales from Kingsoft WPS Office both in China and Japan.

Revenue from Kingsoft Internet Security was RMB239.2 million, represented 75% of the total revenue of the Group's application software and a decrease of 8% from RMB258.9 million in 2009.

Gross Profit and Cost of Revenue

Gross profit decreased by 6% year-over-year to RMB840.4 million. The Group's gross profit margin held flat year-over-year to 87%.

Cost of revenue increased by 2% year-over-year to RMB131.0 million primarily due to an increase in staff costs.

R&D Costs

R&D costs, net of government grants, increased by 36% year-over-year to RMB271.0 million. The increase was mainly due to the increase in staff salaries and benefits.

The following table sets forth a breakdown of R&D costs for the years ended December 31, 2010 and 2009.

	For the years ended December 31,	
	2010	2009
	RMB'000	RMB'000
Staff cost	**215,616**	167,667
Depreciation & Amortisation	**29,006**	23,104
Others	**45,793**	36,335
	290,415	227,106
Less: Capitalised software costs (except share-based compensation costs)	**(19,452)**	(18,197)
Add: Amortisation of capitalised software costs	**17,158**	5,481
Less: Government Grants for research and development activities	**(17,075)**	(14,779)
Total	**271,046**	199,611

Selling and Distribution Costs

Selling and distribution expenses decreased by 25% year-over-year to RMB129.2 million. This decline was primarily due to no new games were launched in 2010 and more cost-effective campaigns for marketing and promotional activities for existing games.

Administrative Expenses

Administrative expenses increased by 9% year-over-year to RMB111.1 million. The increase was mainly due to higher depreciation costs associated with new buildings and facilities.

Share-based Compensation Costs

Share-based compensation costs increased by 2% year-over-year to RMB42.1 million. This increase was primarily due to newly awarded shares.

Other Income and Gains

Other income and gains increased by 17% year-over-year to RMB31.5 million.

Other Expenses

Other expenses recorded RMB38.2 million in 2010, compared to RMB2.6 million in 2009. The substantial year-over-year increase was largely attributable to impairment loss of investments related to online games.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs decreased by 28% year-over-year to RMB322.3 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs decreased to 33% from 44% in 2009.

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

Fair value gain, which reflected the fair value of an option granted by Vina Game to the Group to subscribe a number of ordinary shares of Vina Game at certain price, recorded RMB13.8 million in 2010, compared to nil in 2009.

Gain on Disposal of an Associate

Gain on disposal of an associate recorded RMB105.2 million, which reflected the gain from disposal of the Group's 25% interest in Kingsoft Guangzhou, compared to nil in 2009.

Finance Income

Finance income increased by 30% year-over-year to RMB33.2 million. This was mainly due to the higher cash and term deposits balances in 2010 compared to 2009.

Share of Profits of Associates

Share of profits of associates decreased by 44% year-over-year to RMB14.4 million. The decrease was mainly due to the decline in profit of Kingsoft Guangzhou.

Income Tax Expense

Income tax expenses increased by 10% year-over-year to RMB65.2 million. The Group's effective tax rate (excluding the impact of share-based compensation) increased by two percentage points year-over-year to 14%. This year-over-year increase mainly resulted from the combinations of (i) a major subsidiary of the Group's online game business was entitled to enjoy a reduced tax rate of 7.5% for the years from 2009 to 2010; (ii) increased non-deductible impairment loss arising from game-related investment and; (iii) the accruals of withholding dividend tax amounting to RMB12.9 million for dividends anticipated to be remitted by PRC subsidiaries in the foreseeable future.

Profit Attributable to Owners of the Parent

For the reasons described above, profit attributable to owners of the parent decreased by 4% year-over-year to RMB372.5 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 decreased by 3% year-over-year to RMB414.6 million.

The profit margin excluding the effect of share-based compensation costs increased by one percentage point year-over-year to 43%.

Deferred Revenue

Deferred revenue (including current and non-current portion) decreased by 5% year-over-year to RMB190.7 million as at December 31, 2010. This was mainly due to the decline in sales of Kingsoft internet security products.

Net Cash Generated from Operating Activities

Cash generated by our operating activities reflects our profit for reporting year, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalised software costs, and share-based compensation costs, as well as the effect of changes in certain items of statement of financial position, such as deferred revenue and accrued expenses and other payables. Our net cash generated by operating activities decreased by 9% year-over-year to RMB407.4 million for the year ended December 31, 2010.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of property, land use right, fixed assets and intangible assets. Cash used for capital expenditures decreased by 23% year-over-year to RMB100.6 million, as the group incurred payments for land use rights and the construction of Zhuhai Research Centers in 2009.

BUSINESS REVIEW AND PROSPECTS

Mr. Pak Kwan KAU, Chairman and Chief Executive Officer of Kingsoft, commented, "2010 was the year of change for Kingsoft. We have recently completed restructuring of Kingsoft Internet Security and are in the midst of restructuring our online games R&D studios in order to turn ourselves into leaner and nimbler, and more self-motivated organisations. Meanwhile, we have also introduced internet-oriented top talents to our management team. All those adaptabilities allow us to keep up with challenges from the fast-changing internet sector."

Application Software Business Review

In October, Kingsoft Internet Security acquired Conew, a top local internet security firm and announced to release the free version of Kingsoft Internet Security on November 10, 2010. The new product is supported by our proprietary cloud-based security technology that detects internet security threats on a real time basis. Westcoast labs, a multinational organisation specialising in functionality testing, performance validation and the Checkmark Certification of information security products and services, has recently announced that Kingsoft Antivirus 2011 has passed seven checkmark tests, such as anti-malware, China anti-malware Cloud, anti-Trojan and etc. Kingsoft Antivirus 2011 is the first and the only anti-virus software that passed the checkmark anti-malware cloud test to date. This demonstrated Kingsoft Internet Security's leading technology position in China, especially in the area of cloud-based security technology. On December 1, 2010, we announced the open source program of Kingsoft Security Defender (金山安全衛士) and opened a new chapter for security software in China. We believe this program will lead the change of security software industry by lowering the entrance barrier and gathering millions of talents to develop and improve security software products.

Kingsoft WPS Office as the premium office software in China has been benefiting from the increasing copyright protection in China and continued its success in Japan. Leveraging the increasing internet user base across devices, WPS Office is also extending to provide more value added services, such as office automation, cloud-based storage (Kingsoft Kuaipan), web-office service (Kingsoft Kuaixie) and mobile tablet office products.

The past year was also a year of transition for Kingsoft Ciba from a software package to a learning community. We launched Kingsoft Ciba 2011 Beta Version in October, 2010 to integrate online dictionary, mini personal portals and instant message into one package. Kingsoft Ciba is building a converged user platform for virtual English learning and providing a variety of learning value-added services.

Entertainment Software Business Review

Kingsoft game has been primarily engaging in research, development and operation of online games of Chinese mythology and martial arts genre. As no new game title was released in 2010, the top line of entertainment business recorded a decrease of 6%. Since the introduction of a group of talents of game operation in 2009, we significantly improved game operation efficiency and recorded a reduced attenuation rate of games in 2010. To better motivate game research talents, we have announced restructuring of our JX studios by having key persons of the studios acquire 20% interest of the JX studios.

Prospects

Looking ahead in 2011, Kingsoft have five new games in pipeline, compared to no new game title in 2010, which are Legend of Moon (月影傳説), Rush Team (熱血戰隊), CangQiongZhiNu (蒼穹之怒) and other two titles. In 2011, our game business will also explore opportunities into producing advanced casual games and casual games on mobile tablet devices.

The launch of our free edition of Kingsoft Internet Security will help us capture a larger user base and further enhance user experience by incorporating a number of value-added-services. With increasingly better copyright protection in China and growth prospective overseas, WPS is well positioned for a new round of sustainable growth both in China and overseas.

Kingsoft is committed to improving its operation efficiency, enriching its customer base through product and service innovations, and ultimately bringing rewarding returns to shareholders.

OTHER INFORMATION

Employee and Remuneration Policies

As at December 31, 2010, the Group had approximately 2,472 full-time employees (2009: 2,735), 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 staff cost of the Group including Directors' and senior management's emoluments in 2010 and 2009 were approximately RMB372.1 million and RMB315.0 million, respectively.

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

During the year ended December 31, 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Compliance with Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the listing of securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") to govern securities transactions by Directors. Further to the specific enquiries made by the Company to all Directors, they have confirmed their compliance with the Model Code during their term of services for the year ended December 31, 2010.

Use of IPO Proceeds

The Company has raised the aggregate net proceeds from the Global Offering of approximately HKD649.1 million. The Global Offering was completed in the fourth quarter of 2007 and the use of proceeds as of the end of 2010 is set out in the table below:

Area of use	Planned amount (HKD'Mil)	Amount remaining as at December 31, 2010 (HKD'Mil)
Expansion of research and development capabilities	170.1	—
Expansion in certain overseas market	76.0	44.1
IT infrastructure upgrade	94.1	—
Strategic acquisitions and joint ventures	115.8	—
Construction of research and development facilities in Zhuhai	72.4	—
General corporate purposes	27.9	—

Closure of Register of Members

The register of members of the Company will be closed from Thursday, May 19, 2011 to Wednesday, May 25, 2011 both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and special dividends 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 Wednesday, May 18, 2011.

Review by Audit Committee

The Audit Committee of the Company comprises two independent non-executive directors and one non-executive director. The Audit Committee has reviewed with the management, and the Company's internal and external auditors the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters. The Audit Committee has reviewed the Group's audited financial statements for the year ended December 31, 2010, 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.

Code on Corporate Governance Practices

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 Listing Rules on the Stock Exchange during the year.

Code A.2.1 of the Code provides that the roles of the chairman (the "Chairman") and chief executive officer (the "CEO") should be separated and should not be performed by the same individual. The Chairman of the Company, Mr. Pak Kwan Kau was formally appointed as the CEO of the Company since May 2008. The Board considers that through the Company's effective internal control mechanism, and the supervision of the Board and the independent non-executive directors, the current arrangement does not impair the balance of power and authority between the Board and the management of the Company. Furthermore, the Chairman and CEO must have an intimate knowledge of the IT and internet industry and be sensitive to the fast changes in the business in order to lead the Company to react quickly to any market change. The same person holding the positions of Chairman and CEO can improve the Company's efficiency in decision-making and execution, and effectively capture business opportunities. The Board will continue to review the current structure from time to time and shall make necessary changes when appropriate and inform the shareholders accordingly.

Publication of the Annual Results, Annual Reports and Corporate Governance Report

All the financial and other related information of the Company required by the Listing Rules will be published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.kingsoft.com) in due course.

APPRECIATION

The Board would like to take this opportunity to thank all of our employees for their efforts, dedication and commitment throughout the year. The Board would also like to extend our sincere thanks to our shareholders and business partners for their continuous support and confidence in our Group.

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

Hong Kong, March 23, 2011

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