



***Kingsoft Corporation Limited
2010 Interim Report***



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

Beijing Zhuhai Chengdu Dalian Shenzhen Japan Malaysia



Kingsoft Corporation Limited

Interim Report 2010 | KINGSOFT CORPORATION LIMITED

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CORPORATE INFORMATION

Legal Name of the Company

Kingsoft Corporation Limited

Stock Code

3888

Date of Listing

October 9, 2007

Head Office and Principal Place of Business

Kingsoft Tower

No. 33, Xiaoying West Road

Haidian District

Beijing 100085

PRC

Principal Place of Business in Hong Kong

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

Registered Office

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman KY1-1108

Cayman Islands

Executive Directors

Mr. Pak Kwan Kau (Chairman)

Mr. Donghui Wang

Mr. Tao Zou

Non-executive Directors

Mr. Jun Lei

Mr. Shuen Lung Cheung

Independent Non-executive Directors

Mr. Shun Tak Wong

Mr. Guangming George Lu

Mr. Mingming Huang

Audit Committee

Mr. Shun Tak Wong (Chairman)

Mr. Guangming George Lu

Mr. Shuen Lung Cheung

Remuneration Committee

Mr. Shuen Lung Cheung (Chairman)

Mr. Shun Tak Wong

Mr. Mingming Huang

Nomination Committee

Mr. Guangming George Lu (Chairman)

Mr. Shuen Lung Cheung

Mr. Mingming Huang

Board Secretary/Company Secretary

Ms. Michelle Feng Harnett (ACCA)

CORPORATE INFORMATION (continued)

Authorised Representatives

Mr. Pak Kwan Kau

Ms. Michelle Feng Harnett

Principal Share Registrar and Transfer Office

Appleby Trust (Cayman) Limited

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman KY1-1108

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17/F.

Hopewell Centre

183 Queen's Road East

Hong Kong

Auditors

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre

8 Finance Street

Central

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Legal Advisers on Hong Kong law

Woo Kwan Lee & Lo

26th Floor, Jardine House

1 Connaught Place

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Hong Kong

Principal Bankers

Industrial and Commercial Bank of China (Asia) Limited

Standard Chartered Bank (Hong Kong) Limited

Standard Chartered Bank (China) Limited

Bank of Beijing — Zhongguancun Branch

China Merchants Bank Beijing — Beijing Dayuncun sub-branch

Bank of Communications — Zhuhai Jida Branch

DBS Bank (China) Limited — Beijing Branch

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UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended June 30, 2010

	NOTES	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
		2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)
REVENUE:	4				
Entertainment software		158,924	158,251	320,666	321,055
Application software		85,904	78,869	168,137	150,899
Others		1,486	2,861	3,209	4,255
		246,314	239,981	492,012	476,209
Cost of revenue		(31,434)	(29,812)	(62,201)	(59,130)
GROSS PROFIT		214,880	210,169	429,811	417,079
Research and development costs, net of government grants		(57,369)	(44,776)	(113,217)	(87,906)
Selling and distribution costs		(33,614)	(30,793)	(60,966)	(59,751)
Administrative expenses		(27,157)	(23,094)	(55,186)	(44,985)
Share-based compensation costs		(14,817)	(11,728)	(21,939)	(24,295)
Other operating costs		(9,949)	(344)	(10,688)	(790)
Other income and gains		150	1,084	635	1,157
Finance income		7,713	5,572	14,602	12,569
Share of profits and losses of:					
Associates		3,174	7,283	7,790	16,222
Jointly-controlled entities		(1,713)	(1,599)	(3,475)	(2,834)
PROFIT BEFORE TAX	5	81,298	111,774	187,367	226,466
Income tax expense	6	(13,494)	(14,573)	(29,349)	(28,171)
PROFIT FOR THE PERIOD		67,804	97,201	158,018	198,295
Attributable to:					
Owners of the parent		66,916	96,551	156,657	197,460
Non-controlling interests		888	650	1,361	835
		67,804	97,201	158,018	198,295
		RMB	RMB	RMB	RMB
		(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7				
Basic		0.0614	0.0907	0.1447	0.1862
Diluted		0.0579	0.0835	0.1353	0.1756

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2010

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)
PROFIT FOR THE PERIOD	67,804	97,201	158,018	198,295
OTHER COMPREHENSIVE INCOME:				
Exchange differences on translation of foreign operations	(351)	791	216	(715)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(351)	791	216	(715)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	67,453	97,992	158,234	197,580
ATTRIBUTABLE TO:				
Owners of the parent	65,954	97,141	156,258	197,280
Non-controlling interests	1,499	851	1,976	300
	67,453	97,992	158,234	197,580

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2010

	NOTES	AS AT JUNE 30, 2010 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2009 RMB'000 (AUDITED)
NON-CURRENT ASSETS			
Property, plant and equipment	8	401,381	407,980
Goodwill		—	2,377
Other intangible assets	9	58,728	48,489
Lease prepayments	10	45,363	6,972
Interests in associates		14,168	6,378
Interests in jointly-controlled entities	11	32,719	40,112
Loan receivables		3,925	2,649
Deferred tax assets		25,326	28,917
Deferred cost		1,029	1,201
Long-term prepayments	12	—	38,738
		582,639	583,813
CURRENT ASSETS			
Inventories		6,382	5,384
Trade receivables	13	110,403	120,378
Prepayments, deposits and other receivables		74,909	60,075
Deferred cost		3,233	3,122
Cash and cash equivalents	14	1,377,039	1,268,098
		1,571,966	1,457,057
CURRENT LIABILITIES			
Trade payables	15	15,416	12,597
Interest-bearing bank loan	16	104,688	—
Dividend payable	19	911	174
Accrued expenses and other payables		143,109	186,896
Deferred revenue		160,042	158,643
Income tax payable		15,237	19,453
		439,403	377,763
NET CURRENT ASSETS		1,132,563	1,079,294
TOTAL ASSETS LESS CURRENT LIABILITIES		1,715,202	1,663,107
NON-CURRENT LIABILITIES			
Deferred revenue		36,390	42,144
Deferred tax liabilities		11,596	16,653
		47,986	58,797
NET ASSETS		1,667,216	1,604,310

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at June 30, 2010

	NOTES	AS AT JUNE 30, 2010 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2009 RMB'000 (AUDITED)
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	17	4,500	4,434
Share premium	17	553,267	525,349
Shares held for share award scheme	17	(66,190)	(72,365)
Statutory reserves		107,817	107,817
Employee share-based capital reserve		236,936	225,011
Foreign currency translation reserve		(66,863)	(66,464)
Retained earnings		879,992	723,335
Proposed final dividends	19	—	141,575
		1,649,459	1,588,692
NON-CONTROLLING INTERESTS			
		17,757	15,618
TOTAL EQUITY			
		1,667,216	1,604,310

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2010

ATTRIBUTABLE TO OWNERS OF THE PARENT

	SHARES HELD FOR SHARE			EMPLOYEE SHARE-BASED	FOREIGN CURRENCY	RETAINED EARNINGS	PROPOSED	TOTAL	NON-CONTROLLING	TOTAL EQUITY	
	ISSUED CAPITAL	SHARE PREMIUM	AWARD SCHEME	STATUTORY RESERVES	CAPITAL RESERVE		TRANSLATION RESERVE		FINAL DIVIDENDS		INTERESTS
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	
AT JANUARY 1, 2010	4,434	525,349	(72,365)	107,817	225,011	(66,464)	723,335	141,575	1,588,692	15,618	1,604,310
Total comprehensive income for the period	—	—	—	—	—	(399)	156,657	—	156,258	1,976	158,234
2009 final dividend declared	—	—	—	—	—	—	—	(141,575)	(141,575)	—	(141,575)
Dividend on shares issued for employee share options exercised after December 31, 2009	—	(1,578)	—	—	—	—	—	—	(1,578)	—	(1,578)
Share-based compensation costs	—	—	—	—	18,100	—	—	—	18,100	163	18,263
Vested awarded shares transferred to employees	—	—	6,175	—	(6,175)	—	—	—	—	—	—
Exercise of share options	66	29,496	—	—	—	—	—	—	29,562	—	29,562
AT JUNE 30, 2010	4,500	553,267	(66,190)	107,817	236,936	(66,863)	879,992	—	1,649,459	17,757	1,667,216

ATTRIBUTABLE TO OWNERS OF THE PARENT

	SHARES HELD FOR SHARE			EMPLOYEE SHARE-BASED	FOREIGN CURRENCY	RETAINED EARNINGS	PROPOSED	TOTAL	NON-CONTROLLING	TOTAL EQUITY	
	ISSUED CAPITAL	SHARE PREMIUM	AWARD SCHEME	STATUTORY RESERVES	CAPITAL RESERVE		TRANSLATION RESERVE		FINAL DIVIDENDS		INTERESTS
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	
AT JANUARY 1, 2009	4,362	639,034	(40,050)	81,481	194,648	(66,128)	362,447	139,723	1,315,517	12,848	1,328,365
Total comprehensive income for the period	—	—	—	—	—	(180)	197,460	—	197,280	300	197,580
2008 final dividend declared	—	—	—	—	—	—	—	(139,723)	(139,723)	—	(139,723)
Dividend on shares issued for employee share options exercised after December 31, 2008	—	(1,068)	—	—	—	—	—	—	(1,068)	—	(1,068)
Shares purchased for share award scheme	—	—	(11,193)	—	—	—	—	—	(11,193)	—	(11,193)
Share-based compensation costs	—	—	—	—	23,990	—	—	—	23,990	26	24,016
Exercise of share options	43	16,834	—	—	—	—	—	—	16,877	—	16,877
Vested awarded shares transferred to employees	—	—	3,448	—	(3,448)	—	—	—	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	500	500
AT JUNE 30, 2009	4,405	654,800	(47,795)	81,481	215,190	(66,308)	559,907	—	1,401,680	13,674	1,415,354

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2010

FOR THE SIX MONTHS ENDED JUNE 30,			
		2010	2009
	NOTES	RMB'000	RMB'000
		(UNAUDITED)	(UNAUDITED)
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NET CASH FLOWS FROM OPERATING ACTIVITIES		173,166	155,958
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		610,284	(113,878)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(8,904)	(134,370)
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NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		774,546	(92,290)
Cash and cash equivalents at beginning of period	14	405,595	616,955
Effect of foreign exchange rate changes, net		660	(126)
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	14	1,180,801	524,539
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NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated statement of financial position as at June 30, 2010 and the related condensed consolidated statements of income and comprehensive income for the three and six months then ended, condensed consolidated statements of changes in equity and cash flows for the six months then ended have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

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

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2009, except for the adoption of new standards and interpretations applicable to the Group as of January 1, 2010, noted below:

- International Financial Reporting Standard ("IFRS") 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes International Financial Reporting Interpretations Committee ("IFRIC") 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

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

The Group applies the revised standards from January 1, 2010. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, 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 a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Revised) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

— IAS 39 *Financial Instruments: Recognition and Measurement* — *Eligible Hedged Items*

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position nor performance of the Group.

— IFRIC 17 *Distribution of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position nor performance of the Group.

— *Improvements to IFRSs (issued May 2008)*

In May 2008, the International Accounting Standards Board ("IASB") issued its first omnibus of amendments to its standards. All amendments issued are effective for the Group as at December 31, 2009, apart from the following:

— IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and had no impact on the financial position nor financial performance of the Group.

— *Improvements to IFRSs (issued April 2009)*

In April 2009, the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

— IAS 7 *Statement of Cash Flows*: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

— IAS 36 *Impairment of Assets*: The amendment clarified 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.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

— IFRS 2 *Share-based Payment*

— IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

— IAS 1 *Presentation of Financial Statements*

— IAS 17 *Leases*

— IAS 38 *Intangible Assets*

— IAS 39 *Financial Instruments: Recognition and Measurement*

— IFRIC 9 *Reassessment of Embedded Derivatives*

— IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. OPERATING SEGMENT INFORMATION

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

- (a) The entertainment software segment engages in research and development of online games, and provision of online games, mobile games and casual game services.
- (b) The application software segment engages in the research, development and distribution of internet security software, dictionary software and office application software products.

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. REVENUE

Revenue represents the net invoiced value of goods sold, after deduction of returns and trade discounts; and the value of services rendered.

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)
<i>Revenue</i>				
Sales of packaged software	23,578	19,432	45,979	36,237
Rendering of service	222,736	220,549	446,033	439,972
	246,314	239,981	492,012	476,209

5. PROFIT BEFORE TAX

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)
Depreciation of property, plant and equipment	14,389	9,635	28,348	14,521
Amortisation of lease prepayments	—	41	347	83
Amortisation of other intangible assets:				
Capitalised software costs*	2,337	1,258	3,704	2,965
Purchased software	1,610	2,338	3,509	4,941
Others	263	266	529	532
Impairment of interest in a jointly-controlled entity**	3,638	—	3,638	—
Impairment of loan to a shareholder of a jointly-controlled entity**	2,250	—	2,250	—
Impairment of goodwill**	2,377	—	2,377	—
Donation**	1,000	—	1,000	—

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

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INCOME TAX

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)
Current income tax	17,823	17,814	27,769	26,009
Deferred income tax	(4,329)	(3,241)	1,580	2,162
Income tax expense	13,494	14,573	29,349	28,171

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

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

In accordance with Japan tax laws, the income tax rate applicable to the Group's subsidiary in Japan is 41%.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

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

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent	156,657	197,460

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	NUMBER OF SHARES FOR THE SIX MONTHS ENDED JUNE 30,	
	2010 (UNAUDITED)	2009 (UNAUDITED)
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme	1,082,521,512	1,060,421,431
Effect of dilution:		
Share options	61,666,424	54,041,806
Awarded shares	13,597,995	10,268,978
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,157,785,931	1,124,732,215

8. PROPERTY, PLANT AND EQUIPMENT

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

9. OTHER INTANGIBLE ASSETS

	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)
Net carrying amount at January 1	48,489	39,071
Additions	17,981	3,918
Amortisation charge for the period	(7,742)	(7,811)
Net carrying amount at June 30	58,728	35,178

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. LEASE PREPAYMENTS

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

11. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	AS AT JUNE 30, 2010 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2009 RMB'000 (AUDITED)
Share of net assets	12,058	15,533
Goodwill — at cost	24,299	24,579
Provision for impairment	36,357 (3,638)	40,112 —
	32,719	40,112

Particulars of the jointly-controlled entities are as follows:

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. LONG-TERM PREPAYMENTS

The Group's long-term prepayments as at December 31, 2009 represented deposits for land use rights, which are unsecured and interest-free, such balance was transferred to lease prepayments during the six months ended June 30, 2010.

13. TRADE RECEIVABLES

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

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

	AS AT JUNE 30, 2010 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2009 RMB'000 (AUDITED)
0-30 days	42,983	43,029
31-60 days	17,890	38,002
61-90 days	17,298	26,393
91-365 days	29,654	11,180
Over one year	2,578	1,774
	110,403	120,378

14. CASH AND CASH EQUIVALENTS

	AS AT JUNE 30, 2010 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2009 RMB'000 (AUDITED)
Cash and bank balances	287,982	258,975
Time deposits with original maturity of three months or less when acquired	892,819	146,620
	1,180,801	405,595
Time deposits with original maturity of over three months when acquired	196,238	862,503
	1,377,039	1,268,098

For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents consist of cash at bank and in hand and time deposits with an original maturity of less than three months.

As at June 30, 2010, the Group had placed deposit of RMB241,040 thousand (unaudited) (December 31, 2009: Nil) at a bank for the fulfillment of its undertakings to the bank under a term loan banking facility granted to the Group (note 16).

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. TRADE PAYABLES

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

	AS AT JUNE 30, 2010 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2009 RMB'000 (AUDITED)
0-30 days	5,608	8,746
31-60 days	1,442	422
61-90 days	1,699	726
91-365 days	4,837	1,270
Over one year	1,830	1,433
	15,416	12,597

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

16. INTEREST-BEARING BANK LOAN

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

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. ISSUED CAPITAL, SHARE PREMIUM AND SHARES HELD FOR SHARE AWARD SCHEME

The movement of the Company's issued capital is as follows:

	NUMBER OF SHARES IN ISSUE (UNAUDITED)	ISSUED CAPITAL RMB'000 (UNAUDITED)	SHARE PREMIUM RMB'000 (UNAUDITED)	SHARES HELD FOR SHARE AWARD SCHEME RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
At January 1, 2010	1,071,929,133	4,434	525,349	(72,365)	457,418
Exercise of share options	18,987,500	66	29,496	—	29,562
Vested awarded shares transferred to employees	1,948,333	—	—	6,175	6,175
Dividend on shares issued for employee share options exercised after December 31, 2009	—	—	(1,578)	—	(1,578)
At June 30, 2010	1,092,864,966	4,500	553,267	(66,190)	491,577
At January 1, 2009	1,056,228,708	4,362	639,034	(40,050)	603,346
Exercise of share options	12,415,425	43	16,834	—	16,877
Purchase of shares held for share award scheme	(2,453,000)	—	—	(11,193)	(11,193)
Vested awarded shares transferred to employees	1,002,000	—	—	3,448	3,448
Dividend on shares issued for employee share options exercised after December 31, 2008	—	—	(1,068)	—	(1,068)
At June 30, 2009	1,067,193,133	4,405	654,800	(47,795)	611,410

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. SHARE-BASED COMPENSATION COSTS

(a) Share options

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

	2010 NUMBER OF SHARES OPTIONS (UNAUDITED)	2009 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at January 1	98,145,100	123,779,525
Forfeited during the period	(1,253,500)	(4,265,000)
Exercised during the period	(18,987,500)	(12,415,425)
Outstanding at June 30	77,904,100	107,099,100

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

(b) Share Award Scheme

On March 31, 2008 ("Adoption Date"), the Board approved and adopted a share award scheme (the "Share Award Scheme") in which selected employees of the Group are entitled to participate. The Group has set up a trust (the "Share Award Scheme Trust") for the purpose of administering the Share Award Scheme and holding shares awarded to the employees (the "Awarded Shares") before they vest. Unless early terminated by the Board, the Share Award Scheme shall be valid and effective for a term of five years commencing on the Adoption Date.

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

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

	2010 NUMBER OF AWARDED SHARES (UNAUDITED)	2009 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at January 1	20,658,000	15,558,000
Awarded during the period	8,535,600	7,612,000
Forfeited during the period	(6,579,400)	(870,000)
Vested during the period	(2,686,133)*	(1,455,000)
Outstanding at June 30	19,928,067	20,845,000

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

- * During the six months ended June 30, 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 concerning employees had made their elections in May 2010. Consequently, 787,800 Awarded Shares were cash-settled and vested immediately.

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

19. DIVIDENDS

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

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

20. CAPITAL COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

	NOTES	AS AT JUNE 30, 2010 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2009 RMB'000 (AUDITED)
Contracted, but not provided for:			
Purchase of electronic equipment		1,681	3,168
Acquisition of land and buildings	(a)	994,312	1,000,000
Investment	(b)	3,359	5,360
Acquisition of intangible assets		—	4,317
Total		999,352	1,012,845

- (a) The capital commitment for the acquisition of land and buildings represented the commitment to invest an aggregate of RMB1,000,000 thousand in five years since 2009 in the construction of a piece of land in Zhuhai, the PRC, in accordance with the relevant land acquisition agreement.
- (b) The capital commitment for investment mainly represented the commitment to pay RMB2,000 thousand to Kingsoft Lianking upon the fulfillment of the predetermined condition by Kingsoft Lianking.

The Company has entered into an agreement to contribute US\$199 thousand (equivalent to RMB1,359 thousand) for 19.9% interest in Kim Quang Software and Technology Joint Stock Company, a company engaged in software business in Vietnam. The transaction has not been completed as of June 30, 2010.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the period:

	NOTES	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
		2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)
Loan to shareholders of a subsidiary	(i)	—	13,928	—	13,928
Advertisement fees to a company with a common director of the Company	(ii)	296	446	296	446

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

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

(b) Outstanding balances with related parties:

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

	AS AT JUNE 30, 2010 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2009 RMB'000 (AUDITED)
Due from related parties:		
Loan to shareholders of a subsidiary included in other receivables	14,146	13,912

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. RELATED PARTY TRANSACTIONS (continued)

(c) Other transactions with related parties:

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

The first tranche of above transaction was completed as at June 30, 2009, and the second tranche was cancelled due to non-fulfillment of the conditions during the year ended December 31, 2009.

(d) Compensation of key management personnel of the Group (including directors' remuneration):

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)
Salaries, allowances, and benefits in kind	2,611	2,689	5,473	5,422
Pension scheme contributions	48	44	95	84
Share-based compensation costs	4,856	5,618	8,900	11,132
Total compensation paid to key management personnel	7,515	8,351	14,468	16,638

22. CONTINGENT LIABILITIES

At June 30, 2010, the Group had no significant contingent liabilities (December 31, 2009: Nil).

23. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

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

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF KINGSOFT CORPORATION LIMITED

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 4 to 23 which comprise the condensed consolidated statement of financial position of Kingsoft Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as at June 30, 2010 and the related condensed consolidated statements of income and comprehensive income for the three and six months then ended, condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

18th Floor

Two International Finance Centre

8 Finance Street, Central

Hong Kong

August 25, 2010

OPERATIONAL HIGHLIGHTS

FOR THE THREE MONTHS ENDED

	SEPTEMBER 30, 2008	DECEMBER 31, 2008	MARCH 31, 2009	JUNE 30, 2009	SEPTEMBER 30, 2009	DECEMBER 31, 2009	MARCH 31, 2010	JUNE 30, 2010
ONLINE GAMES								
Daily Average Peak Concurrent Users	990,855	1,029,611	951,685	953,817	1,061,250	1,131,124	915,212	819,325
Monthly Average Paying Users	1,239,609	1,531,993	1,489,797	1,317,755	1,543,946	1,767,553	1,457,101	1,276,351
Monthly Average Revenue per Paying User (RMB)	40	38	36	39	35	38	36	41
ONLINE SERVICES OF INTERNET SECURITIES								
Daily Average Paying Users	8,657,001	8,409,533	8,450,146	8,211,110	8,269,916	8,746,468	8,416,136	7,648,623
Monthly Average Revenue per Paying User (RMB)	1.7	1.9	1.9	2.1	2.1	2.1	2.0	2.2

FINANCIAL HIGHLIGHTS

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2009 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
REVENUE:		
Entertainment software	321,055	320,666
Application software	150,899	168,137
Others	4,255	3,209
	476,209	492,012
Cost of revenue	(59,130)	(62,201)
GROSS PROFIT	417,079	429,811
Research and development costs, net of government grants	(87,906)	(113,217)
Selling and distribution costs	(59,751)	(60,966)
Administrative expenses	(44,985)	(55,186)
Share-based compensation costs	(24,295)	(21,939)
Other operating costs	(790)	(10,688)
Other income and gains	1,157	635
OPERATING PROFIT	200,509	168,450
Finance income	12,569	14,602
Share of profits and losses of:		
Associates	16,222	7,790
Jointly-controlled entities	(2,834)	(3,475)
PROFIT BEFORE TAX	226,466	187,367
Income tax expense	(28,171)	(29,349)
PROFIT FOR THE PERIOD	198,295	158,018
Attributable to:		
Owners of the parent	197,460	156,657
Non-controlling interests	835	1,361
	198,295	158,018
	RMB (UNAUDITED)	RMB (UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	0.1862	0.1447
Diluted	0.1756	0.1353

FINANCIAL HIGHLIGHTS (continued)

	FOR THE THREE MONTHS ENDED		
	JUNE 30, 2009 RMB'000 (UNAUDITED)	MARCH 31, 2010 RMB'000 (UNAUDITED)	JUNE 30, 2010 RMB'000 (UNAUDITED)
REVENUE:			
Entertainment software	158,251	161,742	158,924
Application software	78,869	82,233	85,904
Others	2,861	1,723	1,486
	239,981	245,698	246,314
Cost of revenue	(29,812)	(30,767)	(31,434)
GROSS PROFIT	210,169	214,931	214,880
Research and development costs, net of government grants	(44,776)	(55,848)	(57,369)
Selling and distribution costs	(30,793)	(27,352)	(33,614)
Administrative expenses	(23,094)	(28,029)	(27,157)
Share-based compensation costs	(11,728)	(7,122)	(14,817)
Other operating costs	(344)	(739)	(9,949)
Other income and gains	1,084	485	150
OPERATING PROFIT	100,518	96,326	72,124
Finance income	5,572	6,889	7,713
Share of profits and losses of:			
Associates	7,283	4,616	3,174
Jointly-controlled entities	(1,599)	(1,762)	(1,713)
PROFIT BEFORE TAX	111,774	106,069	81,298
Income tax expense	(14,573)	(15,855)	(13,494)
PROFIT FOR THE PERIOD	97,201	90,214	67,804
Attributable to:			
Owners of the parent	96,551	89,741	66,916
Non-controlling interests	650	473	888
	97,201	90,214	67,804
	RMB (UNAUDITED)	RMB (UNAUDITED)	RMB (UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	0.0907	0.0834	0.0614
Diluted	0.0835	0.0775	0.0579

MANAGEMENT DISCUSSION AND ANALYSIS

First Half of 2010 Compared to First Half of 2009

Revenue

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

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

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

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

Gross Profit and Cost of Revenue

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

Research and Development ("R&D") Costs

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

Selling and Distribution Costs

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

Administrative Expenses

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

Share-based Compensation Costs

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

Operating Profit Excluding Share-based Compensation Costs

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

Share of Profits of Associates

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Income Tax Expense

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

Profit Attributable to Owners of the Parent

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

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

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

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

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

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at June 30, 2010, the group had major financial resources in the forms of cash and cash equivalents, time deposits with initial term of over three months amounting to RMB1,180.8 million, RMB196.2 million, respectively, which totally represented 64% of the Group's total assets. The increase of cash and cash equivalent, as compared to RMB524.5 million as at June 30, 2009, was mainly due to a net cash inflow generated from the Group's operations and the increased cash investment proportion in time deposits with initial term of less than three months.

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

Foreign Currency Risk Management

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

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

Deferred Revenue

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

Net Cash Generated from Operating Activities

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital Expenditure

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

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

Revenue

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

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

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

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

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

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

Gross Profit and Cost of Revenue

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

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

R&D Costs

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

Selling and Distribution Costs

Selling and distribution costs increased by 23% quarter-over-quarter and increased by 9% year-over-year to RMB33.6 million. The quarter-over-quarter increase was primarily attributable to the launching of the new expansion packs for JX3 and JX World.

Administrative Expenses

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

Share-based Compensation Costs

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Operating Profit Excluding Share-based Compensation Costs

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

Share of Profits of Associates

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

Income Tax Expense

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

Profit Attributable to Owners of the Parent

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

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

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

BUSINESS OUTLOOK

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

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

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

OTHER INFORMATION

Directors' Interests in Securities

As at June 30, 2010, the interests and short positions of the Directors and the chief executive officer (the "CEO") 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 (the "SFO") which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (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 for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time (the "Listing Rules"), 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 AS AT JUNE 30, 2010
Pak Kwan Kau	Corporate (Note 1)	219,489,800	19.71%
Jun Lei	Corporate (Note 2)	117,230,280	10.53%
Shuen Lung Cheung	Corporate (Note 3)	101,631,386	9.13%
Tao Zou	Personal	750,600	0.07%

Interests in underlying shares of the Company:

NAME OF DIRECTOR	INTERESTS IN UNDERLYING SHARES	NUMBER OF INTERESTS DIRECTLY BENEFICIALLY OWNED
Jun Lei	Share options (Note 4)	27,763,300
Donghui Wang	Share options (Note 5)	4,885,000
	Awarded shares (Note 6)	1,811,000
Shuen Lung Cheung	Share options (Note 7)	1,000,000
Tao Zou	Share options (Note 8)	1,959,000
	Awarded shares (Note 9)	402,000
Pak Kwan Kau	Awarded shares (Note 10)	1,500,000

Notes:

- These shares are held by Topclick Holdings Limited, a BVI company wholly owned by Mr. Pak Kwan Kau.
- These shares are held by Color Link Management Limited, a BVI company wholly owned by Mr. Jun Lei.
- Mr. Shuen Lung Cheung is beneficially interested in 101,631,386 shares of the Company, through Super Faith International Limited, 33.3% of which is owned by Highland Crest Limited, a company owned by Mr. Shuen Lung Cheung and his spouse.
- The relevant interests include number of options of 22,451,800 which was granted on February 1, 2007 and its exercise period is from February 1, 2007 to February 1, 2017 with exercise price of US\$0.2400, and the number of options of 5,311,500 which was granted on August 1, 2004 and its exercise period is from August 1, 2004 to August 1, 2014 with exercise price of US\$0.0353.
- The relevant interests include number of share options of 4,685,000 which was granted on February 1, 2007 and its exercise period is from February 1, 2007 to February 1, 2017 with exercise price of US\$0.2400, and the number of share options of 200,000 which was granted on December 1, 2006

OTHER INFORMATION (continued)

and its exercise period is from December 1, 2006 to December 1, 2016 with exercise price of US\$0.2400.

6. The relevant interests include: 1) number of 254,000 awarded shares granted on October 13, 2008, under the Share Award Scheme, half of which will be exercisable on October 13, 2010 and October 13, 2011 respectively. The price for grant is nil; 2) number of 1,500,000 awarded shares granted on July 13, 2009, under the Share Award Scheme, one third of which will be exercisable on July 13, 2010, July 13, 2011 and July 13, 2012 respectively subject to the satisfaction of vesting conditions set out in its grant letter. The price for grant is nil; and 3) number of 57,000 awarded shares granted on March 26, 2010, under the Share Award Scheme, one third of which will be exercisable on March 26, 2011, March 26, 2012 and March 26, 2013 respectively. The price for grant is nil.
7. The relevant interests include number of options of 1,000,000 which was granted on August 1, 2004 and its exercise period is from August 1, 2004 to August 1, 2014 with exercise price of US\$0.035.
8. The relevant interests include number of options of 400,000 which was granted on December 1, 2006 and its exercise period is from December 1, 2006 to December 1, 2016 with exercise price of US\$0.24, and the number of options of 1,559,000 which was granted on February 1, 2007 and its exercise period is from February 1, 2007 to February 1, 2017 with exercise price of US\$0.2400.
9. The relevant interests include: 1) number of 324,000 awarded shares granted on October 13, 2008 under the Share Award Scheme, one third of which was vested and exercisable on October 13, 2009 and one third of which will be exercisable on October 13, 2010 and October 13, 2011 respectively. The price for grant is nil; 2) number of 78,000 awarded shares granted on March 26, 2010 under the Share Award Scheme, one third of which will be exercisable on March 26, 2011, March 26, 2012 and March 26, 2013 respectively. The price for grant is nil.
10. The relevant interests include number of 1,500,000 awarded shares granted on July 13, 2009, under the Share Award Scheme, one third of which will be exercisable on July 13, 2010,

July 13, 2011 and July 13, 2012 respectively subject to the satisfaction of vesting conditions set out in its grant letter. 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 June 30, 2010.

Share Option Schemes

The Company adopted the 2004 and 2007 Pre-IPO Share Option Schemes which were approved by resolutions in writing of all the shareholders passed on June 30, 2004 and January 22, 2007. Options granted under the 2004 and 2007 Pre-IPO Share Option Schemes 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. Share options were granted for periods of up to ten years.

The weighted average closing price immediately before the dates on which the options were exercised during the six months ended June 30, 2010 was HK\$6.18 (six months ended June 30, 2009: HK\$4.14).

The 2004 and 2007 Pre-IPO Share Option Schemes were terminated on September 3, 2007. No share options have been granted since then.

OTHER INFORMATION (continued)

The following share options were outstanding under 2004 and 2007 Pre-IPO Share Option Schemes during six months ended June 30, 2010.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS			AT JUNE 30, 2010	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US\$ PER SHARE
	AT JANUARY 1, 2010	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD			
Executive directors						
Donghui Wang	800,000	(800,000)	—	—	March 1, 2005	0.2118
	600,000	(600,000)	—	—	August 1, 2005	0.2118
	800,000	(600,000)	—	200,000	December 1, 2006	0.2400
	5,000,000	(315,000)	—	4,685,000	February 1, 2007*	0.2400
	7,200,000	(2,315,000)	—	4,885,000		
Tao Zou	1,450,000	(1,050,000)	—	400,000	December 1, 2006	0.2400
	5,400,000	(3,841,000)	—	1,559,000	February 1, 2007*	0.2400
	6,850,000	(4,891,000)	—	1,959,000		
Non-executive directors						
Jun Lei	5,311,500	—	—	5,311,500	August 1, 2004	0.0353
	22,451,800	—	—	22,451,800	February 1, 2007*	0.2400
	27,763,300	—	—	27,763,300		
Shuen Lung Cheung	1,000,000	—	—	1,000,000	August 1, 2004	0.0353

OTHER INFORMATION (continued)

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS				DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US\$ PER SHARE
	AT JANUARY 1, 2010	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT JUNE 30, 2010		
Other employees						
In aggregate	1,700,500	—	—	1,700,500	January 1, 2000	0.0005
	2,535,000	(1,035,500)	—	1,499,500	August 1, 2004	0.0353
	80,000	(80,000)	—	—	April 1, 2005	0.2118
	1,155,500	(87,500)	(4,000)	1,064,000	August 1, 2005	0.2118
	41,000	(41,000)	—	—	January 1, 2006	0.2118
	800,000	—	—	800,000	August 1, 2006	0.2118
	1,252,000	(250,000)	(50,000)	952,000	December 1, 2006	0.2400
	46,208,800	(10,063,000)	(992,000)	35,153,800	February 1, 2007*	0.2400
	619,000	(10,000)	—	609,000	April 1, 2007*	0.2400
	565,000	(147,000)	(185,000)	233,000	May 8, 2007*	0.2400
	375,000	(67,500)	(22,500)	285,000	August 1, 2007*	0.4616
	55,331,800	(11,781,500)	(1,253,500)	42,296,800		
	98,145,100	(18,987,500)	(1,253,500)	77,904,100		

* These options were granted under the 2007 Pre-IPO Share Option Scheme, while others were granted under the 2004 Pre-IPO Share Option Scheme.

Share Award Scheme

The Share Award Scheme was adopted by the Board on March 31, 2008. Unless it is 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. 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.

During the six months ended June 30, 2010, 8,535,600 shares (six months ended June 30, 2009: 7,612,000 shares) were awarded to a number of employees with vesting period of three years.

The weighted average closing price immediately before the dates on which the awarded shares were vested during the six months ended June 30, 2010 was HK\$4.69 (six months ended June 30, 2009: HK\$5.31).

OTHER INFORMATION (continued)

The following Awarded Shares were outstanding under the Share Award Scheme during the six months ended June 30, 2010.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES				AT JUNE 30, 2010	GRANT DATE
	AT JANUARY 1, 2010	GRANTED DURING THE PERIOD	FORFEITED DURING THE PERIOD	VESTED DURING THE PERIOD		
Executive directors						
Pak Kwan Kau	1,500,000	—	—	—	1,500,000	July 13, 2009
Donghui Wang	254,000	—	—	—	254,000	October 13, 2008
	1,500,000	—	—	—	1,500,000	July 13, 2009
	—	57,000	—	—	57,000	March 26, 2010
	1,754,000	57,000	—	—	1,811,000	
Tao Zou	216,000	—	—	—	216,000	October 13, 2008
	2,691,000	—	(2,691,000)	—	—	June 8, 2009
	—	78,000	—	—	78,000	March 26, 2010
	2,907,000	78,000	(2,691,000)	—	294,000	

OTHER INFORMATION (continued)

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES				AT JUNE 30, 2010	GRANT DATE
	AT JANUARY 1, 2010	GRANTED DURING THE PERIOD	FORFEITED DURING THE PERIOD	VESTED DURING THE PERIOD		
Other employees						
In aggregate	3,224,000	—	(494,000)	(1,205,000)	1,525,000	June 26, 2008
	4,222,000	—	(279,000)	—	3,943,000	October 13, 2008
	400,000	—	—	—	400,000	November 27, 2008
	100,000	—	—	—	100,000	December 1, 2008
	200,000	—	(200,000)	—	—	December 25, 2008
	1,600,000	—	—	(533,333)	1,066,667	January 1, 2009
	3,321,000	—	(2,841,000)	(160,000)	320,000	June 8, 2009
	80,000	—	—	—	80,000	November 27, 2009
	1,350,000	—	(30,000)	—	1,320,000	December 1, 2009
	—	350,000	—	—	350,000	January 12, 2010
	—	5,492,600	(44,400)	(787,800)*	4,660,400	March 26, 2010
	—	2,470,000	—	—	2,470,000	May 26, 2010
	—	88,000	—	—	88,000	June 23, 2010
	14,497,000	8,400,600	(3,888,400)	(2,686,133)	16,323,067	
	20,658,000	8,535,600	(6,579,400)	(2,686,133)	19,928,067	

* During the six months ended June 30, 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 concerning employees had made their elections in May 2010. Consequently, 787,800 Awarded Shares were cash-settled and vested immediately.

OTHER INFORMATION (continued)

Substantial Shareholders

As at June 30, 2010, as far as the Directors are aware of, the following, other than the directors or 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:

NAME OF SHAREHOLDER	CAPACITY	NUMBER OF SHARES HELD	PERCENTAGE OF ISSUED SHARE CAPITAL
Topclick Holdings Limited ⁽¹⁾	Beneficial owner	219,489,800	19.71%
Color Link Management Limited ⁽²⁾	Beneficial owner	117,230,280	10.53%
Super Faith International Limited	Beneficial owner	101,631,386	9.13%
Caprice Pacific Limited ⁽³⁾	Interest of a controlled corporation	101,631,386	9.13%
Highland Crest Limited ⁽³⁾	Interest of a controlled corporation	101,631,386	9.13%
World Conquest Limited ⁽³⁾	Interest of a controlled corporation	101,631,386	9.13%
Pacific Star Overseas Limited ⁽³⁾	Interest of a controlled corporation	101,631,386	9.13%
Nien Shian Chu ⁽³⁾	Interest of a controlled corporation	101,631,386	9.13%
Siu Lung Cheung ⁽³⁾	Interest of a controlled corporation	101,631,386	9.13%
Tung Ping Lau ⁽³⁾	Interest of a controlled corporation	101,631,386	9.13%
Siu Ha Cheung ⁽³⁾	Interest of a controlled corporation	101,631,386	9.13%
Ka Yeung Yip ⁽³⁾	Interest of a controlled corporation	101,631,386	9.13%

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 Mr. Jun Lei.
3. Each of Caprice Pacific Limited, Highland Crest Limited and World Conquest Limited is deemed to be interested in Super Faith International Limited's interest in the Company under the SFO because each of these entities is entitled to control the exercise of 33.3% of the voting power at general meetings of Super Faith International Limited. Pacific Star Overseas Limited is deemed to be interested in Super Faith International Limited's interest in the Company under the SFO because Pacific Star Overseas Limited controls 50% of shareholding indirectly in Caprice Pacific Limited. Caprice Pacific Limited is owned by Siu Ha Cheung and Ka Yeung Yip, who are husband and wife. Highland Crest Limited is owned by Shuen Lung Cheung and Nien Shian Chu, who are husband and wife. World Conquest Limited is owned by Siu Lung Cheung and Tung Ping Lau, who are husband and wife. Accordingly, each of Shuen Lung Cheung, Nien Shian Chu, Siu Lung Cheung, Tung Ping Lau, Siu Ha Cheung and Ka Yeung Yip is deemed to be interested in Super Faith International Limited's interest in the Company by the SFO.

Save as disclosed above, the Directors confirm that they 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.

Employee and Remuneration Policies

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

OTHER INFORMATION (continued)

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

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

Review by Audit Committee

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

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

Compliance with Model Code for Securities Transactions

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

Code on Corporate Governance Practices

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

Details of this deviation and considered reason have been set out in the corporate governance report in the 2009 annual report of the Company dated March 25, 2010. The Board will continue to review the current structure from time to time and shall make necessary changes when appropriate and inform the shareholders accordingly.

Appreciation

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

By Order of the Board
Kingsoft Corporation Limited

Pak Kwan Kau
Chairman

Hong Kong, August 25, 2010