Kingsoft Corporation Limited
金 山 軟 件 有 限 公 司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

Announcement of the Unaudited Results For the Three and Six months ended June 30, 2011

The Board ("Board") of directors (the "Directors") of Kingsoft Corporation Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group" or "Kingsoft") for the three and six months ended June 30, 2011. These interim results have been reviewed by Ernst & Young, the auditors of the Company, and the Company's audit committee (the "Audit Committee"), comprising three independent non-executive directors of the Company.

FINANCIAL INFORMATION
UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended June 30, 2011

	Notes	For the three months ended June 30, 2011 RMB'000 (Unaudited)	For the three months ended June 30, 2010 RMB'000 (Unaudited)	For the six months ended June 30, 2011 RMB'000 (Unaudited)	For the six months ended June 30, 2010 RMB'000 (Unaudited)
Revenue:					
Entertainment software		**173,004**	158,924	**336,380**	320,666
Application software		**89,963**	87,390	**157,863**	171,346
		262,967	246,314	**494,243**	492,012
Cost of revenue		**(34,608)**	(31,434)	**(67,398)**	(62,201)
Gross profit		**228,359**	214,880	**426,845**	429,811
Research and development costs, net of governments grants		**(61,447)**	(57,369)	**(135,755)**	(113,217)
Selling and distribution costs		**(31,176)**	(33,614)	**(51,021)**	(60,966)
Administrative expenses		**(26,088)**	(27,157)	**(54,443)**	(55,186)
Share-based compensation costs	12	**(3,699)**	(14,817)	**(11,231)**	(21,939)
Other income and gains		**6,350**	150	**7,535**	635
Other expenses		**(2,920)**	(9,949)	**(3,110)**	(10,688)
Operating profit		**109,379**	72,124	**178,820**	168,450
Fair value gain on a financial asset at fair value through profit or loss		**305**	—	**305**	—
Finance income		**13,791**	7,713	**26,838**	14,602
Finance costs		**(806)**	—	**(924)**	—
Share of profits and losses of:					
Associates		**(815)**	3,174	**(2,591)**	7,790
Jointly-controlled entities		**(625)**	(1,713)	**(1,478)**	(3,475)
Profit before tax	5	**121,229**	81,298	**200,970**	187,367
Income tax expense	6	**(15,334)**	(13,494)	**(26,815)**	(29,349)
Profit for the period		**105,895**	67,804	**174,155**	158,018
Attributable to:					
Owners of the parent		**103,915**	66,916	**170,809**	156,657
Non-controlling interests		**1,980**	888	**3,346**	1,361
		105,895	67,804	**174,155**	158,018
		RMB (Unaudited)	RMB (Unaudited)	**RMB (Unaudited)**	RMB (Unaudited)
Earnings per share attributable to ordinary equity holders of the parent	7				
Basic		**0.0927**	0.0614	**0.1532**	0.1447
Diluted		**0.0893**	0.0579	**0.1471**	0.1353

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2011

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Profit for the period	**105,895**	67,804	**174,155**	158,018
Other comprehensive income:				
Exchange differences on translation of foreign operations	**499**	(351)	**(1,415)**	216
Other comprehensive income/(loss) for the period, net of tax	**499**	(351)	**(1,415)**	216
Total comprehensive income for the period	**106,394**	67,453	**172,740**	158,234
Attributable to:				
Owners of the parent	**104,367**	65,954	**170,287**	156,258
Non-controlling interests	**2,027**	1,499	**2,453**	1,976
	106,394	67,453	**172,740**	158,234

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2011

	Notes	**June 30, 2011 RMB'000 (Unaudited)**	December 31, 2010 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**382,765**	392,767
Goodwill		**14,559**	11,710
Other intangible assets		**72,819**	69,045
Lease prepayments		**44,612**	45,083
Long-term prepayment		**53,738**	—
Investments in associates		**2,409**	—
Investments in jointly-controlled entities		**16,713**	18,793
Available-for-sale investment		**750**	18,675
Other financial asset	8	**13,785**	13,785
Loan receivables		**3,696**	3,542
Deferred tax assets		**24,237**	25,670
Deferred cost		**334**	461
		630,417	599,531
Current assets			
Inventories		**2,850**	2,856
Trade receivables	9	**98,395**	98,939
Due from related parties		**150,618**	13,607
Prepayments, deposits and other receivables		**61,963**	71,518
Deferred cost		**1,201**	2,205
Pledged deposit	11(b)	**85,000**	—
Cash and cash equivalents		**1,649,601**	1,656,157
		2,049,628	1,845,282
Current liabilities			
Trade payables	10	**14,229**	15,571
Interest-bearing bank loans	11	**355,592**	102,108
Dividend payable		**2,244**	258
Other payables and accruals		**161,825**	163,203
Deferred revenue		**160,399**	161,570
Tax payable		**3,682**	3,765
		697,971	446,475
Net current assets		**1,351,657**	1,398,807
Total assets less current liabilities		**1,982,074**	1,998,338

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at June 30, 2011

	Notes	**June 30, 2011 RMB'000 (Unaudited)**	December 31, 2010 RMB'000 (Audited)
Non-current liabilities			
Deferred revenue		**20,606**	29,139
Deferred tax liabilities		**24,455**	35,138
		45,061	64,277
Net assets		**1,937,013**	1,934,061
Equity			
Equity attributable to owners of the parent			
Issued capital		**4,581**	4,527
Share premium account		**457,276**	408,241
Shares held for share award scheme		**(52,029)**	(57,773)
Statutory reserves		**140,057**	140,057
Employee share-based reserve		**183,013**	207,646
Capital reserve		**181,112**	16,230
Foreign currency translation reserve		**(69,147)**	(68,625)
Retained earnings		**1,054,384**	883,575
Proposed final and special dividends	13	**—**	376,000
		1,899,247	1,909,878
Non-controlling interests		**37,766**	24,183
Total equity		**1,937,013**	1,934,061

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2011

	Attributable to owners of the parent											
	Issued capital RMB'000 (Unaudited)	**Share premium account RMB'000 (Unaudited)**	**Shares held for share award scheme RMB'000 (Unaudited)**	**Statutory reserves RMB'000 (Unaudited)**	**Employee share-based reserve RMB'000 (Unaudited)**	**Capital Reserve RMB'000 (Unaudited)**	**Foreign currency translation reserve RMB'000 (Unaudited)**	**Retained earnings RMB'000 (Unaudited)**	**Proposed final and special dividends RMB'000 (Unaudited)**	**Total RMB'000 (Unaudited)**	**Non-controlling interests RMB'000 (Unaudited)**	**Total equity RMB'000 (Unaudited)**
At January 1, 2011	**4,527**	**408,241**	**(57,773)**	**140,057**	**207,646**	**16,230**	**(68,625)**	**883,575**	**376,000**	**1,909,878**	**24,183**	**1,934,061**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**170,809**	**—**	**170,809**	**3,346**	**174,155**
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	**—**	**—**	**—**	**—**	**—**	**—**	**(522)**	**—**	**—**	**(522)**	**(893)**	**(1,415)**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**(522)**	**170,809**	**—**	**170,287**	**2,453**	**172,740**
Approved and paid final and special dividends in respect of the previous year	**—**	**1,043**	**—**	**—**	**—**	**—**	**—**	**—**	**(376,000)**	**(374,957)**	**—**	**(374,957)**
Share-based compensation costs	**—**	**—**	**—**	**—**	**4,344**	**—**	**—**	**—**	**—**	**4,344**	**516**	**4,860**
Exercise of share options	**54**	**47,992**	**—**	**—**	**(23,233)**	**—**	**—**	**—**	**—**	**24,813**	**—**	**24,813**
Vested awarded shares transferred to employees	**—**	**—**	**5,744**	**—**	**(5,744)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Changes in the ownership interests in subsidiaries	**—**	**—**	**—**	**—**	**—**	**164,882**	**—**	**—**	**—**	**164,882**	**10,614**	**175,496**
At June 30, 2011	**4,581**	**457,276**	**(52,029)**	**140,057**	**183,013**	**181,112**	**(69,147)**	**1,054,384**	**—**	**1,899,247**	**37,766**	**1,937,013**

For the six months ended June 30, 2010

	Attributable to owners of the parent										
	Issued capital RMB'000 (Unaudited)	Share premium account RMB'000 (Unaudited)	Shares held for share award scheme RMB'000 (Unaudited)	Statutory reserves RMB'000 (Unaudited)	Employee share-based reserve RMB'000 (Unaudited)	Foreign currency translation reserve RMB'000 (Unaudited)	Retained earnings RMB'000 (Unaudited)	Proposed final dividends RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total equity RMB'000 (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
Profit for the period	—	—	—	—	—	—	156,657	—	156,657	1,361	158,018
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	—	—	—	—	—	(399)	—	—	(399)	615	216
Total comprehensive income for the period	—	—	—	—	—	(399)	156,657	—	156,258	1,976	158,234
Approved and paid final dividend in respect of the previous year	—	(1,578)	—	—	—	—	—	(141,575)	(143,153)	—	(143,153)
Share-based compensation costs	—	—	—	—	18,100	—	—	—	18,100	163	18,263
Exercise of share options	66	29,496	—	—	—	—	—	—	29,562	—	29,562
Vested awarded shares transferred to employees	—	—	6,175	—	(6,175)	—	—	—	—	—	—
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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2011

	For the six months ended June 30,	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash flow from operating activities	**191,259**	173,166
Net cash flow from/(used in) investing activities	**(431,136)**	610,284
Net cash flow used in financing activities	**(57,578)**	(8,904)
Net increase/(decrease) in cash and cash equivalents	**(297,455)**	774,546
Cash and cash equivalents at beginning of period	**1,186,711**	405,595
Effect of foreign exchange rate changes, net	**(505)**	660
Cash and cash equivalents at end of period	**888,751**	1,180,801
Time deposits with original maturity of over three months when acquired	**760,850**	196,238
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	**1,649,601**	1,377,039

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

The Company 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 Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since October 9, 2007.

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

The interim condensed consolidated financial statements were approved and authorised for issue in accordance with a resolution of the board of directors of the Company on August 25, 2011.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB").

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, 2010.

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, 2010, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), except for the adoption of new standards and interpretations applicable to the Group as of January 1, 2011, noted below:

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

Significant accounting policies (continued)

Impact of New and Revised IFRSs

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

IAS 32 (Amendment) *Financial Instruments: Presentation*

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

Improvements to IFRSs (issued May 2010)

In May 2010, the IASB issued its third 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 these amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

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

3. Business combination

On January 4, 2011, the Group, through its subsidiary, Shell Internet (Beijing) Security Technology Co., Ltd., entered into an agreement (the "Acquisition Agreement") with the parties (the "Selling Parties") who owned drivergenius software which can be downloaded from its official website drivergenius.com and also owned a few websites including mydrivers.com, drivers.com.cn, myfiles.com.cn and 9724.com (the "Target Business"). Pursuant to which the Group will pay the Selling Parties a maximum cash consideration of RMB18.0 million, of which RMB6.0 million will be paid conditional upon the achievements by the Target Business of certain operation results within the first 12 months and the second 12 months after the completion of the acquisition. In return, the Selling Parties will transfer all of the intellectual properties, user database, material contracts, fixed assets and key employees engaged in the Target Business to the Group. The transaction was closed on January 24, 2011.

3. Business combination (continued)

The fair value of the identifiable assets of the Target Business as at the date of acquisition was:

	Fair value recognised on acquisition RMB'000 (Unaudited)
Property, plant and equipment	105
Trade name and domain name	2,161
Software	12,885
Net assets	15,151
Goodwill arising on acquisition	2,849
Total consideration, satisfied by cash and other payable	18,000

	RMB'000 (Unaudited)
Analysis of cash flow on acquisition:	
Cash paid	(1,000)
Net outflow of cash and cash equivalent included in cash flows used in investing activities	(1,000)

The goodwill comprises the value of expected synergies and other benefits from combining the assets and activities of the Target Business with those of the Group, which is not separately recongised. Goodwill is allocated entirely to the information security software segment. None of the recognised goodwill is expected to be deductable for income tax purposes.

Since its acquisition, the Target Business contributed RMB2.6 million to the Group's revenue and RMB1.7 million to the consolidated profit for the six months ended June 30, 2011.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the six months ended June 30, 2011 would have been RMB494.5 million and RMB174.2 million, respectively.

4. Operating segment information

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

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

(b) The information security software segment engages in the research, development of information security software and provision of information security services across devices.

(c) The other application software segment engages in the research, development and distribution of office application software and dictionary software.

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, share-based compensation costs, share of profits and losses of associates and jointly-controlled entities, other expenses, other income and gains and fair value gain on a financial asset at fair value through profit or loss are excluded from such measurement.

During the six months ended June 30, 2011, the Group has separated the application software business line into two segments: information security software and other application software, as a result of the Group's restructuring its group wide application software business since the last quarter of 2010. In order to provide a more appropriate presentation for the operating segment information, the Group restated the related results of the comparative period of 2010.

4. Operating segment information (continued)

	Entertainment software RMB'000 (Unaudited)	Information security software RMB'000 (Unaudited)	Other application software RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
For the six months ended June 30, 2011				
Segment revenue:				
Sales to external customers	**336,380**	**101,658**	**56,205**	**494,243**
Segment results	**192,586**	**22,305**	**25,178**	**240,069**
Reconciliation:				
Administrative expenses				**(54,443)**
Share-based compensation costs				**(11,231)**
Other income and gains				**7,535**
Other expenses				**(3,110)**
Fair value gain on a financial asset at fair value through profit or loss				**305**
Finance income				**26,838**
Finance costs				**(924)**
Share of losses of:				
Associates				**(2,591)**
Jointly-controlled entities				**(1,478)**
Profit before tax				**200,970**
For the six months ended June 30, 2010		**(Restated)**	**(Restated)**	
Segment revenue:				
Sales to external customers	320,666	123,516	47,830	492,012
Segment results	178,701	74,853	2,074	255,628
Reconciliation:				
Administrative expenses				(55,186)
Share-based compensation costs				(21,939)
Other income and gains				635
Other expenses				(10,688)
Finance income				14,602
Share of profits and losses of:				
Associates				7,790
Jointly-controlled entities				(3,475)
Profit before tax				187,367

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,**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Employee benefit expenses	**85,768**	88,860	**173,650**	176,808
Bandwidth and server fees	**9,848**	10,294	**21,695**	20,604
Depreciation of property, plant and equipment	**15,552**	14,389	**30,608**	28,348
Amortisation of lease prepayments	**235**	240	**471**	347
Amortisation of other intangible assets:				
Capitalised software costs*	**4,434**	2,337	**10,740**	3,704
Purchased software	**1,486**	1,610	**2,240**	3,509
Others	**995**	263	**1,990**	529
Impairment of interest in a jointly-controlled entity**	**—**	3,638	**—**	3,638
Impairment of loan to a shareholder of a jointly-controlled entity**	**2,000**	2,250	**2,000**	2,250
Impairment of goodwill**	**—**	2,377	**—**	2,377
Donation**	**500**	1,000	**500**	1,000

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

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

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,	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current income tax	**17,528**	17,823	**31,065**	27,769
Deferred income tax	**(2,194)**	(4,329)	**(4,250)**	1,580
Income tax expense	**15,334**	13,494	**26,815**	29,349

The People's Republic of China (the "PRC") corporate income tax represents the tax charged on the estimated assessable profits arising in 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.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended June 30, 2010: 16.5%) on estimated assessable profits arising in Hong Kong for the six months ended June 30, 2011.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiary in Japan was 41% for the six months ended June 30, 2011 (six months ended June 30, 2010: 41%).

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 periods from April 2010 to December 2014.

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,	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent	**170,809**	156,657

	Number of shares for the six months ended June 30,	
	2011	2010
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue less shares held for share award scheme	**1,115,111,918**	1,082,521,512
Effect of dilution:		
Share options	**37,977,252**	61,666,424
Awarded shares	**7,731,246**	13,597,995
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,160,820,416**	1,157,785,931

8. Other financial asset

	June 30, 2011 RMB'000 (Unaudited)	December 31, 2010 RMB'000 (Audited)
Ordinary Shares Subscription Option	**13,785**	13,785

The ordinary shares subscription option (the "Option") was granted by an online game service provider in Vietnam (the "Grantor") to a subsidiary of the Group on August 1, 2010 for the subsidiary or any of its designated subsidiary to subscribe from the Grantor at a predetermined exercise price a maximum of 1,859,251 ordinary shares of the Grantor, representing 6% of the entire issued and outstanding shares of the Grantor on a fully diluted basis as of July 31, 2010, issued as fully-paid subject to adjustment. The Option is exercisable in instalments over a six-year period with certain accelerating vesting conditions. The Option was, upon initial recognition, designated as a financial asset at fair value through profit or loss.

9. Trade receivables

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

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

	June 30, 2011 RMB'000 (Unaudited)	December 31, 2010 RMB'000 (Audited)
0–30 days	**55,586**	37,948
31–60 days	**11,685**	24,233
61–90 days	**11,356**	14,966
91–365 days	**12,507**	15,749
Over one year	**7,261**	6,043
	98,395	98,939

10. Trade payables

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

	June 30, 2011 RMB'000 (Unaudited)	December 31, 2010 RMB'000 (Audited)
0–30 days	**7,930**	6,357
31–60 days	**1,380**	1,834
61–90 days	**1,897**	2,118
91–365 days	**474**	2,631
Over one year	**2,548**	2,631
	14,229	15,571

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

11. Interest-bearing bank loans

	Notes	**Maturity**	**Principal amount** RMB'000
At June 30, 2011			(Unaudited)
Current			
Bank loan — unsecured	(a)	June 2012	272,432
Bank loan — secured	(b)	June 2012	83,160
			355,592
At December 31, 2010			(Audited)
Current			
Bank loan — unsecured		June 2011	102,108

11. Interest-bearing bank loans (continued)

(a) The interest-bearing bank loan represented a drawdown of USD42.0 million (equivalent of RMB272.4 million) from the Group's banking facility of USD42.0 million in June 2011. As undertaking of such banking facility, the Group provided a RMB deposit of not less than the amount of this bank loan outstanding from time to time.

(b) The interest-bearing bank loan represented a drawdown of outstanding HKD100.0 million (equivalent of RMB83.2 million) from the Group's banking facilities of term loan amounting to HKD200.0 million in June 2011. The bank loan was secured by the pledge of the Group's time deposits amounting to RMB85.0 million.

12. Share-based compensation costs

(a) Share options

The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme (collectively, the "Pre-IPO Share Option Schemes") on September 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 numbers of and movements in, the Company's share options for the six months ended June 30, 2011 and 2010.

	2011 Number of shares options (Unaudited)	2010 Number of shares options (Unaudited)
Outstanding at January 1	**69,497,600**	98,145,100
Forfeited during the period	**(98,000)**	(1,253,500)
Exercised during the period	**(16,360,870)**	(18,987,500)
Outstanding at June 30	**53,038,730**	77,904,100

The total expenses recognised for employee services received in respect of the Pre-IPO Share Option Schemes for the six months ended June 30, 2011 was RMB0.3 million (six months ended June 30, 2010: RMB2.7 million).

(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. On November 25, 2010, the Board resolved to extend the termination date of the Share Award Scheme from March 30, 2013 to March 30, 2017.

12. Share-based compensation costs (continued)

(b) Share Award Scheme (continued)

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 six months ended June 30, 2011, 2,370,000 shares (six months ended June 30, 2010: 8,535,600 shares) were awarded to a number of employees. No shares of the Company were acquired by the Share Award Scheme Trust during the six months ended June 30, 2011 and 2010.

The following table illustrates the numbers of and movements in the Company's Awarded Shares during the six months ended June 30, 2011 and 2010.

	2011 Number of Awarded Shares (Unaudited)	2010 Number of Awarded Shares (Unaudited)
Outstanding at January 1	**16,596,801**	21,350,000
Awarded during the period	**2,370,000**	8,535,600
Forfeited during the period	**(2,193,199)**	(6,579,400)
Cancelled during the period	**(1,440,600)**	—
Vested and transferred during the period	**(3,503,664)**	(2,736,133)
Outstanding at June 30	**11,829,338**	20,570,067

The total expenses recognised for employee services received in respect of the Share Award Schemes for the six months ended June 30, 2011 was RMB9.9 million (six months ended June 30, 2010: RMB19.2 million).

12. Share-based compensation costs (continued)

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

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

For the KIS Awarded Shares granted under the KIS Share Award Scheme, the fair value of the KIS 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 KIS Awarded Shares granted.

During the six months ended June 30, 2011, 51,550,000 shares were awarded to a number of employees with a vesting period of four years.

The total expenses recognised for employee services received in respect of the KIS Awarded Shares for the six months ended June 30, 2011 was RMB1.0 million.

The following table illustrates the number of and movement in the KIS Awarded Shares during the six months ended June 30, 2011.

	2011 Number of KIS Awarded Shares (Unaudited)
Outstanding at January 1	**—**
Awarded during the period	**51,550,000**
Forfeited during the period	**—**
Vested and transferred during the period	**—**
Outstanding at June 30	**51,550,000**

13. Dividends

A final dividend of HKD0.15 and a special dividend of HKD0.25 per ordinary share for 2010 were proposed pursuant to a resolution passed by the Board on March 23, 2011, and were approved by the shareholders in the annual general meeting held on May 25, 2011.

The actual 2010 final and special dividends paid was RMB375.0 million, after eliminating RMB5.0 million paid for shares held by the Share Award Scheme Trust.

The Board has resolved not to declare any interim dividend in respect of the six months ended June 30, 2011 (six months ended June 30, 2010: Nil).

14. Capital commitments

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

	Note	**June 30, 2011 RMB'000 (Unaudited)**	December 31, 2010 RMB'000 (Audited)
Contracted, but not provided for:			
Purchase of electronic equipment		**96**	214
Development of land and buildings	(a)	**1,689,066**	990,644
Investment		**—**	1,318
Acquisition of intangible assets		**365**	11,394
Total		**1,689,527**	1,003,570

(a) The capital commitment for the development of land and buildings represented the commitment to invest an aggregate of RMB942.8 million before 2014 in the development of a piece of land in Zhuhai and, an aggregate of RMB746.3 million in the development of a piece of land in Chengdu, the PRC, in accordance with the relevant land acquisition agreement.

15. Related party transactions

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

(a) On April 8, 2011, Westhouse Holdings Limited ("Westhouse Holdings") issued 160,000,000 shares, representing 20% of the entire issued share capital of Westhouse Holdings as of April 8, 2011, to a company owned by some founding employees (the "Founder Co.") at a subscription price of HKD1.1834 per share for an aggregate consideration of approximately HKD189.3 million (equivalent of RMB159.1 million) pursuant to a share subscription agreement dated January 24, 2011 entered into by Westhouse Holdings, the Founder Co. and the founding employees. Part of the consideration amounting to HKD151.5 million (equivalent of RMB126.0 million) was funded by a loan advanced from Kingsoft Entertainment Software Holdings Limited ("KES Holdings"), the parent of Westhouse Holdings, which bears interest rate of Hong Kong Interbank Offered Rate plus 1.3% for initial term and Hong Kong Bank Offered Loan Rate for the succeeding terms, and was secured by 128,000,000 shares of Westhouse Holdings held by the Founder Co.. The term of the above loan is one year and can be automatically extended for the succeeding one year upon expiration if certain conditions have been satisfied.

(b) On March 31, 2011, KIS Holdings issued 100,000,000 ordinary shares, representing 11.11% of the entire issued share capital of KIS Holdings as of March 31, 2011, to a non-controlling shareholder, a company controlled by a key management person of the Company, for an aggregate consideration of USD2.5 million (equivalent of RMB16.4 million). KIS Holdings was granted an option to repurchase these shares (the "Repurchase Option") from the non-controlling shareholder if certain conditions have been fulfilled. 20% of these shares have been released from the Repurchase Option upon closing of above transaction, and 80% of these shares will be released from the Repurchase Option upon the earlier to occur of: (i) the IPO of KIS Holdings, or (ii) the four-year anniversary of the date of closing of above transaction.

16. Events after the reporting period

(a) On July 6, 2011, KIS Holdings entered into a share subscription agreement with TCH Copper Limited, Matrix Partners China I, L.P. and Matrix Partner China I-A, L.P. (collectively, the "Purchaser"), whereby the Purchaser subscribed for 102,409,639 preferred shares for an aggregate purchase consideration of USD18.6 million (equivalent of RMB120.2 million).

(b) On July 7, 2011, Tencent Holdings Limited through its subsidiary acquired from Mr. Kau Pak Kwan and Mr. Cheung Shuen Lung (a non-executive director of the Company) respectively 111,457,234 and 66,949,949 issued ordinary shares of the Company, representing approximately 9.80% and 5.88% of the entire issued share capital of the Company as of June 30, 2011.

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	**June 30, 2011**
Online games								
Daily Average Peak Concurrent Users	1,061,250	1,131,124	915,212	819,325	773,349	771,352	684,023	**653,085**
Monthly Average Paying Users	1,543,946	1,767,553	1,457,101	1,276,351	1,325,056	1,347,806	1,258,525	**1,250,771**
Monthly Average Revenue per Paying User (RMB)	35	38	36	41	39	41	43	**46**
VIP Security Value-added Services								
Daily Average Paying users	8,269,916	8,746,468	8,416,136	7,648,623	6,598,690	3,671,877*	2,357,540	**2,128,386**
Monthly Average Revenue per Paying User (RMB)	2.1	2.1	2.0	2.2	2.2	3.0	4.9	**4.7**

* 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 the fourth quarter of 2010, daily average paying users represent fee-based VIP security value-added service subscribers.

FINANCIAL HIGHLIGHTS

	For the six months ended June 30, 2010 RMB'000 (Unaudited)	**2011 RMB'000 (Unaudited)**
Revenue:		
Entertainment software	320,666	**336,380**
Application software	171,346	**157,863**
	492,012	**494,243**
Cost of revenue	(62,201)	**(67,398)**
Gross profit	429,811	**426,845**
Research and development costs, net of government grants	(113,217)	**(135,755)**
Selling and distribution costs	(60,966)	**(51,021)**
Administrative expenses	(55,186)	**(54,443)**
Share-based compensation costs	(21,939)	**(11,231)**
Other income and gains	635	**7,535**
Other expenses	(10,688)	**(3,110)**
Operating profit	168,450	**178,820**
Fair value gain on a financial asset at fair value through profit or loss	—	**305**
Finance income	14,602	**26,838**
Finance costs	—	**(924)**
Shares of profits and losses of:		
Associates	7,790	**(2,591)**
Jointly-controlled entities	(3,475)	**(1,478)**
Profit before tax	187,367	**200,970**
Income tax expense	(29,349)	**(26,815)**
Profit for the period	158,018	**174,155**
Attributable to:		
Owners of the parent	156,657	**170,809**
Non-controlling interests	1,361	**3,346**
	158,018	**174,155**
	RMB (Unaudited)	**RMB (Unaudited)**
Earnings per share attributable to ordinary equity holders of the parent		
Basic	0.1447	**0.1532**
Diluted	0.1353	**0.1471**

	For the three months ended		
	June 30, 2010	March 31, 2011	**June 30, 2011**
	RMB'000	RMB'000	**RMB'000**
	(Unaudited)	(Unaudited)	**(Unaudited)**
Revenue:			
Entertainment software	158,924	163,376	**173,004**
Application software	87,390	67,900	**89,963**
	246,314	231,276	**262,967**
Cost of revenue	(31,434)	(32,790)	**(34,608)**
Gross profit	214,880	198,486	**228,359**
Research and development costs, net of government grants	(57,369)	(74,308)	**(61,447)**
Selling and distribution costs	(33,614)	(19,845)	**(31,176)**
Administrative expenses	(27,157)	(28,355)	**(26,088)**
Share-based compensation costs	(14,817)	(7,532)	**(3,699)**
Other income and gains	150	1,185	**6,350**
Other expenses	(9,949)	(190)	**(2,920)**
Operating profit	72,124	69,441	**109,379**
Fair value gain on a financial asset at fair value through profit or loss	—	—	**305**
Finance income	7,713	13,047	**13,791**
Finance costs	—	(118)	**(806)**
Shares of profits and losses of:			
Associates	3,174	(1,776)	**(815)**
Jointly-controlled entities	(1,713)	(853)	**(625)**
Profit before tax	81,298	79,741	**121,229**
Income tax expense	(13,494)	(11,481)	**(15,334)**
Profit for the period	67,804	68,260	**105,895**
Attributable to:			
Owners of the parent	66,916	66,894	**103,915**
Non-controlling interests	888	1,366	**1,980**
	67,804	68,260	**105,895**
	RMB	RMB	**RMB**
	(Unaudited)	(Unaudited)	**(Unaudited)**
Earnings per share attributable to ordinary equity holders of the parent			
Basic	0.0614	0.0597	**0.0927**
Diluted	0.0579	0.0573	**0.0893**

MANAGEMENT DISCUSSION AND ANALYSIS

First Half of 2011 Compared to First Half of 2010

Revenue

Revenue held flat year-over-year to RMB494.2 million for the first half year of 2011. Revenue from the entertainment and application software business represented 68% and 32%, respectively, of the Group's total revenue.

Revenue from the entertainment software business increased by 5% year-over-year to RMB336.4 million. The year-over-year increase mainly resulted from the improved performance of our existing games.

Revenue from the application software business decreased by 8% year-over-year to RMB157.9 million. The decrease was mainly due to the decline in revenue from Kingsoft Internet Security as we launched the free edition in November 2010.

Gross Profit and Cost of Revenue

Gross profit decreased by 1% year-over-year to RMB426.8 million. The Group's gross profit margin decreased by one percentage point year-over-year to 86%.

Cost of revenue increased by 8% year-over-year to RMB67.4 million. The increase was mainly due to the increased bandwidth and server costs associated with increased free-based active users of Kingsoft Internet Security and the testing for upcoming new online games.

Research and Development ("R&D") Costs

R&D costs, net of government grants, increased by 20% year-over-year to RMB135.8 million. The increase was primarily due to the decrease of capitalised R&D costs of information security software.

The following table sets forth a breakdown of our research and development costs for six months ended June 30, 2011, and June 30, 2010:

	For the six months ended	
	June 30, 2010 RMB'000 (Unaudited)	**June 30, 2011 RMB'000 (Unaudited)**
Staff costs	97,805	**104,673**
Depreciation & Amortisation	14,729	**16,996**
Others	21,276	**19,654**
	133,810	**141,323**
Less: Capitalised software costs (except share-based compensation costs)	(16,674)	**(2,986)**
Add: Amortisation of capitalised software costs	3,449	**10,680**
Less: Government grants for research and development activities	(7,368)	**(13,262)**
Total	113,217	**135,755**

Selling and Distribution Costs

Selling and distribution costs decreased by 16% year-over-year to RMB51.0 million. The decrease was largely attributable to the reduced advertising and promotion expenses relating to Kingsoft Internet Security.

Administrative Expenses

Administrative expenses decreased by 1% year-over-year to RMB54.4 million.

Share-based Compensation Costs

Share-based compensation costs decreased by 49% year-over-year to RMB11.2 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 held flat year-over-year to RMB190.1 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs decreased by one percentage point year-over-year to 38%.

Finance Income

Finance income increased by 84% year-over-year to RMB26.8 million. The increase in finance income was mainly due to the increased interest rate of cash deposits.

Share of Profits and Losses of Associates

Share of losses of associates for the first half of 2011 was RMB2.6 million, compared to share of profits of RMB7.8 million in the first half of 2010. This was primarily due to the disposal of Kingsoft Guangzhou in December 2010.

Income Tax Expense

Income tax expense decreased by 9% year-over-year to RMB26.8 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) decreased by one percentage point year-over-year to 13%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent increased by 9% year-over-year to RMB170.8 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 IFRSs. 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.

Profit attributable to owners of the parent before share-based compensation costs increased by 2% year-over-year to RMB181.6 million. The net profit margin excluding the effect of share-based compensation costs was 37% and 36% for the six months ended June 30, 2011 and June 30, 2010, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of reporting period. As at June 30, 2011, the group had major financial resources in the forms of cash and cash equivalents and time deposits with initial term of over three months amounting to RMB888.8 million and RMB760.8 million respectively, which totally represented 62% of the Group's total assets.

As at June 30, 2011, the Group's gearing ratio, which represents total liabilities divided by total assets, was 28%, increased from 21% as at December 31, 2010. As at June 30, 2011, the Group had USD42.0 million (equivalent of RMB272.4 million) and HKD100.0 million (equivalent of RMB83.2 million) bank loan.

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 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 arrange some expenses and expenditures denominated in foreign currencies.

As at June 30, 2011, RMB168.1 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.

Deferred Revenue

Deferred revenue (including current and non-current portion) decreased by 8% year-over-year to RMB181.0 million as at June 30, 2011. This year-over-year decrease mainly resulted from the decreased sales of Kingsoft Internet Security products from traditional channels.

Net Cash Generated from Operating Activities

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

Net cash generated by operating activities was RMB191.3 million and RMB173.2 million for the six months ended June 30, 2011, and June 30, 2010, respectively.

Capital Expenditure

Capital expenditures represent cash payments for acquisition of properties, land use rights, fixed assets and intangible assets. Cash used for capital expenditures was RMB85.0 million and RMB51.7 million for the six months ended June 30, 2011 and June 30, 2010, respectively. In the first half of 2011, the Company paid RMB53.7 million, about 70% of the total consideration, for a land use right in Chengdu.

Second Quarter of 2011 Compared to The First Quarter of 2011 and Second Quarter of 2010

Revenue

Revenue increased by 14% quarter-over-quarter and 7% year-over-year to RMB263.0 million. Revenue from the entertainment and application software business represented 66% and 34%, respectively, of the Group's total revenue for the second quarter of 2011.

Revenue from the entertainment software business increased by 6% quarter-over-quarter and 9% year-over-year to RMB173.0 million. The sequential and year-over-year increase was mainly due to the continued popularity and improved performance of JX series in Mainland China.

Daily average peak concurrent users decreased by 5% quarter-over-quarter and 20% year-over-year to 0.65 million. Monthly average paying users decreased by 1% quarter-over-quarter and 2% year-over-year to 1.25 million. The sequential and year-over-year decrease in both daily average peak concurrent users and monthly average paying users was primarily due to the underperformance of Kingsoft games in Vietnam.

The monthly ARPU for the Group's online game increased by 7% quarter-over-quarter and 12% year-over-year to RMB46 in the second quarter of 2011.

Revenue from the application software business increased by 32% quarter-over-quarter and 3% year-over-year to RMB90.0 million. The quarter-over-quarter increase primarily reflected the strong growth of Kingsoft WPS Office benefiting from the increasing copyright protection in China which offset the decline in revenue from fee-based Kingsoft Internet Security services.

The number of daily average fee-based VIP security value-added service subscribers decreased by 10% quarter-over-quarter and 72% year-over-year to 2.13 million.

Monthly ARPU for fee-based VIP security value-added services decreased by 4% quarter-over-quarter and increased by 114% year-over-year to RMB4.7.

Gross Profit and Cost of Revenue

Gross profit increased by 15% quarter-over-quarter and 6% year-over-year to RMB228.4 million. The Group's gross profit margin increased by one percentage point quarter-over-quarter and held flat year-over-year to 87%.

Cost of revenue increased by 6% quarter-over-quarter and 10% year-over-year to RMB34.6 million. This quarter-over-quarter increase was mainly attributable to higher server costs incurred for Kingsoft Internet Security services.

R&D Costs

R&D costs, net of government grants, decreased by 17% quarter-over-quarter and increased by 7% year-over-year to RMB61.4 million. The sequential decrease was mainly due to higher government grants recorded for the second quarter of 2011. The year-over-year increase was mainly due to the decreased capitalised R&D costs.

The following table sets forth a breakdown of our R&D costs for the three months ended June 30, 2011, March 31, 2011 and June 30, 2010:

	For the three months ended		
	June 30, 2010 RMB'000 (Unaudited)	March 31 2011 RMB'000 (Unaudited)	**June 30, 2011 RMB'000 (Unaudited)**
Staff costs	47,787	52,229	**52,444**
Depreciation & Amortisation	7,432	8,492	**8,504**
Others	11,794	11,231	**8,423**
	67,013	71,952	**69,371**
Less: Capitalised software costs (except share-based compensation costs)	(7,277)	(1,533)	**(1,453)**
Add: Amortisation of capitalised software costs	2,191	6,015	**4,665**
Less: Government grants for research and development activities	(4,558)	(2,126)	**(11,136)**
Total	57,369	74,308	**61,447**

Selling and Distribution Costs

Selling and distribution costs increased by 57% quarter-over-quarter and decreased by 7% year-over-year to RMB31.2 million. The quarter-over-quarter increase was primarily due to the promotion of JX III expansion pack and our new game, Rush Team.

Administrative Expenses

Administrative expenses decreased by 8% quarter-over-quarter and 4% year-over-year to RMB26.1 million.

Share-based Compensation Costs

Share-based compensation costs decreased by 51% quarter-over-quarter and 75% year-over-year to RMB3.7 million.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs increased by 47% quarter-over-quarter and 30% year-over-year to RMB113.1 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs increased by ten percentage points quarter-over-quarter and eight percentage points year-over-year to 43%.

Finance Income

Finance income increased by 6% quarter-over-quarter and 79% year-over-year to RMB13.8 million.

Finance Costs

Finance costs increased by 583% quarter-over-quarter to 0.8 million, compared to nil in the second quarter of 2010. The increase primarily reflected that the Company incurred two new bank loans in the second quarter of 2011.

Income Tax Expense

Income tax expense increased by 34% quarter-over-quarter and 14% year-over-year to RMB15.3 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) decreased by one percentage point quarter-over-quarter and two percentage points year-over-year to 12%.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent increased by 55% quarter-over-quarter and 55% year-over-year to RMB103.9 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 increased by 44% quarter-over-quarter and 31% year-over-year to RMB107.2 million. The net profit margin excluding the effect of share-based compensation costs was 41%, 32% and 33% for the three months ended June 30, 2011, March 31, 2011 and June 30, 2010, respectively.

BUSINESS REVIEW AND OUTLOOK

"We had a strong second quarter with revenue posted a sequential growth of 14% and a year-over-year growth of 7%," commented Mr. Pak Kwan Kau, our CEO, "our quarterly bottom line also recorded a quarter-over-quarter growth of 55% and year-over-year growth of 56% respectively."

The second quarter continued to show improved performance of our existing games. With the release of the expansion packs of JX Online World and JX Online III in March and May respectively, our existing games in Mainland China recorded a quarter-over-quarter growth of 11%. Our new game title, Legend of Moon, has completed six rounds of close-beta testing and is expected to be commercialized in October, 2011. As a major 2D online game in 2011, Legend of Moon has been ranked as one of the most-anticipated online games by Duowan.com.

On August 18, 2011, we launched the Cheetah Version of Kingsoft Antivirus 2012 based on our proprietary 30-core cloud-based engine. The Cheetah version is a lean version, capable of detecting new internet threats at a much faster speed than the traditional versions.

Compared with the adverse seasonality in the first quarter, Kingsoft WPS Office received strong sales orders both from enterprise customers and government agencies. WPS Sales in Japan recovered in the second quarter from the earthquake. On June 23, 2011, Kingsoft WPS Office was officially sponsored by HEGAOJI Project, a national project for the development of science and technology.

"As we continue to restructure our businesses, we have seen improved results from game operations, expanded market share of Kingsoft Internet Security services, strong sales order of WPS office in China," Mr. Jun LEI commented, chairman of the Group, "looking forward in the second half of 2011, we believe the trend will continue. The release of Cheetah version shall further help expand the market share of Kingsoft Internet Security. Kingsoft WPS office is well positioned to capture the market growth in China and Japan. We believe our growth will continue by launching the game titles of Legend of Moon, Rush Teams and other new games in the second half of 2011."

OTHER INFORMATION

Employee and Remuneration Policies

As at June 30, 2011, the Group had 2,484 employees (June 30, 2010: 2,685), most of whom are based in Beijing and Zhuhai, the PRC. The number of employees employed by the Group varies from time to time depending on need. 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, in-house training programs, 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.

The total remuneration cost (including capitalized remuneration cost) incurred by the Group for the six months ended June 30, 2011 was RMB173.7 million (for the six months ended June 30, 2010: RMB176.8 million).

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 Group's unaudited interim financial information for the three and six months ended June 30, 2011 have been reviewed by our external auditors and our audit committee which is comprised of three independent non-executive directors, namely Mr. Shun Tak Wong (chairman), Mr. Guangming George Lu and Mr. Chuan Wang.

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. 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, 2011.

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, 2011 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 2010 annual report of the Company dated March 23, 2011.

Subsequent to the balance sheet date of June 30, 2011, Mr. Pak Kwan Kau resigned from the position of the chairman of the Company due to his personal reasons, and the Board approved the appointment of Mr. Jun Lei as the chairman of the Company on July 5, 2011.

Publication of Interim Results and Interim Report

This announcement is published on the Company's website at www.kingsoft.com and the website of the Stock Exchange at www.hkex.com.hk. The Company's interim report will be available on the websites of our Company and the Stock Exchange and it will be dispatched to our shareholders in due course.

Appreciation

On behalf of the Board, I would like to express our sincere thanks to our shareholders and investors for their continuous support and confidence in us. I would like to thank our employees for their hard work and valuable contributions which are the core elements of the Company's success.

By Order of the Board
Kingsoft Corporation Limited
Jun Lei
Chairman

Hong Kong, August 25, 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 Chi Ping LAU; and the Independent Non-Executive Directors are Messrs. Shun Tak WONG, Guangming George LU and Chuan WANG.