



Kingsoft Corporation Limited

Interim Report 2011 | 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

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No.33, Xiaoying West Road

Haidian District

Beijing 100085

PRC

Principal Place of Business in Hong Kong

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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

Mr.Donghui Wang

Mr.Tao Zou

Non-executive Directors

Mr.Jun Lei

Mr.Chi Ping Lau

Independent Non-executive Directors

Mr.Shun Tak Wong

Mr.Guangming George Lu

Mr.Chuan Wang

Audit Committee

Mr.Shun Tak Wong (Chairman)

Mr.Guangming George Lu

Mr.Chuan Wang

Remuneration Committee

Mr.Jun Lei (Chairman)

Mr.Shun Tak Wong

Mr.Chuan Wang

Nomination Committee

Mr.Guangming George Lu (Chairman)

Mr.Chi Ping Lau

Mr.Chuan Wang

Board Secretary/Company Secretary

Ms.Michelle Feng Harnett (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

Hong Kong

Legal Advisers on Hong Kong law

Woo Kwan Lee & Lo

26th Floor, Jardine House

1 Connaught Place

Central

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

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

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UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended June 30, 2011

	NOTES	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
		2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
REVENUE:	5				
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 government 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	22	(3,699)	(14,817)	(11,231)	(21,939)
Other income and gains	5	6,350	150	7,535	635
Other expenses		(2,920)	(9,949)	(3,110)	(10,688)
Fair value gain on a financial asset at fair value through profit or loss	15	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	6	121,229	81,298	200,970	187,367
Income tax expense	7	(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	8				
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 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (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

June 30, 2011

	NOTES	JUNE 30, 2011 RMB'000 (UNAUDITED)	DECEMBER 31, 2010 RMB'000 (AUDITED)
NON-CURRENT ASSETS			
Property, plant and equipment	9	382,765	392,767
Goodwill		14,559	11,710
Other intangible assets	10	72,819	69,045
Lease prepayments	11	44,612	45,083
Long term prepayment	12	53,738	—
Investments in associates	13	2,409	—
Investments in jointly-controlled entities	14	16,713	18,793
Available-for-sale investment	15	750	18,675
Other financial asset	16	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	17	98,395	98,939
Due from related parties	26	150,618	13,607
Prepayments, deposits and other receivables		61,963	71,518
Deferred cost		1,201	2,205
Pledged deposit	18	85,000	—
Cash and cash equivalents	18	1,649,601	1,656,157
		2,049,628	1,845,282
CURRENT LIABILITIES			
Trade payables	19	14,229	15,571
Interest-bearing bank loans	20	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
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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

June 30, 2011

	NOTES	JUNE 30, 2011 RMB'000 (UNAUDITED)	DECEMBER 31, 2010 RMB'000 (AUDITED)
EQUITY			
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	21	4,581	4,527
Share premium account	21	457,276	408,241
Shares held for share award scheme	21	(52,029)	(57,773)
Statutory reserves		140,057	140,057
Employee share-based reserve	22	183,013	207,646
Capital reserve	23	181,112	16,230
Foreign currency translation reserve		(69,147)	(68,625)
Retained earnings		1,054,384	883,575
Proposed final and special dividends	24	—	376,000
		1,899,247	1,909,878
NON-CONTROLLING INTERESTS		37,766	24,183
TOTAL EQUITY		1,937,013	1,934,061

Pak Kwan Kau
Director

Donghui Wang
Director

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2011

	ATTRIBUTABLE TO OWNERS OF THE PARENT											
	SHARES HELD			STATUTORY RESERVES	EMPLOYEE SHARE-BASED RESERVE	CAPITAL RESERVE	FOREIGN CURRENCY RESERVE	RETAINED EARNINGS	PROPOSED FINAL AND SPECIAL DIVIDENDS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	FOR SHARE AWARD SCHEME									
	RMB'000	RMB'000	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)	(UNAUDITED)	(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 (note 23)	—	—	—	—	—	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

	ATTRIBUTABLE TO OWNERS OF THE PARENT											
	SHARES HELD			STATUTORY RESERVES	EMPLOYEE SHARE-BASED RESERVE	FOREIGN CURRENCY RESERVE	RETAINED EARNINGS	PROPOSED FINAL AND SPECIAL DIVIDENDS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY	
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	FOR SHARE AWARD SCHEME									
	RMB'000	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)	(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 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
	NOTE		
NET CASH FLOWS FROM OPERATING ACTIVITIES		191,259	173,166
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(431,136)	610,284
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(57,578)	(8,904)
<hr/>			
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(297,455)	774,546
Cash and cash equivalents at beginning of period	18	1,186,711	405,595
Effect of foreign exchange rate changes, net		(505)	660
<hr/>			
CASH AND CASH EQUIVALENTS AT END OF PERIOD	18	888,751	1,180,801

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The Company was incorporated under the Companies Act of the British Virgin Islands on March 20, 1998. On November 15, 2005, it was redomiciled to Cayman Islands under the Company Law (2004 revision) 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, operation and distribution of software products and the provision of online game services.

2. BASIS OF PREPARATION AND 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 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 used in the preparation of the Group's annual financial statements for the year ended December 31, 2010, except for the adoption of new standards and interpretations applicable to the Group as of January 1, 2011, noted below:

— *IAS 32 Financial instruments: Presentation* (Amendment)

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 following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

— *IFRS 3 Business Combinations*: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instrument's proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

— *IFRS 7 Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

— Improvements to IFRSs (issued May 2010) (continued)

- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an option to present and analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.
- IAS 34 *Interim Financial Statements*: The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

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 3 *Business Combinations* — Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005)
- IFRS 3 *Business Combinations* — Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination
- IAS 27 *Consolidated and Separate Financial Statements* — applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards
- IFRIC 13 *Customer Loyalty Programmes* — in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme

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 7 parties (the "Selling Parties") who owned drivergenius software which can be downloaded from its official website drivergenius.com and also owned a few websites including mydrivers.com, drivers.com.cn, myfiles.com.cn and 9724.com (the "Target Business"). Pursuant to the Acquisition Agreement, the Group will pay the Selling Parties a maximum cash consideration of RMB18,000,000, of which RMB6,000,000 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.

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

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

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 of RMB2,849,000 (unaudited) 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 recognised. Goodwill is allocated entirely to the information security software segment. None of the recognised goodwill is expected to be deductible for income tax purposes.

Since its acquisition, the Target Business contributed RMB2,635,000 (unaudited) to the Group's revenue and RMB1,657,000 (unaudited) 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 RMB494,539,000 (unaudited) and RMB174,211,000 (unaudited), 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 service across devices.
- (c) The other application software segment engages in the research, development and distribution of office application software and dictionary software.

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

4. OPERATING SEGMENT INFORMATION (continued)

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, fair value gain on a financial asset at fair value through profit or loss, share of profits and losses of associates and jointly-controlled entities, other expenses and other income and gains and 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 of its group wide application software business since 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.

	ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED)	INFORMATION SECURITY SOFTWARE RMB'000 (UNAUDITED)	OTHER APPLICATION SOFTWARE RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
<i>For the six months ended June 30, 2011</i>				
SEGMENT REVENUE:				
Sales to external customers	336,380	101,658	56,205	494,243
SEGMENT RESULTS	192,586	22,305	25,178	240,069
<i>Reconciliation:</i>				
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

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

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)
<i>For the six months ended June 30, 2010</i>		(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
<i>Reconciliation:</i>				
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. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and the royalties derived from licensing agreements.

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
<i>Revenue</i>				
Sales of packaged software	39,695	23,578	57,080	45,979
Rendering of services	191,829	191,078	373,971	380,469
Royalties	31,443	31,658	63,192	65,564
	262,967	246,314	494,243	492,012
<i>Other income and gains</i>				
Government grants	4,825	140	5,930	600
Gain on deemed disposal of an associate	1,500	—	1,500	—
Others	25	10	105	35
	6,350	150	7,535	635

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

6. 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 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
Employee benefit expense	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
Interest on bank loans	806	—	924	—

* 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.

7. 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 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (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.

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

7. INCOME TAX (continued)

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.

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

The calculation of basic earnings per share amounts is based on the profit for the 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 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
<i>Earnings</i>		
Profit attributable to ordinary equity holders of the parent	170,809	156,657
	NUMBER OF SHARES FOR THE SIX MONTHS ENDED JUNE 30,	
	2011 (UNAUDITED)	2010 (UNAUDITED)
<i>Shares</i>		
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

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

9. PROPERTY, PLANT AND EQUIPMENT

	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
Net carrying amount at January 1	392,767	407,980
Additions	20,594	21,926
Acquisition from business combination (Note 3)	105	—
Disposals	(93)	(177)
Depreciation charge for the period	(30,608)	(28,348)
Net carrying amount at June 30	382,765	401,381

10. OTHER INTANGIBLE ASSETS

	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
Net carrying amount at January 1	69,045	48,489
Additions	3,698	17,981
Acquisition from business combination (Note 3)	15,046	—
Amortisation charge for the period	(14,970)	(7,742)
Net carrying amount at June 30	72,819	58,728

11. LEASE PREPAYMENTS

	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
Net carrying amount at January 1	45,083	6,972
Additions	—	38,738
Amortisation charge for the period	(471)	(347)
Net carrying amount at June 30	44,612	45,363

12. LONG TERM PREPAYMENT

The Group's long term prepayment as at June 30, 2011 represented deposit for acquisition of land use right of a piece of land in Chengdu, Mainland China, which is unsecured and interest-free.

13. INVESTMENTS IN ASSOCIATES

	JUNE 30, 2011 RMB'000 (UNAUDITED)	DECEMBER 31, 2010 RMB'000 (AUDITED)
Share of net assets	2,409	—

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

13. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

NAME	PLACE OF REGISTRATION	NOMINAL VALUE OF REGISTERED CAPITAL/ISSUED CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Guangzhou Tuotu Computer Technology Co., Ltd.	PRC	RMB100,000	19.9	Research and development of computer and network related technology; provision of network service; design and publishing of advertisements
Zhuhai Kingsoft Kuaikuai Technology Co., Ltd ("Zhuhai Kuaikuai")*	PRC	RMB5,600,000	62.5	Research and development of computer and network related technology; provision of network service; design and publishing of advertisements

* Associate newly established during the six months ended June 30, 2011. Zhuhai Kuaikuai is accounted for as an associate as the Group has no control over the financial and operating policies of Zhuhai Kuaikuai.

14. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	JUNE 30, 2011 RMB'000 (UNAUDITED)	DECEMBER 31, 2010 RMB'000 (AUDITED)
Share of net assets	7,355	8,846
Goodwill — at cost	19,694	23,921
	27,049	32,767
Provision for impairment	(10,336)	(13,974)
	16,713	18,793

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
Sky Profit Limited	Cayman Islands	USD50,000	26.42	Investment holding

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

14. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

During the six months ended June 30, 2011, Shanghai Zhixiong Network Technology Co., Ltd. (“Shanghai Zhixiong”) was deregistered after the completion of its liquidation process. Accordingly, the Group has derecognised its investment in Shanghai Zhixiong.

15. AVAILABLE-FOR-SALE INVESTMENT

	JUNE 30, 2011 RMB'000 (UNAUDITED)	DECEMBER 31, 2010 RMB'000 (AUDITED)
Unlisted equity investment, at fair value	—	18,675
Unlisted equity investment, at cost	750	—
	750	18,675

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

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

As at June 30, 2011, the unlisted equity investment with a carrying amount of RMB750,000 was stated at cost less impairment. The investee is a newly established company which had not commenced its operating. The directors are of the opinion that its fair value cannot be reliably measured. The Group does not intend to dispose it in the near future.

16. 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, issued as fully-paid subject to adjustment. The Option was, upon initial recognition, designated as a financial asset at fair value through profit or loss.

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

17. 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

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSIT

	JUNE 30, 2011 RMB'000 (UNAUDITED)	DECEMBER 31, 2010 RMB'000 (AUDITED)
Cash and bank balances	282,106	259,995
Time deposits with original maturity of three months or less when acquired	606,645	926,716
	888,751	1,186,711
Time deposits with original maturity of over three months when acquired	845,850	469,446
Less: Pledged time deposit for bank loan (note 20 (b))	(85,000)	—
Cash and cash equivalents	1,649,601	1,656,157

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 three months or less when acquired.

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

19. TRADE PAYABLES

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

	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.

20. 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

(a) The interest-bearing bank loan represented a drawdown of USD42,000,000 (unaudited) (equivalent to RMB272,432,000 (unaudited)) from the Group's banking facility of USD42,000,000 (unaudited) in June 2011. As an undertaking of such banking facility, the Group provided a RMB deposit of not less than the amount of this bank loan from time to time outstanding.

(b) The interest-bearing bank loan represented a drawdown of HKD100,000,000 (unaudited) (equivalent of RMB83,160,000 (unaudited)) from the Group's banking facilities of term loan amounting to HKD200,000,000 (unaudited) in June 2011. The bank loan was secured by the pledge of the Group's time deposit amounting to RMB85,000,000 (unaudited).

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

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

The movements in the Company's issued share capital were as follows:

	NUMBER OF SHARES IN ISSUE (UNAUDITED)	ISSUED SHARE CAPITAL RMB'000 (UNAUDITED)	SHARE PREMIUM ACCOUNT RMB'000 (UNAUDITED)	SHARES HELD FOR SHARE AWARD SCHEME RMB'000 (UNAUDITED)	TOTAL RMB'000 (UNAUDITED)
At January 1, 2011	1,104,713,632	4,527	408,241	(57,773)	354,995
Exercise of share options	16,360,870	54	47,992	—	48,046
Approved and paid final and special dividends in respect of the previous year	—	—	1,043	—	1,043
Vested awarded shares transferred to employees	3,503,664	—	—	5,744	5,744
At June 30, 2011	1,124,578,166	4,581	457,276	(52,029)	409,828
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
Approved and paid final dividend in respect of the previous year	—	—	(1,578)	—	(1,578)
Vested awarded shares transferred to employees	1,948,333	—	—	6,175	6,175
At June 30, 2010	1,092,864,966	4,500	553,267	(66,190)	491,577

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

22. 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 RMB280,000 (unaudited) (six months ended June 30, 2010: RMB2,713,000 (unaudited)).

(b) Share Award Scheme

On March 31, 2008 (the "Adoption Date"), the Board approved and adopted a share award scheme (the "Share Award Scheme") in which selected employees of the Group are entitled to participate. The Group has set up a trust (the "Share Award Scheme Trust") for the purpose of administering the Share Award Scheme and holding shares awarded to the employees (the "Awarded Shares") before they vest. 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.

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 (unaudited) (six months ended June 30, 2010: 8,535,600 shares (unaudited)) 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.

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

22. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

The following table illustrates the numbers of and movements in the Company's Awarded Shares 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
Granted 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

* During the six months ended June 30, 2011, 1,440,600 (unaudited) Awarded Shares granted to certain employees on March 26, 2010 were cancelled with cash compensation of RMB7,520,000 (unaudited).

The total expenses recognised for employee services received in respect of the Share Award Schemes for the six months ended June 30, 2011 was RMB9,929,000 (unaudited) (six months ended June 30, 2010: RMB19,226,000 (unaudited)).

(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 (the "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 (unaudited) 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 RMB1,022,000 (unaudited).

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

22. SHARE-BASED COMPENSATION COSTS (continued)

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

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	—
Granted during the period	51,550,000
Outstanding at June 30	51,550,000

23. CAPITAL RESERVE

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

24. 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 RMB374,957,000 (unaudited), after eliminating RMB4,966,000 (unaudited) 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).

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

25. CAPITAL COMMITMENTS

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

	NOTES	AS AT JUNE 30, 2011 RMB'000 (UNAUDITED)	AS AT 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	(b)	—	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 RMB942,804,000 before 2014 in the development of a piece of land in Zhuhai and, an aggregate of RM746,262,000 in the development of a piece of land in Chengdu, the PRC, in accordance with the relevant land acquisition agreement.

(b) In 2008, the Company entered into an agreement to contribute USD199,000 for 19.9% interest in Kim Quang Software and Technology Joint Stock Company, a company engaged in software business in Vietnam. The agreement has been terminated as of June 30, 2011.

26. 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,	
		2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
Equity contribution to a subsidiary by a company significantly influenced by a director of the Company	(i)	159,078	—	159,078	—
Loan to a company significantly influenced by a director of the Company	(i)	125,967	—	125,967	—
Equity contribution to a subsidiary by a company controlled by a key management of the Company	(ii)	16,418	—	16,418	—
Advertisement fees paid to a company with a common director of the Company	(iii)	1,500	296	1,624	296

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

26. RELATED PARTY TRANSACTIONS (continued)

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

- (i) On April 8, 2011, Westhouse Holdings Limited ("Westhouse Holdings") issued 160,000,000 shares (representing 20% of enlarged equity interest of Westhouse Holdings) 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 HKD189,344,000 (unaudited) (equivalent to RMB159,078,000 (unaudited)) 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 HKD151,475,000 (unaudited) (equivalent to RMB125,967,000 (unaudited)) 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.

On April 8, 2011, Westhouse Holdings distributed a special dividend of HKD184,352,000 (equivalent to RMB154,845,000) to KES Holdings pursuant to the Westhouse Holdings Shareholders' agreement on April 8, 2011. The dividend was appropriated from share premium of Westhouse Holdings.

- (ii) On March 31, 2011, KIS Holdings issued 100,000,000 ordinary shares (representing 11% of enlarged equity interest of KIS Holdings) to a non-controlling shareholder, a company controlled by a key management person of the Company, for an aggregate consideration of USD2,499,000 (equivalent to RMB16,418,000 (unaudited)) pursuant to a share subscription agreement dated March 8, 2011. 30% of the total consideration was received during the six months ended June 30, 2011, the remaining 70% of the total consideration amounting to RMB11,347,000 (unaudited) was recorded in "due from related parties" in the condensed consolidated statement of financial position, and was received in July 2011.

On March 8, 2011, 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.

- (iii) The directors of the Company consider that the advertisement fees were paid according to the rates 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:

	NOTE	JUNE 30, 2011 RMB'000 (UNAUDITED)	DECEMBER 31, 2010 RMB'000 (AUDITED)
Due from related parties:			
Loan to shareholders of subsidiaries	(i)	13,304	13,607
Loan to a company significantly influenced by a director of the Company		125,967	—
Receivables from a company controlled by a key management of the Company		11,347	—
		150,618	13,607

- (i) The loan of RMB13,304,000 is subject to an interest rate of HIBOR plus 1.5% per annum and was repaid in four years after the payment of the loan in June 2009. The loan was secured by certain equity interest of the subsidiary held by the aforementioned shareholders.

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

26. RELATED PARTY TRANSACTIONS (continued)

(c) 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,	
	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)	2011 RMB'000 (UNAUDITED)	2010 RMB'000 (UNAUDITED)
Salaries, allowances, and benefits in kind	2,888	2,611	6,915	5,473
Pension scheme contributions	41	48	90	95
Share-based compensation costs	1,319	4,856	3,130	8,900
Total compensation paid to key management personnel	4,248	7,515	10,135	14,468

27. CONTINGENT LIABILITIES

At June 30, 2011, the Group had no significant contingent liabilities (December 31, 2010: Nil).

28. COMPARATIVE AMOUNTS

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

29. 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 USD18,579,000.
- (b) On July 7, 2011, Tencent Holdings Limited through its subsidiary acquired from Mr. Pak Kwan Kau and Mr. Shuen Lung Cheung (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, at an aggregate consideration of approximately HKD892,000,000.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF KINGSOFT CORPORATION LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements of Kingsoft Corporation Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 4 to 28, which comprise the condensed consolidated statement of financial position as at June 30, 2011 and the related condensed consolidated income statement and the condensed consolidated statement of comprehensive income for the three and six months then ended, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended and explanatory information. 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 the International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors of the Company 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. Consequently, it 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, 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

FINANCIAL HIGHLIGHTS (continued)

	FOR THE THREE MONTHS ENDED		
	JUNE 30, 2010 RMB'000 (UNAUDITED)	MARCH 31, 2011 RMB'000 (UNAUDITED)	JUNE 30, 2011 RMB'000 (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 (UNAUDITED)	RMB (UNAUDITED)	RMB (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.

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

	FOR THE SIX MONTHS ENDED	
	JUNE 30, 2010	JUNE 30, 2011
	RMB'000	RMB'000
	(UNAUDITED)	(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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 loans.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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.

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.

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.

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%.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 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 Team and other new games in the second half of 2011.”

OTHER INFORMATION

Changes in the Board after the Reporting Period

Subsequent to June 30, 2011, the changes in information of directors of the Company are set out below:

NAME OF DIRECTOR	DETAILS OF CHANGES
Mr. Pak Kwan Kau	Resignation as the Chairman of the Company on July 5, 2011
Mr. Jun Lei	Appointment as the Chairman of the Company on July 5, 2011, and appointment as the chairman of the remuneration committee of the Company on July 28, 2011
Mr. Shuen Lung Cheung	Resignation as a non-executive director of the Company, a member of the audit committee and the nomination committee and the chairman of the remuneration committee of the Company on July 28, 2011
Mr. Mingming Huang	Resignation as an independent non-executive director of the Company, a member of the remuneration committee and the nomination committee of the Company on July 28, 2011
Mr. Chi Ping Lau	Appointment as a non-executive director of the Company and a member of the nomination committee of the Company on July 28, 2011
Mr. Chuan Wang	Appointment as an independent non-executive director of the Company, a member of the audit committee, the remuneration committee and the nomination committee of the Company on July 28, 2011

OTHER INFORMATION (continued)

Directors' Interests in Securities

As at June 30, 2011, 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, 2011
Pak Kwan Kau	Corporate (Note 1)	219,489,800	19.29%
	Personal	500,000	0.04%
Jun Lei	Corporate (Note 2)	117,230,280	10.30%
Shuen Lung Cheung	Corporate (Note 3)	101,631,386	8.93%
Tao Zou	Personal	600	0.00%
Donghui Wang	Personal	1,842,000	0.16%

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	Awarded shares (Note 5)	1,000,000
Shuen Lung Cheung	Share options (Note 6)	1,000,000
Tao Zou	Awarded shares (Note 7)	324,000
Pak Kwan Kau	Awarded shares (Note 8)	1,000,000

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 USD0.2400, 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 USD0.0353.
- The relevant interests include number of 1,000,000 awarded shares granted on July 13, 2009, under the Share Award Scheme, half of which will be exercisable on July 13, 2011 and July 13, 2012 respectively. The price for grant is nil.

OTHER INFORMATION (continued)

6. 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 USD0.0353.
7. The relevant interests include: number of 324,000 awarded shares granted on October 13, 2008 under the Share Award Scheme, two thirds of which was matured and exercisable on October 13, 2009 and October 13, 2010 respectively, and one third of which will be exercisable on October 13, 2011. The price for grant is nil.
8. The relevant interests include number of 1,000,000 awarded shares granted on July 13, 2009, under the Share Award Scheme, half of which will be exercisable on July 13, 2011 and July 13, 2012 respectively. The price for grant is nil.

Save as disclosed above, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at June 30, 2011.

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, 2011 was HKD4.58 (six months ended June 30, 2010: HKD6.18).

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, 2011.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS			AT JUNE 30, 2011	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS USD PER SHARE
	AT JANUARY 1, 2011	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD			
Executive directors						
Donghui Wang	100,000	(100,000)	—	—	December 1, 2006	0.2400
	1,742,000	(1,742,000)	—	—	February 1, 2007*	0.2400
	1,842,000	(1,842,000)	—	—		
Tao Zou	400,000	(400,000)	—	—	December 1, 2006	0.2400
	1,559,000	(1,559,000)	—	—	February 1, 2007*	0.2400
	1,959,000	(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			AT JUNE 30, 2011	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS USD PER SHARE
	AT JANUARY 1, 2011	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD			
Other employees						
In aggregate						
	1,700,500	—	—	1,700,500	January 1, 2000**	0.0005
	1,281,500	(636,000)	—	645,500	August 1, 2004	0.0353
	975,000	(270,000)	—	705,000	August 1, 2005	0.2118
	760,000	(350,000)	—	410,000	August 1, 2006	0.2118
	952,000	(102,000)	—	850,000	December 1, 2006	0.2400
	30,205,300	(11,027,870)	(98,000)	19,079,430	February 1, 2007*	0.2400
	609,000	(135,000)	—	474,000	April 1, 2007*	0.2400
	165,000	(39,000)	—	126,000	May 8, 2007*	0.2400
	285,000	—	—	285,000	August 1, 2007*	0.4616
	36,933,300	(12,559,870)	(98,000)	24,275,430		
	69,497,600	(16,360,870)	(98,000)	53,038,730		

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

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

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. On November 25, 2010, the Board resolved to extend the termination date of the Share Award Scheme from March 31, 2013 to March 30, 2017. 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.

OTHER INFORMATION (continued)

During the six months ended June 30, 2011, 370,000 shares (six months ended June 30, 2010: 8,535,600 shares) and 2,000,000 shares (six months ended June 30, 2010: Nil) were awarded to a number of employees with vesting period of three years and four years, respectively.

The weighted average closing price immediately before the dates on which the awarded shares were vested during the six months ended June 30, 2011 was HKD4.29 (six months ended June 30, 2010: HKD4.69).

The following Awarded shares were outstanding under the Share Award Schemes during six months ended June 30, 2011.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES						GRANT DATE
	AT JANUARY 1, 2011	GRANTED DURING THE PERIOD	FORFEITED DURING THE PERIOD	CANCELLED DURING THE PERIOD	EXERCISED AND TRANSFERRED DURING THE PERIOD	AT JUNE 30, 2011	
Executive directors							
Pak Kwan Kau	1,000,000	—	—	—	—	1,000,000	July 13, 2009
	1,000,000	—	—	—	—	1,000,000	
Donghui Wang	127,000	—	(127,000)	—	—	—	October 13, 2008
	1,000,000	—	—	—	—	1,000,000	July 13, 2009
	57,000	—	—	(57,000)*	—	—	March 26, 2010
	1,184,000	—	(127,000)	(57,000)	—	1,000,000	
Tao Zou	324,000	—	—	—	—	324,000	October 13, 2008
	78,000	—	—	(78,000)*	—	—	March 26, 2010
	402,000	—	—	(78,000)	—	324,000	

OTHER INFORMATION (continued)

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES						GRANT DATE
	AT JANUARY 1, 2011	GRANTED DURING THE PERIOD	FORFEITED DURING THE PERIOD	CANCELLED DURING THE PERIOD	EXERCISED AND TRANSFERRED DURING THE PERIOD	AT JUNE 30, 2011	
Other employees							
In aggregate							
	1,382,000	—	(331,000)	—	(878,000)	173,000	June 26, 2008
	2,239,000	—	(369,000)	—	(228,000)	1,642,000	October 13, 2008
	200,000	—	—	—	—	200,000	November 27, 2008
	50,000	—	—	—	—	50,000	December 1, 2008
	1,066,667	—	(533,333)	—	(533,334)	—	January 1, 2009
	320,000	—	—	—	(160,000)	160,000	June 8, 2009
	53,334	—	—	—	—	53,334	November 27, 2009
	951,000	—	(188,000)	—	(35,000)	728,000	December 1, 2009
	350,000	—	—	—	(110,000)	240,000	January 12, 2010
	4,626,800	—	(136,200)	(1,305,600)*	(911,665)	2,273,335	March 26, 2010
	2,460,000	—	(500,000)	—	(623,333)	1,336,667	May 26, 2010
	73,000	—	(8,666)	—	(24,332)	40,002	June 23, 2010
	209,000	—	—	—	—	209,000	July 12, 2010
	30,000	—	—	—	—	30,000	November 26, 2010
	—	250,000	—	—	—	250,000	January 12, 2011
	—	120,000	—	—	—	120,000	April 18, 2011
	—	2,000,000	—	—	—	2,000,000	June 8, 2011
	14,010,801	2,370,000	(2,066,199)	(1,305,600)	(3,503,664)	9,505,338	
	16,596,801	2,370,000	(2,193,199)	(1,440,600)	(3,503,664)	11,829,338	

* During the six months ended June 30, 2011, 1,440,600 Awarded Shares granted to certain directors and employees on March 26, 2010 were cancelled with cash compensation of RMB7,520,000.

OTHER INFORMATION (continued)

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 (the “KIS Group”) are entitled to participate. 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.

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 following KIS Awarded Shares were outstanding under the KIS Share Award Schemes during six months ended June 30, 2011.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES			GRANT DATE
	AT JANUARY 1, 2011	GRANTED DURING THE PERIOD	AT JUNE 30, 2011	
Other employees				
In aggregate	—	51,550,000	51,550,000	June 1, 2011

OTHER INFORMATION (continued)

Substantial Shareholders

As at June 30, 2011, 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 IN THE COMPANY	PERCENTAGE OF ISSUED SHARE AS AT JUNE 30, 2011
Topclick Holdings Limited ⁽¹⁾	Beneficial owner	219,489,800	19.29%
Color Link Management Limited ⁽²⁾	Beneficial owner	117,230,280	10.30%
Super Faith International Limited	Beneficial owner	101,631,386	8.93%
Caprice Pacific Limited ⁽³⁾	Interest of a controlled corporation	101,631,386	8.93%
Highland Crest Limited ⁽³⁾	Interest of a controlled corporation	101,631,386	8.93%
World Conquest Limited ⁽³⁾	Interest of a controlled corporation	101,631,386	8.93%
Pacific Star Overseas Limited ⁽³⁾	Interest of a controlled corporation	101,631,386	8.93%
Nien Shian Chu ⁽³⁾	Interest of a controlled corporation	101,631,386	8.93%
Siu Lung Cheung ⁽³⁾	Interest of a controlled corporation	101,631,386	8.93%
Tung Ping Lau ⁽³⁾	Interest of a controlled corporation	101,631,386	8.93%
Siu Ha Cheung ⁽³⁾	Interest of a controlled corporation	101,631,386	8.93%
Ka Yeung Yip ⁽³⁾	Interest of a controlled corporation	101,631,386	8.93%
Mirae Asset Global Investments (Hong Kong) Limited	Beneficial owner	57,021,115	5.01%

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. 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 in the Company 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, 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.

OTHER INFORMATION (continued)

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 also reviewed the interim report of the Company.

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.

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