

Kingsoft Corporation Limited
2009 Interim Report



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





Kingsoft Corporation Limited

Interim Report 2009 | KINGSOFT CORPORATION LIMITED

Contents

Corporate Information	2
Unaudited Condensed Consolidated Income Statement	4
Unaudited Condensed Consolidated Statement of Comprehensive Income	5
Unaudited Condensed Consolidated Statement of Financial Position	6
Unaudited Condensed Consolidated Statement of Changes in Equity	8
Unaudited Condensed Consolidated Statement of Cash Flows	9
Notes to the Unaudited Interim Condensed Consolidated Financial Statements	10
Report on Review of Interim Condensed Consolidated Financial Statements	24
Operational Highlights	25
Financial Highlights	26
Management Discussion and Analysis	28
Business Outlook	32
Other Information	33
Directors' Interests in Securities	33
Share Option Schemes	34
Share Award Scheme of the Company	36
Substantial Shareholders	36
Employee and Remuneration Policies	38
Purchase, Sale and Redemption of the Company's Listed Securities	38
Audit Committee	38
Adoption of Code of Conduct regarding Directors' Securities Transactions	38
Compliance with the Code on Corporate Governance Practices	38
Appreciation	38

CORPORATE INFORMATION

Legal Name of the Company

Kingsoft Corporation Limited

Stock Code

3888

Date of Listing

October 9, 2007

Head Office and Principal Place of Business

Kingsoft Tower

No. 33, Xiaoying West Road

Haidian District

Beijing 100085

PRC

Principal Place of Business in Hong Kong

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

Registered Office

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman

Cayman Islands

Executive Directors

Mr. Pak Kwan Kau

Mr. Donghui Wang

Mr. Tao Zou

Non-executive Directors

Mr. Jun Lei

Mr. Wai Ming Wong

Mr. Wing Chung Anders Cheung

Independent Non-executive Directors

Mr. Shun Tak Wong

Mr. Guangming George Lu

Mr. Mingming Huang

Audit Committee

Mr. Shun Tak Wong (Chairman)

Mr. Guangming George Lu

Mr. Wing Chung Anders Cheung

Remuneration Committee

Mr. Wing Chung Anders Cheung (Chairman)

Mr. Shun Tak Wong

Mr. Mingming Huang

Nomination Committee

Mr. Guangming George Lu (Chairman)

Mr. Wing Chung Anders Cheung

Mr. Mingming Huang

Board Secretary/Company Secretary

Ms. Michelle Feng Harnett (ACCA)

CORPORATE INFORMATION (continued)

Authorised Representatives

Mr. Pak Kwan Kau

Ms. Michelle Feng Harnett

Principal Share Registrar and Transfer Office

Appleby Corporate Services (Cayman) Ltd.

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman

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

Investor and Media Relations

Tel: (86) 10 82325515

Fax: (86) 10 82335757

Email: ir@kingsoft.com

Website: www.kingsoft.com

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended June 30, 2009

	NOTES	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
		2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)
REVENUE:	4				
Entertainment software		158,251	107,849	321,055	228,111
Applications software		78,869	62,361	150,899	116,274
Others		2,861	1,559	4,255	2,421
		239,981	171,769	476,209	346,806
Cost of revenue		(29,812)	(24,721)	(59,130)	(49,139)
GROSS PROFIT		210,169	147,048	417,079	297,667
Research and development costs, net of government grants		(44,776)	(30,301)	(87,906)	(54,310)
Selling and distribution costs		(30,793)	(44,718)	(59,751)	(68,606)
Administrative expenses		(23,094)	(18,573)	(44,985)	(40,236)
Share-based compensation costs		(11,728)	(11,165)	(24,295)	(27,912)
Other operating costs		(344)	(1,973)	(790)	(2,809)
Other income and gains		1,084	240	1,157	621
Finance income		5,572	5,830	12,569	14,207
Share of profits of associates		7,283	8,233	16,222	10,316
Share of losses of jointly- controlled entities		(1,599)	(288)	(2,834)	(288)
PROFIT BEFORE TAX	5	111,774	54,333	226,466	128,650
Income tax expense	6	(14,573)	(4,358)	(28,171)	(23,560)
PROFIT FOR THE PERIOD		97,201	49,975	198,295	105,090
Attributable to:					
Owners of the Company		96,551	50,823	197,460	107,874
Minority interests		650	(848)	835	(2,784)
		97,201	49,975	198,295	105,090
		RMB	RMB	RMB	RMB
		(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	7				
Basic		0.0907	0.0476	0.1862	0.1013
Diluted		0.0835	0.0455	0.1756	0.0972

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2009

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)
PROFIT FOR THE PERIOD	97,201	49,975	198,295	105,090
Exchange differences on translation of foreign operations	791	(15,556)	(715)	(38,372)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	791	(15,556)	(715)	(38,372)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	97,992	34,419	197,580	66,718
ATTRIBUTABLE TO:				
Owners of the Company	97,141	36,282	197,280	69,126
Minority interests	851	(1,863)	300	(2,408)
	97,992	34,419	197,580	66,718

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2009

	NOTES	AS AT JUNE 30, 2009 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2008 RMB'000 (AUDITED)
NON-CURRENT ASSETS			
Property, plant and equipment	8	413,916	345,626
Goodwill		2,377	2,377
Other intangible assets	9	35,178	39,071
Lease prepayment		7,055	7,138
Interests in associates	10	43,699	27,077
Interests in jointly-controlled entities	11	44,268	4,722
Loan receivables		2,823	2,520
Deferred tax assets		27,743	29,262
Deferred cost		646	273
Long-term prepayments	12	38,738	11,620
		616,443	469,686
CURRENT ASSETS			
Inventories		5,607	4,686
Trade receivables	13	102,801	84,819
Prepayments, deposits and other receivables		69,151	55,138
Income tax receivable		182	182
Deferred cost		4,060	5,889
Credit-linked deposit	14	—	111,708
Cash and cash equivalents	15	1,004,755	1,007,115
		1,186,556	1,269,537
CURRENT LIABILITIES			
Trade payables	16	6,494	7,649
Dividend payable	19	1,170	134
Accrued expenses and other payables		149,870	160,972
Deferred revenue		167,747	183,445
Income tax payable		19,689	19,616
		344,970	371,816
NET CURRENT ASSETS			
		841,586	897,721
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,458,029	1,367,407
NON-CURRENT LIABILITIES			
Deferred revenue		34,169	31,179
Deferred tax liabilities		8,506	7,863
		42,675	39,042
NET ASSETS			
		1,415,354	1,328,365

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at June 30, 2009

	NOTES	AS AT JUNE 30, 2009 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2008 RMB'000 (AUDITED)
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Issued capital	17	4,405	4,362
Share premium	17	654,800	639,034
Shares held for share award scheme	17	(47,795)	(40,050)
Statutory reserves		81,481	81,481
Employee share-based capital reserve		215,190	194,648
Foreign currency translation reserve		(66,308)	(66,128)
Retained earnings		559,907	362,447
Proposed final dividend	19	—	139,723
		1,401,680	1,315,517
MINORITY INTERESTS			
		13,674	12,848
TOTAL EQUITY			
		1,415,354	1,328,365

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2009

ATTRIBUTABLE TO OWNERS OF THE COMPANY

	SHARES HELD FOR SHARE		EMPLOYEE SHARE-BASED		FOREIGN CURRENCY		PROPOSED		TOTAL	MINORITY INTERESTS	TOTAL EQUITY
	ISSUED CAPITAL	SHARE PREMIUM	AWARD SCHEME	STATUTORY RESERVES	CAPITAL RESERVE	TRANSLATION RESERVE	RETAINED EARNINGS	FINAL DIVIDEND			
	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, 2009	4,362	639,034	(40,050)	81,481	194,648	(66,128)	362,447	139,723	1,315,517	12,848	1,328,365
Profit for the period	—	—	—	—	—	—	197,460	—	197,460	835	198,295
Other comprehensive loss	—	—	—	—	—	(180)	—	—	(180)	(535)	(715)
Total comprehensive income	—	—	—	—	—	(180)	197,460	—	197,280	300	197,580
2008 final dividend declared	—	—	—	—	—	—	—	(139,723)	(139,723)	—	(139,723)
Dividend on shares issued for employee share options exercised after December 31, 2008	—	(1,068)	—	—	—	—	—	—	(1,068)	—	(1,068)
Shares purchased for share award scheme	—	—	(11,193)	—	—	—	—	—	(11,193)	—	(11,193)
Share-based compensation costs	—	—	—	—	23,990	—	—	—	23,990	26	24,016
Exercise of share options	43	16,834	—	—	—	—	—	—	16,877	—	16,877
Vested awarded shares transferred to employees	—	—	3,448	—	(3,448)	—	—	—	—	—	—
Capital contribution from minority interests	—	—	—	—	—	—	—	—	—	500	500
AT JUNE 30, 2009	4,405	654,800	(47,795)	81,481	215,190	(66,308)	559,907	—	1,401,680	13,674	1,415,354

ATTRIBUTABLE TO OWNERS OF THE COMPANY

	SHARES HELD FOR SHARE		ORDINARY SHARES		EMPLOYEE SHARE-BASED		FOREIGN CURRENCY		PROPOSED		TOTAL	MINORITY INTERESTS	TOTAL EQUITY
	ISSUED CAPITAL	SHARE PREMIUM	AWARD SCHEME	SHARES SUBSCRIBED	STATUTORY RESERVES	CAPITAL RESERVE	TRANSLATION RESERVE	RETAINED EARNINGS	FINAL DIVIDEND				
	RMB'000	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)	(UNAUDITED)
AT JANUARY 1, 2008	4,322	735,510	—	319	57,570	144,741	(28,918)	101,953	95,710	1,111,207	22,450	1,133,657	
Profit for the period	—	—	—	—	—	—	—	107,874	—	107,874	(2,784)	105,090	
Other comprehensive loss	—	—	—	—	—	—	(38,748)	—	—	(38,748)	376	(38,372)	
Total comprehensive income	—	—	—	—	—	—	(38,748)	107,874	—	69,126	(2,408)	66,718	
2007 final dividend declared	—	—	—	—	—	—	—	—	(95,710)	(95,710)	—	(95,710)	
Dividend on shares issued for employee share options exercised after December 31, 2007	—	—	—	—	—	—	—	(421)	—	(421)	—	(421)	
Shares purchased for share award scheme	—	—	(706)	—	—	—	—	—	—	(706)	—	(706)	
Share-based compensation costs	—	—	—	—	—	27,680	—	—	—	27,680	70	27,750	
Issuance of share certificates for ordinary share subscribed	3	316	—	(319)	—	—	—	—	—	—	—	—	
Capital contribution from owners of the Company	—	32,741	—	—	—	—	—	—	—	32,741	—	32,741	
Exercise of share options	16	3,654	—	—	—	—	—	—	—	3,670	—	3,670	
Acquisition of minority interest	—	—	—	—	—	—	—	(22,675)	—	(22,675)	(7,625)	(30,300)	
AT JUNE 30, 2008	4,341	772,221	(706)	—	57,570	172,421	(67,666)	186,731	—	1,124,912	12,487	1,137,399	

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2009

FOR THE SIX MONTHS ENDED JUNE 30,			
		2009	2008
	NOTE	RMB'000	RMB'000
		(UNAUDITED)	(UNAUDITED)
NET CASH INFLOW FROM OPERATING ACTIVITIES		155,958	108,108
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(113,878)	(303,331)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(134,370)	(62,932)
<hr/>			
NET DECREASE IN CASH AND CASH EQUIVALENTS		(92,290)	(258,155)
Cash and cash equivalents at beginning of period	15	616,955	888,922
Effect of foreign exchange rate changes, net		(126)	(38,124)
<hr/>			
CASH AND CASH EQUIVALENTS AT END OF PERIOD	15	524,539	592,643

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the board of directors (the "Directors") of the Company (the "Board") on August 25, 2009.

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated statement of financial position as at June 30, 2009 and the related condensed consolidated statements of income and comprehensive income for the three and six months then ended, changes in equity and cash flows for the six months then ended have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2008.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2008, except for the adoption of new Standards and Interpretations applicable to the Group as of January 1, 2009, noted below:

International Financial Reporting Standard ("IFRS") 2 Share-based Payment — Vesting Conditions and Cancellations

The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under *IAS 14 Segment Reporting*. Additional disclosures about each of these segments are shown in note 3, including revised comparative information.

IAS 1 Revised Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Improvements to IFRSs

In May 2008, the International Accounting Standards Board (“IASB”) issued its first 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, which are applicable to the Group, resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

IAS 16 Property, Plant and Equipment

Replace the term “net selling price” with “fair value less costs to sell”. The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

Apart from the above, the IASB has also issued Improvements to IFRSs in April 2009 which set out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. These improvements contain amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, Appendix to IAS 18, IAS 36, IAS 38, IAS 39, IFRIC-Int 9 and IFRIC-Int 16. Except for the amendments to IFRS 2, IAS 38, IFRIC-Int 9 and IFRIC-Int 16 which are effective for annual periods beginning on or after July 1, 2009 and no transitional provisions for amendment to Appendix to IAS 18 has been specified, other amendments are effective for annual periods beginning on or after January 1, 2010 although there are separate transitional provisions for each standard.

The improvement to IFRS 8 clarifies that “an entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker.” The Group has early adopted this improvement as of January 1, 2009. Since the segment assets and liabilities information is not reported regularly to the chief operating decision maker of the Group, such disclosures on segment assets or liabilities were not made.

3. SEGMENT INFORMATION

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss in the consolidated financial statements. Group financing (including finance costs and finance revenue) and income taxes are managed on a group basis and are not allocated to operating segments.

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

3. SEGMENT INFORMATION (continued)

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended June 30, 2009 and 2008, together with the reconciliation of the segment profit before tax to the consolidated profit before tax, are presented as follows:

	ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED)	APPLICATIONS SOFTWARE RMB'000 (UNAUDITED)	CONSOLIDATED RMB'000 (UNAUDITED)
<i>For the six months ended June 30, 2009</i>			
REVENUE:			
Sales to external customers	321,317	154,892	476,209
TOTAL REVENUE	321,317	154,892	476,209
RESULTS:			
SEGMENT PROFIT BEFORE TAX	207,289	62,133	269,422
Administrative expenses			(44,985)
Share-based compensation costs			(24,295)
Other operating costs			(790)
Other income and gains			1,157
Finance income			12,569
Share of profits of associates			16,222
Share of losses of jointly-controlled entities			(2,834)
PROFIT BEFORE TAX			226,466
<i>For the six months ended June 30, 2008</i>			
REVENUE:			
Sales to external customers	229,836	116,970	346,806
TOTAL REVENUE	229,836	116,970	346,806
RESULTS:			
SEGMENT PROFIT BEFORE TAX	118,358	56,393	174,751
Administrative expenses			(40,236)
Share-based compensation costs			(27,912)
Other operating costs			(2,809)
Other income and gains			621
Finance income			14,207
Share of profits of associates			10,316
Share of losses of jointly-controlled entities			(288)
PROFIT BEFORE TAX			128,650

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

4. REVENUE

Revenue represents the net invoiced value of goods sold, after deduction of returns and trade discounts; and the value of services rendered. The Group's revenue includes:

- (a) "Entertainment software", which comprises the provision of online game services and related advertising services;
- (b) "Applications software", which comprises the sales of software products, including security and utilities software and office applications software, and related advertising services; and
- (c) "Others", which mainly comprises the provision of software consulting services.

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)
<i>Revenue</i>				
Sales of goods	19,432	21,335	36,237	38,822
Rendering of service	220,549	150,434	439,972	307,984
	239,981	171,769	476,209	346,806

5. PROFIT BEFORE TAX

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)
Depreciation of property, plant and equipment	9,635	4,509	14,521	9,500
Amortisation of lease prepayments	41	41	83	83
Amortisation of intangible assets:				
Amortisation of capitalised software costs*	1,258	1,298	2,965	1,728
Amortisation of purchased software	2,604	1,282	5,473	3,057
Write-down/(write-back) of inventories	(177)	483	(128)	483
Write-off/(write-back) of receivables	(35)	7	(98)	(475)
(Gain)/loss on disposal of items of property, plant and equipment	(23)	16	2	32

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

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

6. INCOME TAX

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)
<i>Current income tax</i>				
Current income tax charge	17,814	3,931	26,009	18,888
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(3,241)	427	2,162	4,672
Income tax expense	14,573	4,358	28,171	23,560

No provision for Hong Kong profit tax has been made for the six months ended June 30, 2009 and 2008 as the Group had no estimated assessable profits arising in Hong Kong.

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

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the period attributable to owners of the Company, 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 owners of the Company. 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.

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

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (continued)

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

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)
<hr/>		
<i>Earnings</i>		
Profit attributable to owners of the Company	197,460	107,874

	NUMBER OF SHARES FOR THE SIX MONTHS ENDED JUNE 30,	
	2009 (UNAUDITED)	2008 (UNAUDITED)
<hr/>		
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme*	1,060,421,431	1,065,047,552
Effect of dilution:		
Share options	54,041,806	44,853,583
Awarded shares	10,268,978	139,533
<hr/>		
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,124,732,215	1,110,040,668

* Weighted average number of ordinary shares in issue included ordinary shares subscribed as the issuance of the related shares is mandatory to the Company and the subscriptions were paid by subscribers.

8. PROPERTY, PLANT AND EQUIPMENT

	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)
<hr/>		
Net carrying amount at January 1,	345,626	45,446
Additions	82,844	38,210
Disposals	(33)	(80)
Depreciation charge for the period	(14,521)	(9,500)
<hr/>		
Net carrying amount at June 30,	413,916	74,076

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

9. OTHER INTANGIBLE ASSETS

	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)
Net carrying amount at January 1,	39,071	14,281
Additions	3,918	9,317
Amortisation	(7,811)	(5,426)
Net carrying amount at June 30,	35,178	18,172

10. INTERESTS IN ASSOCIATES

	AS AT JUNE 30, 2009 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2008 RMB'000 (AUDITED)
Share of net assets	43,699	27,077

Particulars of the associates are as follows:

NAME	PLACE AND DATE OF REGISTRATION AND PLACE OF OPERATIONS	NOMINAL VALUE OF REGISTERED CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Guangzhou Kingsoft Duoyi Internet Technology Co. Ltd ("Kingsoft Guangzhou")	PRC July 14, 2006	RMB10,000,000	40	Research, development and provision of online game services
Guangzhou Tuotu Computer Technology Co., Ltd. *	PRC February 14, 2007	RMB100,000	19.9	Research and development of computer and network related technology; provision of network service; design and publish of advertisement

* Newly acquired associate during the six months ended June 30, 2009

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

11. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	AS AT JUNE 30, 2009 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2008 RMB'000 (AUDITED)
Share of net assets	16,010	1,122
Goodwill — at cost	28,258	3,600
	44,268	4,722

Particulars of the jointly-controlled entities are as follows:

NAME	PLACE AND DATE OF REGISTRATION AND PLACE OF OPERATIONS	NOMINAL VALUE OF REGISTERED CAPITAL	PERCENTAGE OF EQUITY INTEREST ATTRIBUTABLE TO THE GROUP	PRINCIPAL ACTIVITIES
Beijing Kingsoft Lianking Technology Corporation Limited	PRC June 10, 2008	RMB8,000,600	40	Research and development of games
Shanghai Zhixiong Network Technology Co., Ltd.*	PRC April 1, 2004	RMB24,970,000	19.9	Research and development of games
Sky Profit Limited ("Sky Profit")*	Cayman Islands January 3, 2008	US\$ 50,000	21.42	Investment holding

* Newly acquired jointly-controlled entities during the six months ended June 30, 2009

12. LONG-TERM PREPAYMENTS

	AS AT JUNE 30, 2009 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2008 RMB'000 (AUDITED)
Prepayments for investments	—	1,620
Deposits for land use rights	38,738	10,000
	38,738	11,620

The long-term prepayments are unsecured and interest-free.

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

13. TRADE RECEIVABLES

Trade receivables, which are non-interest bearing and generally on terms of 30 to 90 days credit, are recognised and carried at original invoiced amount less any impairment loss. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. Bad debts are written off as incurred. The Group generally does not require collateral from its customers.

An aged analysis of the Group's trade receivables based on the invoice date is as follows:

	AS AT JUNE 30, 2009 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2008 RMB'000 (AUDITED)
0–30 days	85,382	60,032
31–60 days	6,041	7,408
61–90 days	5,410	9,715
91–365 days	4,495	6,348
Over one year	1,473	1,316
	102,801	84,819

14. CREDIT-LINKED DEPOSIT

The credit-linked deposit with principal amount of HK\$123,377 thousand as at December 31, 2008 was matured on January 10, 2009 and received by the Company during the period.

15. CASH AND CASH EQUIVALENTS

	AS AT JUNE 30, 2009 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2008 RMB'000 (AUDITED)
Cash and bank balances	176,511	219,080
Time deposits with original maturity of three months or less when acquired	348,028	397,875
	524,539	616,955
Time deposits with original maturity of over three months when acquired	480,216	390,160
	1,004,755	1,007,115

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)

16. TRADE PAYABLES

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

	AS AT JUNE 30, 2009 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2008 RMB'000 (AUDITED)
0–30 days	1,985	4,813
31–60 days	812	223
61–90 days	1,000	224
91–365 days	453	580
Over one year	2,244	1,809
	6,494	7,649

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

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

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

	NUMBER OF SHARES IN ISSUE (UNAUDITED)	ISSUED 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, 2009	1,056,228,708	4,362	639,034	(40,050)	603,346
Exercise of share options	12,415,425	43	16,834	—	16,877
Purchase of shares held for share award scheme	(2,453,000)	—	—	(11,193)	(11,193)
Vested awarded shares transferred to employees	1,002,000	—	—	3,448	3,448
Dividend on shares issued for employee share options exercised after December 31, 2008	—	—	(1,068)	—	(1,068)
At June 30, 2009	1,067,193,133	4,405	654,800	(47,795)	611,410
At January 1, 2008	1,061,726,020	4,322	735,510	—	739,832
Exercise of share options	5,329,313	16	3,654	—	3,670
Purchase of shares held for share award scheme	(200,000)	—	—	(706)	(706)
Issuance of share certificates for ordinary share subscribed	—	3	316	—	319
Capital contribution from owners of the Company	—	—	32,741	—	32,741
At June 30, 2008	1,066,855,333	4,341	772,221	(706)	775,856

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

18. SHARE-BASED COMPENSATION COSTS

(a) Share options

The Company adopted the 2004 Pre-IPO Share Option Scheme and the 2007 Pre-IPO Share Option Scheme on June 30, 2004 and January 22, 2007, respectively. The Pre-IPO Share Option Schemes were terminated on September 3, 2007. No share options were granted since then. The following table illustrates the number of, and movements in, the Company's share options for the six months ended June 30, 2009 and 2008.

	2009 NUMBER OF SHARES OPTIONS (UNAUDITED)	2008 NUMBER OF SHARES OPTIONS (UNAUDITED)
Outstanding at January 1,	123,779,525	141,677,680
Granted during the period	—	—
Forfeited during the period	(4,265,000)	(4,477,967)
Exercised during the period	(12,415,425)	(4,434,313)
Expired during the period	—	—
Outstanding at June 30,	107,099,100	132,765,400

(b) Share Award Scheme

On March 31, 2008 ("Adoption Date"), the Board approved and adopted a share award scheme (the "Share Award Scheme") in which selected employees of the Group are entitled to participate. 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. 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 capital of the Company as at the date of such grant.

During the six months ended June 30, 2009, 7,612,000 shares (six months ended June 30, 2008: 5,079,000 shares) were awarded to a number of employees with vesting period of three years, out of which, 5,382,000 (six months ended June 30, 2008: 495,000 shares) awarded shares were subject to certain performance conditions.

During the six months ended June 30, 2009, 2,453,000 shares (six months ended June 30, 2008: 200,000 shares) of the Company were acquired at total cost (including related transaction costs) of approximately RMB11,193 thousand (six months ended June 30, 2008: RMB706 thousand).

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

18. SHARE-BASED COMPENSATION COSTS (continued)

(b) Share Award Scheme (continued)

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

	2009 NUMBER OF AWARDED SHARES (UNAUDITED)	2008 NUMBER OF AWARDED SHARES (UNAUDITED)
Outstanding at January 1,	15,558,000	—
Awarded during the period	7,612,000	5,079,000
Forfeited during the period	(870,000)	—
Vested during the period	(1,455,000)	—
Outstanding at June 30,	20,845,000	5,079,000

19. DIVIDENDS

A final dividend for 2008 of HK\$0.15 per ordinary share was proposed pursuant to a resolution passed by the Board on March 31, 2009 and was approved by the shareholders in the annual general meeting held on May 25, 2009.

The Board does not recommend the payment of any interim dividend for the six months ended June 30, 2009 (six months ended June 30, 2008: nil).

20. CAPITAL COMMITMENTS

	AS AT JUNE 30, 2009 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2008 RMB'000 (AUDITED)
Contracted, but not provided for:		
Purchase of electronic equipment	2,188	5,219
Acquisition of land and buildings (note)	1,010,689	1,074,710
Investment	2,200	63,787
Acquisition of intangible assets	909	1,998
Total	1,015,986	1,145,714

Note: The capital commitment for land and buildings mainly represented the commitment to purchase a land use right in Zhuhai. The total consideration was RMB38,738 thousand, among which the Group paid RMB10,000 thousand as deposit in 2008, and RMB28,738 thousand was paid during the six month ended June 30, 2009. In addition, the Group will invest an aggregate of RMB1,000,000 thousand in five years in the construction on the land according to the land acquisition agreement.

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

21. RELATED PARTY TRANSACTIONS

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)
Loan to shareholders of a subsidiary	13,928	—	13,928	—

(b) Outstanding balance with related parties:

	AS AT JUNE 30, 2009 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2008 RMB'000 (AUDITED)
Loan to shareholders of a subsidiary included in other receivables (note)	13,928	—

Note: The balance represents loan to shareholders of a subsidiary. The loan is subject to interest rate of HIBOR + 1.5% per annum and should be repaid in 4 years after the payment of the loan. The Loan is secured by certain equity interests of the subsidiary held by the aforementioned shareholders.

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

The first tranche of above transaction was completed as at June 30, 2009.

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

21. RELATED PARTY TRANSACTIONS (continued)

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)
Salaries, allowances, and benefits in kind	2,689	1,811	5,422	3,516
Pension scheme contributions	44	12	84	25
Share-based compensation costs	5,618	6,454	11,132	14,776
Total compensation paid to key management personnel	8,351	8,277	16,638	18,317

22. COMPARATIVE AMOUNTS

As further explained in note 2 to these unaudited interim condensed consolidated financial statements, due to the adoption of new IFRSs during the current period, comparative amounts of the segment information in note 3 have been restated to conform with the current period's presentation and accounting treatment.

23. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On July 13, 2009, the Board approved the grant of 3 million awarded shares to two members of key management personnel. The awarded shares were subject to certain performance conditions and would be vested in three years from the grant date.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF KINGSOFT CORPORATION LIMITED

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 4 to 23 which comprises the condensed consolidated statement of financial position of Kingsoft Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as at June 30, 2009 and the related condensed consolidated statements of income and comprehensive income for the three and six months then ended, condensed consolidated statements of changes in equity and cash flows for the six months then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young

Certified Public Accountants

18th Floor

Two International Finance Centre

8 Finance Street, Central

Hong Kong

August 25, 2009

OPERATIONAL HIGHLIGHTS

	FOR THE THREE MONTHS ENDED							
	SEPTEMBER 30, 2007	DECEMBER 31, 2007	MARCH 31, 2008	JUNE 30, 2008	SEPTEMBER 30, 2008	DECEMBER 31, 2008	MARCH 31, 2009	JUNE 30, 2009
ONLINE GAMES								
Daily Average Peak Concurrent Users	529,794	605,569	633,487	846,180	990,855	1,029,611	951,685	953,817
Monthly Average Paying Users	1,035,371	1,001,381	1,093,789	1,036,692	1,239,609	1,531,993	1,489,797	1,317,755
Monthly Average Revenue per Paying User in RMB	31	37	36	34	40	38	36	39
ONLINE SERVICES OF INTERNET SECURITIES								
Daily Average Paying Users	6,505,150	7,555,280	8,277,873	8,696,519	8,657,001	8,409,533	8,450,146	8,211,110
Monthly Average Revenue per Paying User in RMB	1.4	1.5	1.4	1.6	1.7	1.9	1.9	2.1

FINANCIAL HIGHLIGHTS

	FOR THE SIX MONTHS ENDED 30 JUNE,	
	2008 RMB'000 (UNAUDITED)	2009 RMB'000 (UNAUDITED)
REVENUE:		
Entertainment software	228,111	321,055
Applications software	116,274	150,899
Others	2,421	4,255
	346,806	476,209
Cost of revenue	(49,139)	(59,130)
GROSS PROFIT	297,667	417,079
Research and development costs, net of government grants	(54,310)	(87,906)
Selling and distribution costs	(68,606)	(59,751)
Administrative expenses	(40,236)	(44,985)
Share-based compensation costs	(27,912)	(24,295)
Other operating costs	(2,809)	(790)
Other income and gains	621	1,157
OPERATING PROFIT	104,415	200,509
Finance income	14,207	12,569
Share of profits of associates	10,316	16,222
Share of losses of jointly-controlled entities	(288)	(2,834)
PROFIT BEFORE TAX	128,650	226,466
Income tax expense	(23,560)	(28,171)
PROFIT FOR THE PERIOD	105,090	198,295
Attributable to:		
Owners of the Company	107,874	197,460
Minority interests	(2,784)	835
	105,090	198,295
	RMB (UNAUDITED)	RMB (UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Basic	0.1013	0.1862
Diluted	0.0972	0.1756

FINANCIAL HIGHLIGHTS (continued)

	FOR THE THREE MONTHS ENDED		
	JUNE 30, 2008 RMB'000 (UNAUDITED)	MARCH 31, 2009 RMB'000 (UNAUDITED)	JUNE 30, 2009 RMB'000 (UNAUDITED)
REVENUE:			
Entertainment software	107,849	162,804	158,251
Applications software	62,361	72,030	78,869
Others	1,559	1,394	2,861
	171,769	236,228	239,981
Cost of revenue	(24,721)	(29,318)	(29,812)
GROSS PROFIT	147,048	206,910	210,169
Research and development costs, net of government grants	(30,301)	(43,130)	(44,776)
Selling and distribution costs	(44,718)	(28,958)	(30,793)
Administrative expenses	(18,573)	(21,891)	(23,094)
Share-based compensation costs	(11,165)	(12,567)	(11,728)
Other operating costs	(1,973)	(446)	(344)
Other income and gains	240	73	1,084
OPERATING PROFIT	40,558	99,991	100,518
Finance income	5,830	6,997	5,572
Share of profits of associates	8,233	8,939	7,283
Share of losses of jointly-controlled entities	(288)	(1,235)	(1,599)
PROFIT BEFORE TAX	54,333	114,692	111,774
Income tax expense	(4,358)	(13,598)	(14,573)
PROFIT FOR THE PERIOD	49,975	101,094	97,201
Attributable to:			
Owners of the Company	50,823	100,909	96,551
Minority interests	(848)	185	650
	49,975	101,094	97,201
	RMB (UNAUDITED)	RMB (UNAUDITED)	RMB (UNAUDITED)
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic	0.0476	0.0955	0.0907
Diluted	0.0455	0.0920	0.0835

MANAGEMENT DISCUSSION AND ANALYSIS

First Half of 2009 Compared to First Half of 2008

Revenue

Revenue increased by 37% year-over-year to RMB476.2 million for the first half year of 2009. Revenue from the entertainment and applications software businesses represented 67% and 32%, respectively, of the Group's total revenue.

Revenue from the entertainment software business increased by 41% year-over-year to RMB321.1 million. The increase was mainly attributable to impact of the launch of JX Online World in the late second quarter of 2008.

Daily average peak concurrent users, a measure we use to monitor the popularity of the Group's massively multi-player online role playing games ("MMORPGs"), increased by 13% year-over-year to 0.95 million in the second quarter of 2009. Monthly average paying users increased by 27% year-over-year to 1.32 million in the second quarter of 2009.

The monthly average revenue per paying user ("monthly ARPU") for the Group's MMORPGs increased by 15% year-over-year to RMB39 in the second quarter of 2009.

Revenue from the applications software business increased by 30% year-over-year to RMB150.9 million. The increase mainly resulted from (i) the increased SMS and bank card subscribers for online service of Kingsoft Internet Security; and (ii) Kingsoft Japan recorded rapid growing revenue from Kingsoft WPS Office and the free-advertisement version of Kingsoft Internet Security.

The number of subscribers for online services of Kingsoft Internet Security recorded 8.2 million daily average paying users, which decreased by 6% year-over-year in the second quarter of 2009. This was principally due to the decline of users acquired from the original equipment manufacturers and brick-and-mortar retailers. Monthly ARPU for online services of Kingsoft Internet Security business increased by RMB0.5 year-over-year to RMB2.1 in the second quarter of 2009. This increase resulted primarily from the increased proportion of SMS and bank card subscribers with higher monthly ARPU.

Gross Profit and Cost of Revenue

Gross profit increased by 40% year-over-year to RMB417.1 million. Gross profit margin increased by two percentage points year-over-year to 88%.

Cost of revenue increased by 20% year-over-year to RMB59.1 million primarily due to the increased revenue from MMORPGs and online services of Kingsoft Internet Security.

Research and Development Costs

Research and development costs, net of government grants increased by 62% year-over-year to RMB87.9 million. This is primarily due to (i) an overall increase in research and development headcount; and (ii) a raise in salaries and benefits.

Selling and Distribution Costs

Selling and distribution costs decreased by 13% year-over-year to RMB59.8 million as a result of that (i) the second quarter of last year was the promotion peak for JX Online World and First Myth II; and (ii) the Group's improved efficiency in customer acquisitions.

Administrative Expenses

Administrative expenses increased by 12% year-over-year to RMB45.0 million. This was primarily attributable to increased staff costs.

Share-based Compensation Costs

Share-based compensation costs decreased by 13% year-over-year to RMB24.3 million primarily due to the adoption of the graded vesting of the granted share options and awarded shares, which was also partially offset by the new grants under the Share Award Scheme.

Share of Profits of Associates

The Group's share of profits of associates, which primarily represented our share of profits of Kingsoft Guangzhou, increased by 57% year-over-year to RMB16.2 million. This increase mainly resulted from the growing revenue from Meng Xiang Shi Jie, the first game launched by Kingsoft Guangzhou.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs increased by 70% year-over-year to RMB224.8 million. This increase was attributable to the combination of the above factors. The margin of operating profit excluding share-based compensation costs improved by nine percentage points year-over-year to 47%.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Income Tax Expense

Income tax expense increased by 20% year-over-year to RMB28.2 million which reflected higher profit before income tax. The Group's effective tax rate (excluding the impact of share-based compensation costs) decreased by four percentage points year-over-year to 11%. This decrease was primarily due to that most of our subsidiaries in China received approvals for application to preferential tax rates under the new enterprise income tax law.

Profit Attributable to Owners of the Company

As the reasons discussed above, profit attributable to owners increased by 83% year-over-year to RMB197.5 million.

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

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

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

The Group's profit attributable to owners of the Company before share-based compensation costs increased by 63% year-over-year to RMB221.7 million.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at June 30, 2009, the Group had major financial resources in the forms of cash and cash equivalent and time deposits with initial term of over three months amounting to RMB524.5 million, RMB480.2 million, respectively, which totally represented 56% of the Group's total assets.

As at June 30, 2009, the Group's gearing ratio, which represents total liabilities divided by total assets, was 22%, decreased from 24% as at December 31, 2008. As at June 30, 2009, the Group did not have any borrowings from banks or other institutions.

Foreign Currency Risk Management

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

As at June 30, 2009, RMB133.8 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 fluctuations in connection with our deposits and investments.

Deferred Revenue

Deferred revenue (including current and non-current portion) increased by 9% year-over-year to RMB201.9 million as at June 30, 2009. This is mainly due to the increased revenue base.

Net Cash Generated from Operating Activities

Cash and cash equivalent and credit-linked deposits decreased by 10% from December 31, 2008 to RMB1,004.8 million, as a combined result of net cash inflows from operating activities, payment for dividend for the year ended December 31, 2008, payment for the acquisition of shares of Sky Profit and decoration of the two new buildings in Beijing and Zhuhai.

The Group's net cash generated by operating activities was RMB156.0 million, RMB108.1 million for the six months ended June 30, 2009 and June 30 2008, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital Expenditures

Capital expenditures represent cash payments for acquisition of property, fixed assets and intangible assets. Cash used for capital expenditures was RMB79.4 million, RMB189.6 million for the six months ended June 30, 2009, June 30, 2008 respectively. The year-over-year decrease was principally due to the expenditures for purchase Beijing office property took place in the first half year of 2008.

Second Quarter of 2009 Compared to First Quarter of 2009 and Second Quarter of 2008

Revenue

Revenue increased by 2% quarter-over-quarter and increased by 40% year-over-year to RMB240.0 million. Revenue from the entertainment and applications software businesses represented 66% and 33%, respectively, of the Group's total revenue for the second quarter of 2009.

Revenue from the entertainment software business decreased by 3% quarter-over-quarter and increased by 47% year-over-year to RMB158.3 million. This quarter-over-quarter decline was primarily due to the paying user attenuation.

Daily average peak concurrent users, a measure we use to monitor the popularity of the Group's MMORPGs, held flat quarter-over-quarter and increased by 13% year-over-year to 0.95 million. Monthly average paying users declined by 12% quarter-over-quarter and increased by 27% year-over-year to 1.3 million. This quarter-over-quarter decline resulted from the churn of the low ARPU game users of our aged games. The monthly ARPU for the Group's MMORPGs increased by 8% quarter-over-quarter and increased by 15% year-over-year to RMB39.

Revenue from the applications software business increased by 9% quarter-over-quarter and increased by 26% year-over-year to RMB78.9 million.

The number of subscribers for online services of Kingsoft Internet Security decreased by 3% quarter-over-quarter and decreased by 6% year-over-year to 8.2 million. The decrease was primarily due to the decline in users from traditional channels.

Monthly ARPU for online services of Kingsoft Internet Security business increased by 11% quarter-over-quarter and increased by 31% year-over-year to RMB2.1. This was mainly driven by the increased proportion of SMS and bank card subscribers with higher monthly ARPU.

Gross Profit and Cost of Revenue

Gross profit increased by 2% quarter-over-quarter and increased by 43% year-over-year to RMB210.2 million. Gross profit margin held flat quarter-over-quarter and increased by two percentage points year-over-year to 88%.

Cost of revenue increased by 2% quarter-over-quarter and increased by 21% year-over-year to RMB29.8 million. The quarter-over-quarter increase was primarily due to the increased bandwidth costs incurred by the close beta of JX III.

Research and Development Costs

Research and development costs, net of government grants increased by 4% quarter-over-quarter and increased by 48% year-over-year to RMB44.8 million. The quarter-over-quarter increase was primarily attributable to the increased amortisation and depreciation associated with the new buildings and facilities.

Selling and Distribution Costs

Selling and distribution costs increased by 6% quarter-over-quarter and decreased by 31% year-over-year to RMB30.8 million. The quarter-over-quarter increase mainly reflected (i) the pre-launching marketing activities for MAT and JX III; and (ii) the on-going marketing activities of JX online World.

Administrative Expenses

Administrative expenses increased by 5% quarter-over-quarter and increased by 24% year-over-year to RMB23.1 million.

Share-based Compensation Costs

Share-based compensation costs decreased by 7% quarter-over-quarter and increased by 5% year-over-year to RMB11.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Share of Profits of Associates

The Group's share of profits of associates, which primarily represented our 40% share of profit of Kingsoft Guangzhou, decreased by 19% quarter-over-quarter and decreased by 12% year-over-year to RMB7.3 million. The decrease was primarily due to the increased advertising and marketing activities for launching Xiao Yao Chuan Shuo, the second game of Kingsoft Guangzhou.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs held flat quarter-over-quarter and increased by 117% year-over-year to RMB112.2 million. Operating profit margin slightly decreased by one percentage point quarter-over-quarter and increased by seventeen percentage points year-over-year to 47% due to the reasons discussed above.

Income Tax Expense

Income tax expense increased by 7% quarter-over-quarter and increased by 234% year-over-year to RMB14.6 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) increased by one percentage point quarter-over-quarter and increased by five percentage points year-over-year to 12%.

Profit Attributable to Owners of the Company

As a result of the reasons discussed above, profit attributable to owners of the Company decreased by 4% quarter-over-quarter and increased by 90% year-over-year to RMB96.6 million.

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

The Group's profit attributable to owners of the Company before share-based compensation costs decreased by 5% quarter-over-quarter and increased by 75% year-over-year to RMB108.3 million. The net profit margin excluding the effect of share-based compensation costs was 45%, 48% and 36% for the three months ended June 30, 2009, March 31, 2009, and June 30, 2008, respectively.

BUSINESS OUTLOOK

Since the close beta testing commenced in December 2008, JX III has been tested by over 0.8 million gamers in general. It will start open beta testing on August 28, 2009. Following the launching, we believe that JX III will leverage the growth of three dimension game market and expand JX franchise further. In addition to JX III, two new games, the Legend of CQ and the Legend of JX II, also started open beta testing on August 20, 2009 and August 21, 2009, respectively.

Evidenced by our strong revenue growth in China and Japan, Kingsoft's application software business is in a transit to becoming a software-as-a-service platform. In addition to the growth of online subscription revenue, we expect to see increasing revenue of value added services and advertisement to maintain our long-term sustainable growth.

OTHER INFORMATION

Directors' Interests in Securities

As at June 30, 2009, 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:

Long position in the ordinary shares of the Company:

NAME OF DIRECTOR	NATURE OF INTERESTS	NUMBER OF SHARES HELD	PERCENTAGE OF ISSUED SHARE CAPITAL
Pak Kwan Kau	Corporate (Note 1)	223,489,800	20.58%
Jun Lei	Corporate (Note 2)	150,230,280	13.84%

Long positions in share options of the Company:

NAME OF DIRECTOR	NUMBER OF OPTIONS DIRECTLY BENEFICIALLY OWNED
Jun Lei (Note 3)	27,763,300
Wing Chung Anders Cheung (Note 4)	500,000
Donghui Wang (Note 5)	7,200,000

Long positions in awarded shares of the Company:

NAME OF DIRECTOR	NUMBER OF AWARDED SHARES DIRECTLY BENEFICIALLY OWNED
Donghui Wang (Note 6)	381,000

Notes:

- These shares are held by Topclick Holdings Limited, a BVI company wholly owned by Mr. Pak Kwan Kau.
- These share are held by Color Link Management Limited, a BVI company wholly owned by Mr. Jun Lei.
- The relevant interests include number of options of 22,451,800 which was granted on February 1, 2007 and its exercise period is from February 1, 2007 to February 1, 2017 with exercise price of US\$0.2400, and the number of options of 5,311,500 which was granted on August 1, 2004 and its exercise period is

OTHER INFORMATION (continued)

from August 1, 2004 to August 1, 2014 with exercise price of US\$0.0353.

4. The relevant interests are 500,000 number of share options which were granted on August 1, 2004. Its exercise period is from August 1, 2004 to August 1, 2014 and its exercise price is US\$0.0353.
5. The relevant interests include number of share options of 5,000,000 which was granted on February 1, 2007 and its exercise period is from February 1, 2007 to February 1, 2017 with exercise price of US\$0.2400, the number of share options of 800,000 which was granted on December 1, 2006 and its exercise period is from December 1, 2006 to December 1, 2016 with exercise price of US\$0.2400, the number of share options of 600,000 which was granted on August 1, 2005 and its exercise period is from August 1, 2005 to August 1, 2015 with exercise price of US\$0.2118, and the number of share options of 800,000 which was granted on March 1, 2005 and its exercise period is from March 1, 2005 to March 1, 2015 with exercise price of US\$0.2118.
6. The 381,000 awarded shares were granted by the Board on October 13, 2008 under the Share Award Scheme of the Company, one third of which will mature on October 13, 2009, October 13, 2010, and October 13, 2011. More information about the Share Award Scheme is stated in note 18(b) in the interim condensed consolidated financial statements.

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, 2009.

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. The following share options are outstanding under the 2004 and 2007 Pre-IPO Share Option Schemes during the six months ended June 30, 2009. More details of Share Option Schemes are stated in note 18(a) in the interim condensed consolidated financial statements.

2004 and 2007 Pre-IPO Share Option Schemes

The following share options were outstanding under the 2004 Scheme and the 2007 Scheme during the six months ended June 30, 2009.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS					DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US\$ PER SHARE
	AT JANUARY 1, 2009	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT JUNE 30, 2009		
EXECUTIVE DIRECTOR							
Donghui Wang	800,000	—	—	—	800,000	March 1, 2005	0.2118
	600,000	—	—	—	600,000	August 1, 2005	0.2118
	800,000	—	—	—	800,000	December 1, 2006	0.2400
	5,000,000	—	—	—	5,000,000	February 1, 2007*	0.2400
	7,200,000	—	—	—	7,200,000		
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		
Wing Chung Anders Cheung	500,000	—	—	—	500,000	August 1, 2004	0.0353

OTHER INFORMATION (continued)

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS					DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US\$ PER SHARE
	AT JANUARY 1, 2009	GRANTED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT JUNE 30, 2009		
OTHER EMPLOYEES							
In aggregate	1,770,500	—	—	—	1,770,500	January 1, 2000	0.0005
	6,732,000	—	(2,348,000)	—	4,384,000	August 1, 2004	0.0353
	442,625	—	(442,625)	—	—	January 1, 2005	0.2118
	250,000	—	(140,000)	(10,000)	100,000	April 1, 2005	0.2118
	2,309,500	—	(804,000)	—	1,505,500	August 1, 2005	0.2118
	216,000	—	(150,000)	—	66,000	January 1, 2006	0.2118
	800,000	—	—	—	800,000	August 1, 2006	0.2118
	3,350,000	—	(448,000)	(100,000)	2,802,000	December 1, 2006	0.2400
	70,547,600	—	(7,968,800)	(4,155,000)	58,423,800	February 1, 2007*	0.2400
	788,000	—	(44,000)	—	744,000	April 1, 2007*	0.2400
	680,000	—	(70,000)	—	610,000	May 8, 2007*	0.2400
	430,000	—	—	—	430,000	August 1, 2007*	0.4616
	88,316,225	—	(12,415,425)**	(4,265,000)	71,635,800		
	123,779,525	—	(12,415,425)	(4,265,000)	107,099,100		

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

** The weighted average closing price immediately before the dates on which the options were exercised was HK\$4.14.

OTHER INFORMATION (continued)

Share Award Scheme of the Company

The Share Award Scheme was adopted by the Board on March 31, 2008. Unless it is terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of five years commencing on the Adoption Date. Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time) select an employee for participation in the Share Award Scheme and determine the number of shares to be awarded. The Board shall not grant any award of shares which would result in

the total number of shares which are the subject of awards granted by the Board under the Share Award Scheme (but not counting any which have lapsed or have been forfeited) representing in aggregate over 10% of the issued share capital of the Company as at the date of such grant. During the six months ended June 30, 2009, the Board approved 7,612,000 awarded shares to some selected employees. The details of the Share Award Scheme are also stated in note 18 (b) in the interim condensed consolidated financial statements.

The following Awarded Shares were outstanding under the Share Award Scheme during the six months ended June 30, 2009.

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF AWARDED SHARES					AWARD DATE
	AT JANUARY 1, 2009	AWARDED DURING THE PERIOD	FORFEITED DURING THE PERIOD	VESTED DURING THE PERIOD	AT JUNE 30, 2009	
EXECUTIVE DIRECTOR						
Donghui Wang	381,000	—	—	—	381,000	October 13, 2008
	381,000	—	—	—	381,000	
OTHER EMPLOYEES						
In aggregate	5,058,000		(299,000)	(1,455,000)	3,304,000	June 26, 2008
	7,068,000		(571,000)	—	6,497,000	October 13, 2008
	2,001,000		—	—	2,001,000	October 24, 2008
	600,000		—	—	600,000	November 27, 2008
	150,000		—	—	150,000	December 1, 2008
	300,000		—	—	300,000	December 25, 2008
	—	1,600,000	—	—	1,600,000	January 1, 2009
	—	6,012,000	—	—	6,012,000	June 8, 2009
	15,177,000	7,612,000	(870,000)	(1,455,000)*	20,464,000	
	15,558,000	7,612,000	(870,000)	(1,455,000)	20,845,000	

* The closing price immediately before the date on which the awarded shares were vested was HK\$5.31.

Substantial Shareholders

As at June 30, 2009, 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

OTHER INFORMATION (continued)

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, 2009
Topclick Holdings Limited ⁽¹⁾	Beneficial owner	223,489,800	20.58%
Tetrad Ventures Pte Ltd	Beneficial owner	165,143,115	15.21%
GIC Special Investments Pte. Ltd. ⁽²⁾	Interest of a controlled corporation	165,143,115	15.21%
Government of Singapore Investment Corp. Pte. Ltd. ⁽²⁾	Interest of a controlled corporation	165,143,115	15.21%
Minister for Finance (Incorporated) ⁽²⁾	Interest of a controlled corporation	165,143,115	15.21%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd. ⁽²⁾	Interest of a controlled corporation	165,143,115	15.21%
Color Link Management Limited ⁽³⁾	Beneficial owner	150,230,280	13.84%
Super Faith International Limited	Beneficial owner	101,946,386	9.39%
Caprice Pacific Limited ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.39%
Highland Crest Limited ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.39%
World Conquest Limited ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.39%
Pacific Star Overseas Limited ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.39%
Shuen Lung Cheung ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.39%
Nien Shian Chu ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.39%
Siu Lung Cheung ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.39%
Tung Ping Lau ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.39%
Siu Ha Cheung ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.39%
Ka Yeung Yip ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.39%
Lenovo Manufacturing Limited ⁽⁵⁾	Beneficial owner	78,920,796	7.27%
Lenovo Holdings (BVI) Limited ⁽⁵⁾	Interest of a controlled corporation	78,920,796	7.27%
Lenovo Group Limited ⁽⁵⁾	Interest of a controlled corporation	78,920,796	7.27%

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. Each of Minister for Finance (Incorporated), Government of Singapore Investment Corp. Pte. Ltd., GIC Special Investments Pte. Ltd. and Government of Singapore Investment Corporation (Ventures) Pte. Ltd. is deemed to be interested in Tetrad Ventures Pte Ltd's interest in the Company under the SFO because Tetrad Ventures Pte Ltd is a wholly owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd., Government of Singapore Investment Corp. Pte. Ltd. and Government of Singapore Investment Corporation (Ventures) Pte. Ltd. are wholly owned by Minister for Finance (Incorporated), and GIC Special Investments Pte. Ltd. is wholly owned by Government of Singapore Investment Corp. Pte. Ltd..

3. 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.

4. Each of Caprice Pacific Limited, Highland Crest Limited and World Conquest Limited is deemed to be interested in Super Faith International Limited's interest in the Company under the

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

5. Lenovo Holdings (BVI) Limited is deemed to be interested in Lenovo Manufacturing Limited's interest in the Company by the SFO because Lenovo Manufacturing Limited is a wholly owned subsidiary of Lenovo Holdings (BVI) Limited, which is wholly owned by Lenovo Group Limited.

Save as disclosed above, the Directors confirm that they are not aware of any other person who has beneficial interests

OTHER INFORMATION (continued)

or short positions in any of the shares or underlying shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of the Shares carrying the right to vote in all circumstances at general meetings of the Company.

Employee and Remuneration Policies

As at June 30, 2009, the Group had 2,463 employees. The Group had not experienced any serious labor shortage problem. Employee remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. The remuneration policy and package of the Group's employees are periodically reviewed. Apart from pension funds and in-house training programmes, discretionary bonuses, pre IPO share options, medical insurance and mandatory provident fund, share awards may be granted to employees according to the assessment of individual performance.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the period under review, except that the trustee of the Share Award Scheme had, pursuant to the terms of rules and trust deed of the Share Award Scheme, purchased from the market a total of 2,453,000 shares for the Share Award Scheme. The total amount paid to acquire these 2,453,000 shares during the period was about HK\$12.7 million.

Audit Committee

The Company's Audit Committee was established for the purpose of dealing with matters relating to audit area, which includes reviewing and supervising the Group's financial reporting process and internal controls. Currently the Audit Committee comprises two independent non-executive Directors, namely Mr. Shun Tak Wong and Mr. Guangming George Lu, and one non-executive Director Mr. Wing Chung Anders Cheung. The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The Group's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2009 were reviewed and approved by the Audit Committee at an audit committee meeting held on August 21, 2009.

Adoption of Code of Conduct regarding Directors' 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, 2009.

Compliance with the Code on Corporate Governance Practices

For the six months ended June 30, 2009, the Company complied with all code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules with the exception of the deviation from code provision A.2.1. Mr. Pak Kwan Kau who is the chairman of the Board is also the chief executive officer of the Company.

The roles of chairman and chief executive officer were not separated. The Board considers that this structure does not impair the balance of power and authority between the Board and the management of the Company. The Board also believes that his appointment being both the chairman and chief executive officer is beneficial to the business prospects of the Company.

The Company will continue to review its practices from time to time to achieve high standard of corporate governance.

Appreciation

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

By Order of the Board
Kingsoft Corporation Limited

Pak Kwan KAU
Chairman

Hong Kong, August 25, 2009