Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 3888)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2009

The Board ("Board") of directors (the "Directors") of Kingsoft Corporation Limited (the "Company") announces the audited results of the Company and its subsidiaries (the "Group" or "Kingsoft") for the year ended December 31, 2009 based on the International Financial Reporting Standards ("IFRSs"). These results have been audited by Ernst & Young, the auditors of the Company in accordance with Hong Kong Standards on Auditing. In addition, the results have also been reviewed by the audit committee of the Company.

FINANCIAL HIGHLIGHTS

	For the year ended			
	December 31, 2008 RMB'000	**December 31, 2009 RMB'000**	**December 31, 2009** HKD'000**	Year over Year Change %
Revenue	820,944	**1,022,412**	**1,161,172**	25%
Profit attributable to owners of the parent*	307,501	**387,224**	**439,777**	26%
	RMB cent	**RMB cent**	**HKD cent**	
Basic earnings per share	28.95	**36.38**	**41.32**	26%
Diluted earnings per share	27.74	**33.68**	**38.25**	21%

* Profit attributable to owners of the parent excluding the effect of share-based compensation cost is RMB428.5 million and RMB357.3 million for the years ended December 31, 2009 and December 31, 2008, respectively; representing an increase of 20% year-over-year.

** The conversion of RMB into HKD in this release is based on RMB0.8805 to HKD1.00 as published by the People's Bank of China on December 31, 2009. Translations of amounts from RMB into Hong Kong Dollars ("HKD") are solely for the convenience of the reader. This convenient translation is not intended to imply that RMB amounts could have been, or could be, converted, realised, or settled into HKD at that rate on December 31, 2009, or at any other rate.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.15 per share for the year ended December 31, 2009 (2008: HKD0.15 per share). The final dividend, if approved by the shareholders at the Annual General Meeting ("AGM") to be held on May 28, 2010, is expected to be payable on June 15, 2010 to shareholders whose names appear on the register of members of the Company on May 28, 2010.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2009

	Notes	**2009 RMB'000**	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	**407,980**	345,626
Goodwill		**2,377**	2,377
Other intangible assets		**48,489**	39,071
Lease prepayment		**6,972**	7,138
Interests in associates		**6,378**	27,077
Interests in jointly-controlled entities		**40,112**	4,722
Loan receivables		**2,649**	2,520
Deferred tax assets		**28,917**	29,262
Deferred cost		**1,201**	273
Long-term prepayments		**38,738**	11,620
		583,813	469,686
CURRENT ASSETS			
Inventories		**5,384**	4,686
Trade receivables	9	**120,378**	84,819
Prepayments, deposits and other receivables		**60,075**	55,138
Income tax receivable		**—**	182
Deferred cost		**3,122**	5,889
Credit-linked deposit		**—**	111,708
Cash and cash equivalents		**1,268,098**	1,007,115
		1,457,057	1,269,537

	Notes	2009 RMB'000	2008 RMB'000
CURRENT LIABILITIES			
Trade payables	10	**12,597**	7,649
Dividend payable		**174**	134
Accrued expenses and other payables		**186,896**	160,972
Deferred revenue		**158,643**	183,445
Income tax payable		**19,453**	19,616
		377,763	371,816
NET CURRENT ASSETS		**1,079,294**	897,721
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,663,107**	1,367,407
NON-CURRENT LIABILITIES			
Deferred revenue		**42,144**	31,179
Deferred tax liabilities		**16,653**	7,863
		58,797	39,042
Net assets		**1,604,310**	1,328,365
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**4,434**	4,362
Share premium		**525,349**	639,034
Shares held for share award scheme		**(72,365)**	(40,050)
Statutory reserves		**107,817**	81,481
Employee share-based capital reserve		**225,011**	194,648
Foreign currency translation reserve		**(66,464)**	(66,128)
Retained earnings		**723,335**	362,447
Proposed final dividends		**141,575**	139,723
		1,588,692	1,315,517
Minority interests		**15,618**	12,848
Total equity		**1,604,310**	1,328,365

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE:			
Entertainment software		**684,242**	553,723
Application software		**329,196**	261,150
Others		**8,974**	6,071
		1,022,412	820,944
Cost of revenue		**(128,467)**	(110,935)
Gross profit		**893,945**	710,009
Research and development costs, net of government grants		**(199,611)**	(124,926)
Selling and distribution costs		**(171,634)**	(148,565)
Administrative expenses		**(101,630)**	(93,772)
Share-based compensation costs	4, 5	**(41,312)**	(49,909)
Other operating costs	5	**(2,598)**	(4,822)
Other income and gains		**26,867**	18,898
Finance income	5	**25,523**	31,022
Share of profits of associates		**25,715**	27,263
Share of losses of jointly-controlled entities		**(6,952)**	(1,278)
PROFIT BEFORE TAX	5	**448,313**	363,920
Income tax expense	6	**(59,459)**	(59,885)
PROFIT FOR THE YEAR		**388,854**	304,035
Attributable to:			
Owners of the parent		**387,224**	307,501
Minority interests		**1,630**	(3,466)
		388,854	304,035
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		**0.3638**	0.2895
Diluted		**0.3368**	0.2774

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009 RMB'000	2008 RMB'000
PROFIT FOR THE YEAR	**388,854**	304,035
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation of foreign operations	**(632)**	(35,834)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(632)**	(35,834)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**388,222**	268,201
Attributable to:		
Owners of the parent	**386,888**	270,291
Minority interests	**1,334**	(2,090)
	388,222	268,201

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2009

	Attributable to owners of the parent											
	Issued capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Ordinary shares subscribed RMB'000	Statutory reserves RMB'000	Employee share-based capital reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
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
Total comprehensive income for the year	—	—	—	—	—	—	(37,210)	307,501	—	270,291	(2,090)	268,201
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	—	—	(40,050)	—	—	—	—	—	—	(40,050)	—	(40,050)
Share-based compensation costs	—	—	—	—	—	49,907	—	—	—	49,907	113	50,020
Issuance of share certificates for ordinary shares subscribed	3	316	—	(319)	—	—	—	—	—	—	—	—
Capital contribution from shareholders	—	32,741	—	—	—	—	—	—	—	32,741	—	32,741
Profit appropriations	—	—	—	—	23,911	—	—	(23,911)	—	—	—	—
Exercise of share options	37	10,190	—	—	—	—	—	—	—	10,227	—	10,227
Acquisition of minority interest	—	—	—	—	—	—	—	(22,675)	—	(22,675)	(7,625)	(30,300)
Proposed final 2008 dividend	—	(139,723)	—	—	—	—	—	—	139,723	—	—	—
At December 31, 2008 and January 1, 2009	**4,362**	**639,034**	**(40,050)**	**—**	**81,481**	**194,648**	**(66,128)**	**362,447**	**139,723**	**1,315,517**	**12,848**	**1,328,365**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(336)**	**387,224**	**—**	**386,888**	**1,334**	**388,222**
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	**—**	**—**	**(43,050)**	**—**	**—**	**—**	**—**	**—**	**—**	**(43,050)**	**—**	**(43,050)**
Share-based compensation costs	**—**	**—**	**—**	**—**	**—**	**41,098**	**—**	**—**	**—**	**41,098**	**36**	**41,134**
Capital contribution from minority interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,400**	**1,400**
Profit appropriations	**—**	**—**	**—**	**—**	**26,336**	**—**	**—**	**(26,336)**	**—**	**—**	**—**	**—**
Exercise of share options	**72**	**28,958**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**29,030**	**—**	**29,030**
Vested awarded shares transferred to employees	**—**	**—**	**10,735**	**—**	**—**	**(10,735)**	**—**	**—**	**—**	**—**	**—**	**—**
Proposed final 2009 dividend	**—**	**(141,575)**	**—**	**—**	**—**	**—**	**—**	**—**	**141,575**	**—**	**—**	**—**
At December 31, 2009	**4,434**	**525,349**	**(72,365)**	**—**	**107,817**	**225,011**	**(66,464)**	**723,335**	**141,575**	**1,588,692**	**15,618**	**1,604,310**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009 RMB'000	2008 RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	**446,874**	381,472
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(503,721)**	(520,533)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(153,411)**	(97,073)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(210,258)**	(236,134)
Cash and cash equivalents at beginning of year	**616,955**	888,922
Effect of foreign exchange rate changes, net	**(1,102)**	(35,833)
Cash and cash equivalents at end of year	**405,595**	616,955
Time deposits with original maturity of over three months when acquired	**862,503**	390,160
Cash and cash equivalents as stated in the consolidated statement of financial position	**1,268,098**	1,007,115

1. Corporate information and basis of preparation

Kingsoft Corporation Limited was incorporated under the laws of the British Virgin Islands on March 20, 1998 as a tax exempted company with limited liability under the Companies Act. On November 15, 2005, it was redomiciled under the Company Law (2004 revision) of the Cayman Islands. The registered office of the Company is located at Clifton House, 75 Fort Street, P.O. Box 1350 GT, George Town, Grand Cayman, Cayman Islands.

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

- research, development, operation and distribution of online game, mobile game and casual game services; and
- research, development, operation and distribution of internet security, dictionary and office application software products.

Basis of preparation

These financial statements have been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2. Significant accounting policies

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

Impact of New and Revised IFRSs

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised IFRSs has had no significant effect on these financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IFRS 8 Amendment*	Amendment to IFRS 8 *Operating Segments — Disclosure of information about segment assets* (early adopted)
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue — Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC-Int 9 and IAS 39 Amendments	Amendments to IFRIC-Int 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement — Embedded Derivatives*
IFRIC-Int 13	*Customer Loyalty Programmes*
IFRIC-Int 15	*Agreements for the Construction of Real Estate*
IFRIC-Int 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

* Included in *Improvements to IFRSs* (as issued in April 2009)

3. Operating segment information

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

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

(b) The application 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 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 from the Group's financial instruments as well as administrative expenses, employee share-based payments, share of profits/losses of associates/jointly-controlled entities, other operating cost and other income and gains are excluded from such measurement.

The following tables present revenue and profit information regarding the Group's operating segments for the year ended December 31, 2009 and 2008, together with the reconciliation of the segment profit before tax to the consolidated profit before tax:

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

Year ended December 31, 2008	Entertainment software RMB'000	Application software RMB'000	Consolidated RMB'000
Segment revenue:			
Sales to external customers	553,723	267,221	820,944
Total revenue	553,723	267,221	820,944
Segment results	320,334	116,184	436,518
Reconciliation:			
Administrative expenses			(93,772)
Share-based compensation costs			(49,909)
Other operating costs			(4,822)
Other income and gains			18,898
Finance income			31,022
Share of profit of an associate			27,263
Share of loss of a jointly-controlled entity			(1,278)
Profit before tax			363,920
Other segment information:			
Impairment losses recognised in the income statement	137	1,069	1,206
Depreciation and amortisation	11,641	15,566	27,207

Due to the adoption of new and revised IFRSs during the current year, comparative amounts of the operating segment information have been reclassified and restated to conform with the current year's presentation and accounting treatment.

Geographical information

(a) Revenue from external customers:

	2009	2008
	RMB'000	RMB'000
Mainland China	**957,422**	796,933
Japan	**53,974**	24,011
Other countries	**11,016**	—
Total	**1,022,412**	820,944

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

(b) Non-current assets:

	2009	2008
	RMB'000	RMB'000
Mainland China	**518,399**	433,681
Japan	**697**	1,082
Other countries	**33,151**	3,141
Total	**552,247**	437,904

The non-current assets information above is based on the location of assets and excludes financial instruments and deferred tax assets.

4. Share-based compensation costs

(a) Share options

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

The 2004 Scheme and the 2007 Scheme were terminated on September 3, 2007. No share options were granted since then. The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, the Company's share options for the years ended December 31, 2009 and 2008.

	Company			
	2009 Number of share options	**2009 WAEP US$ per share**	2008 Number of share options	2008 WAEP US$ per share
2004 Scheme				
Outstanding at January 1	**23,882,125**	**0.1083**	32,646,280	0.1093
Forfeited during the year	**(110,000)**	**0.2374**	(311,000)	0.1806
Exercised during the year	**(6,246,625)**	**0.1074**	(8,453,155)	0.1093
Outstanding at December 31	**17,525,500**	**0.1078**	23,882,125	0.1083
Exercisable at December 31	**16,325,500**	**0.0982**	19,935,000	0.0847
2007 Scheme				
Outstanding at January 1	**99,897,400**	**0.2410**	109,031,400	0.2411
Forfeited during the year	**(4,526,000)**	**0.2400**	(6,841,467)	0.2439
Exercised during the year	**(14,751,800)**	**0.2408**	(2,292,533)	0.2400
Outstanding at December 31	**80,619,600**	**0.2410**	99,897,400	0.2410
Exercisable at December 31	**47,597,460**	**0.2407**	35,272,640	0.2407
Total outstanding at December 31	**98,145,100**	**0.2172**	123,779,525	0.2154
Total exercisable at December 31	**63,922,960**	**0.2043**	55,207,640	0.1843

The weighted average share price at the date of exercise for the options exercised in 2009 was US$0.6996 (2008: US$0.2996).

The weighted average remaining contractual life for the Company's share options outstanding as at December 31, 2009 was 6.77 years (2008: 7.73 years). No share options were granted in 2009 and 2008. The range of exercise prices for options outstanding at the end of 2009 was US$0.0005 to US$0.4616 (2008: US$0.0005 to US$0.4616).

(b) Share Award Scheme

On March 31, 2008 ("Adoption Date"), the board of directors of the Company approved and adopted a share award scheme ("Share Award Scheme") in which selected employees of the Group are entitled to participate. Unless early terminated by the board of directors, the Share Award Scheme is valid and effective for a term of five years commencing on the Adoption Date. The Board will not grant any award of shares which would result in the total number of shares, which are the subject of awards granted by the board of directors under the Share Award Scheme (but not counting any which have lapsed or have been forfeited), representing in aggregate over 10% of the issued capital of the Company as at the date of such grant.

For the Company's shares granted ("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. Non-vesting conditions and market conditions shall be taken into account when estimating the fair value of the equity instruments granted.

During the year ended December 31, 2009, 12,042,000 shares (2008: 15,579,000 shares) were awarded to a number of employees with vesting period of three years, out of which, 8,382,000 (2008: 9,945,000 shares) awarded shares were also subject to certain performance conditions. During the year ended December 31, 2009, the Share Award Scheme Trust acquired 8,501,000 shares of the Company through purchases on the open market at a total cost (including related transaction costs) of approximately RMB43.1 million (2008: 17,138,000 shares, RMB40.1 million).

The expense recognised for employee services received in respect of the Share Award Scheme for the year ended December 31, 2009 was RMB20.8 million (2008: RMB5.4 million).

The following table illustrates the number of and movements in the Company's Awarded Shares for the years ended December 31, 2009 and 2008.

	2009 Number of Awarded Shares	2008 Number of Awarded Shares
Outstanding as at January 1	**15,558,000**	—
Granted during the year	**12,042,000**	15,579,000
Forfeited during the year	**(3,047,000)**	(21,000)
Vested during the year	**(3,895,000)**	—
Outstanding as at December 31	**20,658,000**	15,558,000

The fair value of the Awarded Shares was based on the market value of the Company's shares at the grant date. The weighted average fair value of the shares awarded during 2009 was RMB3.26 each (2008: RMB2.25 each).

As at December 31, 2009, 1,086,000 forfeited or unawarded shares were held by the Share Award Scheme Trust and would be awarded in future (2008: 1,580,000).

5. Profit before tax

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

	2009 RMB'000	2008 RMB'000
Employee benefit expense:		
Wages and salaries	**209,595**	158,703
Social insurance costs and staff welfare	**44,853**	31,763
Share-based compensation costs	**41,312**	49,909
Pension plan contributions	**19,217**	13,030
	314,977	253,405
Minimum lease payments under operating leases:		
Plant and machinery	**33,546**	26,824
Buildings	**14,468**	12,161
	48,014	38,985
Depreciation	**41,220**	20,585
Amortisation of lease prepayment	**166**	166
Amortisation of intangible assets:		
Amortisation of capitalised software costs*	**5,481**	4,110
Amortisation of purchased software	**9,591**	7,019
Amortisation of other intangible assets	**1,065**	444
Write-down of inventories***	**—**	1,206
Write-off of receivables***	**—**	102
Loss on disposal of items of property, plant and equipment***	**216**	89
Foreign exchange differences, net***	**984**	1,602
Impairment of interest in an associate***	**400**	—
Government grants:		
— recorded as a reduction to research and development costs**	**(14,779)**	(7,589)
— recorded in other income and gains	**(24,524)**	(18,898)
	(39,303)	(26,487)
Bank interest income	**(25,523)**	(31,022)

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

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

*** The write-down of inventories, write-off of receivables, loss on disposal items of property, plant and equipment, foreign exchange differences and impairment of interest in an associate are included in "other operating costs" on the face of the consolidated income statement.

6. Income tax

No provision for Hong Kong profits tax has been made for the years ended December 31, 2009 and 2008 as the Group has 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 holidays and preferential tax rates.

In accordance with Japanese tax laws, the income tax rate applicable to the Group's subsidiary in Japan is 43.1%.

The major components of income tax expense for the years ended December 31, 2009 and 2008 are:

	2009 **RMB'000**	2008 RMB'000
Current income tax		
Current income tax charge	**50,324**	43,329
Deferred income tax		
Resulting from change in tax rates	**—**	16,128
Relating to origination and reversal of temporary differences	**9,135**	428
Income tax expense reported in the consolidated income statement	**59,459**	59,885

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

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

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

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

	2009	2008
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	**387,224**	307,501

	Number of shares	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue less shares held for share award scheme*	**1,064,275,119**	1,062,346,787
Effect of dilution:		
Share options	**70,366,460**	45,509,235
Awarded Shares	**15,088,872**	539,693
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,149,730,451**	1,108,395,715

* 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

	Buildings RMB'000	Electronic equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2009							
At January 1, 2009, net of accumulated depreciation	**—**	**48,914**	**1,018**	**1,128**	**686**	**293,880**	**345,626**
Additions	**1,095**	**33,188**	**15,964**	**318**	**417**	**52,909**	**103,891**
Transfer from/(to)	**246,728**	**4,925**	**94,833**	**—**	**—**	**(346,486)**	**—**
Disposals	**—**	**(176)**	**(8)**	**—**	**(133)**	**—**	**(317)**
Depreciation charge for the year	**(2,869)**	**(22,634)**	**(14,776)**	**(375)**	**(566)**	**—**	**(41,220)**
At December 31, 2009, net of accumulated depreciation	**244,954**	**64,217**	**97,031**	**1,071**	**404**	**303**	**407,980**
At December 31, 2009:							
Cost	**247,823**	**137,781**	**114,696**	**2,412**	**7,446**	**303**	**510,461**
Accumulated depreciation	**(2,869)**	**(73,564)**	**(17,665)**	**(1,341)**	**(7,042)**	**—**	**(102,481)**
Net carrying amount	**244,954**	**64,217**	**97,031**	**1,071**	**404**	**303**	**407,980**
December 31, 2008							
At January 1, 2008, net of accumulated depreciation	—	31,328	1,497	920	3,442	8,259	45,446
Additions	—	33,890	267	270	539	285,621	320,587
Acquisition from a business combination	—	125	—	229	—	—	354
Disposals	—	(176)	—	—	—	—	(176)
Depreciation charge for the year	—	(16,253)	(746)	(291)	(3,295)	—	(20,585)
At December 31, 2008, net of accumulated depreciation	—	48,914	1,018	1,128	686	293,880	345,626
At December 31, 2008:							
Cost	—	100,858	4,343	2,094	13,938	293,880	415,113
Accumulated depreciation	—	(51,944)	(3,325)	(966)	(13,252)	—	(69,487)
Net carrying amount	—	48,914	1,018	1,128	686	293,880	345,626

9. Trade receivables

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

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

	2009 **RMB'000**	2008 RMB'000
0–30 days	**43,029**	33,664
31–60 days	**38,002**	17,124
61–90 days	**26,393**	20,780
91–365 days	**11,180**	11,935
Over one year	**1,774**	1,316
	120,378	84,819

The aged analysis of certain of the Group's trade receivables at December 31, 2009 is prepared based on the invoice date, as compared to the customers' confirmation date of the invoices of those receivables from the respective customers, as applied for the preparation of aged analysis in the prior year. Prior year's comparative amounts have been reclassified to conform with the current year's presentation.

10. Trade payables

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

	2009 **RMB'000**	2008 RMB'000
0–30 days	**8,746**	4,813
31–60 days	**422**	223
61–90 days	**726**	224
91–365 days	**1,270**	580
Over one year	**1,433**	1,809
	12,597	7,649

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

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	**March 31, 2009**	**June 30, 2009**	**September 30, 2009**	**December 31, 2009**
Online Games								
Daily Average Peak Concurrent Users	633,487	846,180	990,885	1,029,611	**951,685**	**953,817**	**1,061,250**	**1,131,124**
Monthly Average Paying Users	1,093,789	1,036,192	1,239,609	1,531,993	**1,489,797**	**1,317,755**	**1,543,946**	**1,767,553**
Monthly Average Revenue per Paying User (RMB)	36	34	40	38	**36**	**39**	**35**	**38**
Online Services of Internet securities								
Daily Average Paying Users	8,277,873	8,696,519	8,657,001	8,409,533	**8,450,146**	**8,211,110**	**8,269,916**	**8,746,468**
Monthly Average Revenue per Paying User (RMB)	1.4	1.6	1.7	1.9	**1.9**	**2.1**	**2.1**	**2.1**

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended December 31, 2009

The following table sets forth the comparative numbers for the three months ended December 31, 2009, September 30, 2009 and December 31, 2008, respectively.

	For the three months ended		
	December 31, 2008 RMB'000 (Unaudited)	September 30, 2009 RMB'000 (Unaudited)	**December 31, 2009 RMB'000 (Unaudited)**
REVENUE:			
Entertainment software	176,696	162,786	**200,401**
Application software	80,404	81,464	**96,833**
Others	82	1,849	**2,870**
	257,182	246,099	**300,104**
Cost of revenue	(32,760)	(35,369)	**(33,968)**
GROSS PROFIT	224,422	210,730	**266,136**
Research and development costs, net of government grants	(42,153)	(61,163)	**(50,542)**
Selling and distribution costs	(39,015)	(62,692)	**(49,191)**
Administrative expenses	(32,194)	(28,037)	**(28,608)**
Share-based compensation costs	(9,647)	(10,524)	**(6,493)**
Other operating costs	(338)	(429)	**(1,379)**
Other income and gains	5,777	24,309	**1,401**
OPERATING PROFIT	106,852	72,194	**131,324**
Finance income	10,351	6,325	**6,629**
Share of profits of associates	9,580	6,164	**3,329**
Share of losses of jointly-controlled entities	(631)	(1,863)	**(2,255)**
PROFIT BEFORE TAX	126,152	82,820	**139,027**
Income tax expense	(29,476)	(13,104)	**(18,184)**
PROFIT FOR THE PERIOD	96,676	69,716	**120,843**
Attributable to:			
Owners of the parent	96,759	69,064	**120,700**
Minority interests	(83)	652	**143**
	96,676	69,716	**120,843**
	RMB	RMB	**RMB**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	0.0915	0.0648	**0.1128**
Diluted	0.0884	0.0596	**0.1041**

	For the three months ended		
	December 31, 2008 RMB'000 (Unaudited)	September 30, 2009 RMB'000 (Unaudited)	**December 31, 2009 RMB'000 (Unaudited)**
PROFIT FOR THE PERIOD	96,676	69,716	**120,843**
OTHER COMPREHENSIVE INCOME:			
Exchange differences on translation of foreign operations	3,980	547	**(464)**
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	3,980	547	**(464)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	100,656	70,263	**120,379**
Attributable to:			
Owners of the parent	99,714	68,913	**120,695**
Minority interests	942	1,350	**(316)**
	100,656	70,263	**120,379**

Revenue

Revenue increased by 22% quarter-over-quarter and increased by 17% year-over-year to RMB300.1 million. 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 23% quarter-over-quarter and increased by 13% year-over-year to RMB200.4 million. The sequential growth quarter-over-quarter was primarily driven by the newly launched JX Online III in China and JX Online World in Vietnam.

Daily average peak concurrent users, a measure we use to monitor the popularity of the Group's MMORPGs, increased by 7% quarter-over-quarter and increased by 10% year-over-year to 1.1 million. The monthly average paying users increased by 14% quarter-over-quarter and increased by 15% year-over-year to 1.8 million. This quarter-over-quarter increase in paying users and daily average peak concurrent users was largely contributed by newly launched JX Online III in China and JX online World in Vietnam.

The monthly average revenue per paying user ("monthly ARPU") for the Group's MMORPGs increased by 9% quarter-over-quarter and held flat year-over-year to RMB38.

Revenue from the applications software business increased by 19% quarter-over-quarter and increased by 20% year-over-year to RMB96.8 million. This quarter-over-quarter increase was mainly due to the sequential increase of revenue from online subscription of Kingsoft Internet Security and enterprise sales of Kingsoft WPS office.

The number of subscribers for online services of Kingsoft Internet Security recorded 8.7 million daily average paying users, which represent an increase of 6% quarter-over-quarter and an increase of 4% year-over-year. Monthly ARPU for online services of Kingsoft Internet Security business held flat quarter-over-quarter and increased by RMB0.2 year-over-year to RMB2.1. This increase resulted primarily from the increased portion of SMS and bank card subscribers with higher monthly ARPU.

Gross Profit and Cost of Revenue

Gross profit increased by 26% quarter-over-quarter and increased by 19% year-over-year to RMB266.1 million. The Group's gross profit margin increased by three percentage points quarter-over-quarter and increased by two percentage points year-over-year to 89%. This increase resulted primarily from a combination of the improved utilisation of servers and bandwidth, and reduced proportion of royalty fees for Shuihu Q Zhuan.

Cost of revenue decreased by 4% quarter-over-quarter and increased by 4% year-over-year to RMB34.0 million.

Research and Development ("R&D") Costs

R&D costs, net of government grants, decreased by 17% quarter-over-quarter and increased by 20% year-over-year to RMB50.5 million. This quarter-over-quarter decrease was primarily attributable to the increased capitalised software costs. The year-over-year increase mainly resulted from (i) a company-wide raise in salaries and benefits; (ii) an increase in research and development headcount for new games development; and (iii) a greater amount of depreciation and amortisation associated with new buildings and facilities in Zhuhai and Beijing.

Selling and Distribution Costs

Selling and distribution expenses decreased by 22% quarter-over-quarter and increased by 26% year-over-year to RMB49.2 million. This quarter-over-quarter decrease was mainly due to the promotion expenses for launching JX Online III in the third quarter of 2009.

Administrative Expenses

Administrative expenses increased by 2% quarter-over-quarter and decreased by 11% year-over-year to RMB28.6 million. This slight quarter-over-quarter increase resulted primarily from the year-end bonus. This year-over-year decrease was mainly resulted from the group level expense controls.

Share-based Compensation Costs

Share-based compensation costs decreased by 38% quarter-over-quarter and decreased by 33% year-over-year to RMB6.5 million primarily due to the graded vesting of the granted share options and newly awarded shares.

Share of Profits of Associates

The Group's share of profits of associates decreased by 46% quarter-over-quarter and decreased by 65% year-over-year to RMB3.3 million. This quarter-over-quarter decrease was mainly due to the decline of profit of Kingsoft Guangzhou. In addition, this year-over-year decrease resulted from that the Group, pursuant to the shareholders' agreement, reduced its shares of Kingsoft Guangzhou from 40% to 30%.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs increased by 67% quarter-over-quarter and increased by 18% year-over-year to RMB137.8 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs increased by twelve percentage points quarter-over-quarter and increased by one percentage point year-over-year to 46%.

Income Tax Expense

Income tax expense increased by 39% quarter-over-quarter and decreased by 38% year-over-year to RMB18.2 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) decreased by two percentage points quarter-over-quarter and decreased by ten percentage points year-over-year to 12%. This quarter-over-quarter decrease was mainly due to that Zhuhai Kingsoft Software Co., Ltd was certified as an important software enterprise (國家規劃佈局內的重點軟件企業) in the fourth quarter of 2009 and thereof was entitled to enjoy a reduced tax rate of 10% for year 2009.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent increased by 75% quarter-over-quarter and increased by 25% year-over-year to RMB120.7 million.

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

Profit attributable to owners of the parent before share-based compensation costs, which is defined as profit attributable to owners of the parent excluding the effect of share-based compensation costs attributable to the equity holders, a measure supplementary to the consolidated financial statements presented in accordance with International Financial Reporting Standards ("IFRSs").

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

Profit attributable to owners of the parent before share-based compensation costs increased by 60% quarter-over-quarter and increased by 20% year-over-year to RMB127.2 million. The profit margin excluding the effect of share-based compensation costs was 42%, 32% and 41% for the three months ended December 31, 2009, September 30, 2009 and December 31, 2008, respectively.

Liquidity and Financial Resources

The Group had a strong cash position towards the end of the reporting period. As at December 31, 2009, the Group had major financial resources in the forms of cash and cash equivalent, time deposits with initial term of over three months amounting to RMB405.6 million, RMB862.5 million, respectively, which totally represented 62% of the Group's total assets.

As at December 31, 2009, the Group's gearing ratio, which represents total liabilities divided by total assets, was 21%, decreased by three percentage points from 24% as at December 31, 2008. As at December 31, 2009, the Group did not have any borrowings from banks or other institutions.

Foreign Currency Risk Management

Certain expenses of the Group are denominated in currencies other than the RMB. The Group generates foreign currency revenue primarily from license sales made in other Asian countries. RMB against USD, HKD, JPY and MYR have been comparatively stable in the past. The Group adopted "natural immunity" method to match the income and payment in foreign currencies by arranging some expenses and expenditures denominated in foreign currencies.

As at December 31, 2009, RMB141.4 million of the Group's financial assets were held in deposits and investments denominated in non-RMB currencies. There is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

Deferred Revenue

Deferred revenue (including current and non-current portion) decreased by 13% quarter-over-quarter and decreased by 6% year-over-year to RMB200.8 million as at December 31, 2009. This quarter-over-quarter decrease was mainly due to the declined sales amount of internet security packages through traditional channels.

Net Cash Generated from Operating Activities

Cash generated by the operating activities reflects the Group's profit for the three months periods, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalised software costs, and share-based compensation costs, as well as the effect of changes in certain balance sheet items, such as deferred revenue and accrued expenses and other payables. Net cash generated by operating activities was RMB139.6 million, RMB151.3 million and RMB148.8 million for the three months ended December 31,2009, September 30, 2009 and December 31, 2008, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of property, land use right, fixed assets and intangible assets such as software. Cash used for capital expenditures was RMB31.6 million, RMB19.8 million and RMB70.9 million for the three months ended December 31, 2009, September 30, 2009 and December 31, 2008, respectively.

For the Year Ended December 31, 2009

The following tables sets forth the comparative numbers for the years ended December 31, 2008 and December 31, 2009, respectively.

	For the year ended December 31, 2009 RMB'000	December 31, 2008 RMB'000
REVENUE:		
Entertainment software	**684,242**	553,723
Application software	**329,196**	261,150
Others	**8,974**	6,071
	1,022,412	820,944
Cost of revenue	**(128,467)**	(110,935)
GROSS PROFIT	**893,945**	710,009
Research and development costs, net of government grants	**(199,611)**	(124,926)
Selling and distribution costs	**(171,634)**	(148,565)
Administrative expenses	**(101,630)**	(93,772)
Share-based compensation costs	**(41,312)**	(49,909)
Other operating costs	**(2,598)**	(4,822)
Other income and gains	**26,867**	18,898
OPERATING PROFIT	**404,027**	306,913
Finance income	**25,523**	31,022
Share of profits of associates	**25,715**	27,263
Share of losses of jointly-controlled entities	**(6,952)**	(1,278)
PROFIT BEFORE TAX	**448,313**	363,920
Income tax expense	**(59,459)**	(59,885)
PROFIT FOR THE YEAR	**388,854**	304,035
Attributable to:		
Owners of parent	**387,224**	307,501
Minority interests	**1,630**	(3,466)
	388,854	304,035
	RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	**0.3638**	0.2895
Diluted	**0.3368**	0.2774

	2009	2008
	RMB'000	RMB'000
PROFIT FOR THE YEAR	**388,854**	304,035
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation of foreign operations	**(632)**	(35,834)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(632)**	(35,834)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**388,222**	268,201
Attributable to:		
Owners of the parent	**386,888**	270,291
Minority interests	**1,334**	(2,090)
	388,222	268,201

Revenue

Revenue increased by 25% year-over-year to RMB1,022.4 million. Approximately 67% was generated from the entertainment software business segment and 32% was generated from the applications software business segment.

— Entertainment Software

Revenue from the entertainment software increased by 24% year-over-year to RMB684.2 million. The revenue growth was mainly attributable to combination of (i) the launch of the Group's first 3D game JX Online III; and (ii) the Group's continued successful overseas expansion of JX series.

The Group's daily average peak concurrent users increased by 10% to 1.1 million year-over-year for the three months ended December 31, 2009.

The monthly ARPU for our MMORPGs remained nearly unchanged to RMB38 year-over-year for the three months ended December 31, 2009.

— Applications Software

Revenue from the applications software business increased by 26% year-over-year to RMB329.2 million primarily due to the increase of SMS and bank card subscribers with higher monthly ARPU for online services of Kingsoft Internet Security software and a continuing growth of software revenue from Kingsoft Japan.

During the year, the Group's revenue contributed from Kingsoft Internet Security was RMB258.9 million, represented 79% of the total revenue of the Group's applications software and a 29% increase from last year.

Gross Profit and Cost of Revenue

Gross profit increased by 26% year-over-year to RMB893.9 million. The Group's gross profit margin increased by one percentage point year-over-year to 87%. This increase reflected the improved utilisation of servers and bandwidth and reduced royalty related to the terminated operation of Shui Hu Q Zhuan.

Cost of revenue increased by 16% year-over-year to RMB128.5 million. The increase primarily reflected the rising server and bandwidth fees associated with the Group's expanding product portfolio.

R&D Costs

R&D costs, net of government grants, increased by 60% year-over-year to RMB199.6 million. This increase was primarily attributable to the increase in R&D headcount for new games development, the rising staff costs and improved staff welfare. This increase also resulted from the increased depreciation and amortisation associated with the new buildings and facilities in Zhuhai and Beijing.

Government grants which were research-project based for the Group's development of software and online game technologies, amounted to RMB14.8 million and RMB7.6 million in 2009 and 2008, respectively.

The following table sets forth a breakdown of R&D costs for the year ended December 31, 2009 and December 31, 2008

	2009 RMB'000	2008 RMB'000
Staff cost	**167,667**	114,641
Depreciation & Amortisation	**23,104**	6,869
Others	**36,335**	16,455
	227,106	137,965
Less: Capitalised software costs (except share-based compensation costs)	**(18,197)**	(9,560)
Add: Amortisation of capitalised software costs (except share-based compensation costs)	**5,481**	4,110
Less: Government Grants for research and development activities	**(14,779)**	(7,589)
Total	**199,611**	124,926

Selling and Distribution Costs

Selling and distribution expenses increased by 16% year-over-year to RMB171.6 million. This increase was primarily due to higher promotional and advertising expenses related to the launch of new games.

Administrative Expenses

Administrative expenses increased by 8% year-over-year to RMB101.6 million primarily due to the increase in expenses associated with our new buildings and facilities.

Share-based Compensation Costs

Share-based compensation costs decreased substantially by 17% year-over-year to RMB41.3 million primarily due to the graded vesting of the granted share options and awarded shares.

Other Operating Costs

Other operating costs decreased by 46% year-over-year to RMB2.6 million.

Other Income and Gains

Other income and gains increased by 42% year-over-year to RMB26.9 million. This increase was mainly attributable to the increased non-research project based subsidy income.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs increased by 25% year-over-year to RMB445.3 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs increased by one percentage point year-over-year to 44%.

Finance Income

Finance income decreased by 18% year-over-year to RMB25.5 million due to the lower interest rate in 2009.

Share of Profits of Associates

Share of profits of associates decreased by 6% year-over-year to RMB25.7 million. This decrease resulted primarily from the Group's reduced interest in Kingsoft Guangzhou from 40% to 30%.

Income Tax Expense

Income tax expense decreased by 1% year-over-year to RMB59.5 million. The Group's effective tax rate (excluding the impact of share-based compensation costs) decreased by two percentage points year-over-year to 12%.

Profit attributable to Owners of the Parent

For the reasons described above, profit attributable to owners of the parent increased by 26% year-over-year to RMB387.2 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 20% year-over-year to RMB428.5 million.

The profit margin excluding the effect of share-based compensation costs decreased by two percentage points year-over-year to 42% primarily due to the increased R&D costs.

Deferred Revenue

Deferred revenue (including current and non-current portion) decreased by 6% year-over-year to RMB200.8 million as at December 31, 2009. This decrease was mainly due to the decreased Kingsoft Internet Security sales brought through brick-and-mortar retailers and original equipment manufacturers.

Net Cash Generated from Operating Activities

Cash generated by our operating activities reflects our profit for reporting year, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalised software costs, and share-based compensation costs, as well as the effect of changes in certain balance sheet items, such as deferred revenue and accrued expenses and other payables. Our net cash generated by operating activities increased by 17% to RMB446.9 million for the year ended December 31, 2009.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of property, land use right, fixed assets and intangible assets such as software. Cash used for capital expenditures decreased by 60% year-over-year to RMB130.8 million for the year ended December 31, 2009 as we incurred large payments for the purchase of the new office property in Beijing and the construction of Zhuhai Research Center in 2008.

BUSINESS REVIEW AND PROSPECTS

Through over 20 years of innovative endeavor, Kingsoft has been widely recognized as a household renowned software brand in China. We have rejuvenated and successfully transited ourselves from the legacy of "the King of package software" to be an internet application based model of Software as a service (SAAS). Today, Kingsoft Ciba, Kingsoft Internet Security and WPS Office all top rank on the software search index of Baidu (http://top.baidu.com/buzz/soft.html).

Application Software Business Review

Started from DOS-based WPS office 20 years ago, Kingsoft Internet Security, Kingsoft PowerWord (Ciba) and WPS office have shown Kingsoft's ability of fulfilling the fast changing needs of internet users in China.

Kingsoft application software has evolved from a traditional packaged software business model to SAAS. Accordingly, Kingsoft is building a converged user platform for its diversified product portfolio and providing a variety of value-add-services.

"Av-comparatives" – the independent international authoritative anti-virus software evaluation organization announced that Kingsoft Internet Security passed its test in August 2009. Kingsoft Internet Security is the first and the only Chinese-made anti-virus software that passed the test to date. This demonstrated Kingsoft Internet Security's leading position in the industry.

WPS Office as the premium office software in China is extending to provide more value added services, such as office automation, online data storage and other online hosting services.

Entertainment Software Business Review

Kingsoft game originated from PC games in the mid 90s, has been a distinct icon of the martial arts genre with diversified multiple game studios and development platforms. The successful launch of JX3 in last September proved that we were capable of making the best quality games with our appropriate state-of-arts 3D engine.

During 2009 China Game Industry Annual Conference, which attended by major online game developers and operators in China. Kingsoft games received four awards, "Outstanding Game Company in China for 2009", "Pioneer in Product R&D in China Game Industry for 2009", "Outstanding Entrepreneur" for Mr. Pak Kwan KAU, Chairman and Chief Executive Officer of Kingsoft, and "The Best Self-Developed Online Game in China for 2009" for JXIII.

Kingsoft game continued its leading position in Southeast Asia in 2009. Kingsoft set up a wholly-owned game operating subsidiary in Malaysia, and launched JX World successfully. This is a milestone for Kingsoft to expand its game franchise through independent self-operation internationally.

Prospects

As said by Hu Jintao, the President of China, during his visit to Kingsoft, "As a pioneer in the software industry of China, we must take innovation as our soul."

We understand that to carry on our successes and leverage our R&D strength, it is also a must to better user engagement and improve operation efficiency. This reorientation has already started from our people, as we recently introduced groups of top software and game operation talents to our management team.

We are very determined and confident to deliver sustainable growth and return to the shareholders in the future.

OTHER INFORMATION

Employee and Remuneration Policies

As at December 31, 2009, the Group had approximately 2,735 full-time employees (2008: 2,271), most of whom are based at the Company's offices in Beijing and Zhuhai. The number of employees employed by the Group varies from time to time depending on business development needs. The Group determines its staff's remuneration based on factors such as their experience, responsibilities, qualifications, relevant market rate and industry practice. The remuneration policy and package of the Group's employees are periodically reviewed. The staff cost of the Group (including Directors' and senior management's emoluments in 2009 and 2008 were approximately RMB315.0 million and RMB253.4 million, respectively.

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

During the year ended December 31, 2009, the trustee of the Share Award Scheme of the Company had purchased from the market a total of 8,501,000 shares for award to employees upon vesting. Details of the Share Award Scheme will be set out in the 2009 Annual Report of the Company. The total amount paid to acquire these 8,501,000 shares during the year was about HKD48.8 million. Details of awarded shares purchased are as follows:

		Purchase consideration per share		
Month of purchase in 2009	**No. of shares purchased**	**Highest price paid HKD**	**Lowest price paid HKD**	**Aggregate consideration paid HKD**
January	50,000	2.75	2.71	137,215
June	2,403,000	5.45	4.93	12,556,436
July	6,048,000	6.43	5.41	36,136,005
Total	8,501,000			48,829,656

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2009.

Use of IPO Proceeds

The Company has raised the aggregate net proceeds from the Global Offering of approximately HKD649.1 million. The Global Offering was completed in the fourth quarter of 2007 and the use of proceeds as of the end of 2009 is set out in the table below:

Area of use	**Planned amount (HKD'Mil)**	**Amount remaining as at December 31, 2009 (HKD'Mil)**
Expansion of research and development capabilities	170.1	3.9
Expansion in certain overseas market	76.0	61.1
IT infrastructure upgrade	94.1	—
Strategic acquisitions and joint ventures	115.8	12
Construction of research and development facilities in Zhuhai	72.4	—
General corporate purposes	27.9	—

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, May 24, 2010 to Friday, May 28, 2010 both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and the right to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, May 20, 2010.

REVIEW BY AUDIT COMMITTEE

The Company established the Audit Committee in 2007 which is responsible for assisting the Board in providing an independent review of the financial statements and internal control system. It acts in accordance with the terms of reference which deals with its authority, responsibilities, membership and frequency of meetings. The Audit Committee is chaired by an independent non-executive director, Mr. Shun Tak Wong, and currently comprises one other independent non-executive director, Mr. Guangming George Lu and one non-executive director, Mr. Shuen Lung Cheung of the Company. Mr. Wing Chung Anders Cheung was a member of the Audit Committee throughout the year until March 25, 2010 when he ceased to be a director of the Company and a member of the Audit Committee. Mr. Shuen Lung Cheung was appointed to be a member of the Audit Committee on March 25, 2010.

The Audit Committee meets regularly with the external and internal auditors, and the management to discuss the internal control and financial reporting matters, and the accounting principles and practices adopted by the Group. The Audit Committee has reviewed the Group's audited financial statements for the year ended December 31, 2009, and is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company complied with the code provisions set out in the code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year.

Code A.2.1 of the Code provides that the roles of the chairman (the "Chairman") and chief executive officer (the "CEO") should be separated and should not be performed by the same individual. The Chairman of the Company, Mr. Pak Kwan Kau was formally appointed as the CEO of the Company since May 2008. The Board considers that the current arrangement does not impair the balance of power and authority between the Board and the management of the Company. The

Board also believes that Mr. Kau's appointment being both the Chairman and CEO is beneficial to the business prospect of the Company. The Board will continue to review the current structure from time to time and shall make necessary changes when appropriate and inform the shareholders accordingly. Further information on the Company's corporate governance practices will be set out in the Corporate Governance Report contained in the Company's 2009 Annual Report.

PUBLICATION OF THE ANNUAL RESULTS, ANNUAL REPORTS AND CORPORATE GOVERNANCE REPORT

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

APPRECIATION

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

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

Hong Kong, March 25, 2010

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