



Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 3888)

Announcement of Audited Results For the Year Ended December 31, 2007

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”) for the year ended December 31, 2007 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, 2006	December 31, 2007	December 31, 2007**	Year over Year change %
	RMB'000	RMB'000	HKD'000	
Revenue	316,431	556,614	594,419	76%
Profit attributable to equity holders of the Company*	99,525	164,678	175,863	65%
	RMB cent	RMB cent	HKD cent	
Basic earnings per share	12.45	18.15	19.38	46%
Diluted earnings per share	11.85	17.25	18.42	46%

* Profit attributable to equity holders of the Company excluding the effect of share-based compensation cost is RMB268.0 million and RMB106.4 million for the years ended December 31, 2007 and December 31, 2006, respectively; representing an increase of 152% year-over-year.

** The conversion of RMB into HKD in this release is based on RMB0.9364 to HKD1.00 as published by the People’s Bank of China on December 31, 2007. 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, realized, or settled into HKD at that rate on December 31, 2007, or at any other rate.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.10 per share for the year ended December 31, 2007, subject to the approval of the shareholders at the Annual General Meeting (“AGM”) to be held on May 23, 2008. Such proposed dividend will be payable on June 6, 2008 to shareholders whose names appear on the register of members of the Company on May 23, 2008.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2007

	2007 RMB'000	2006 RMB'000
Non-current assets		
Property, plant and equipment	45,446	32,790
Intangible assets	14,281	7,178
Lease prepayment	7,304	601
Interest in an associate	1,014	3,473
Loan receivables	1,784	1,403
Deferred tax assets	52,814	19,477
Deferred cost	1,890	2,087
	<u>124,533</u>	<u>67,009</u>
Current assets		
Inventories	2,019	1,726
Trade receivables	60,226	52,326
Prepayments and other receivables	47,743	55,050
Income tax receivable	522	2,988
Deferred cost	8,939	6,484
Due from related parties	9,862	1,618
Cash and cash equivalents	1,246,077	333,508
	<u>1,375,388</u>	<u>453,700</u>
Current liabilities		
Trade payables	7,120	5,450
Accrued expenses and other payables	147,062	91,110
Bank loans and government loans	—	2,000
Due to related parties	—	5,297
Deferred revenue	162,002	117,286
Income tax payable	6,047	690
	<u>322,231</u>	<u>221,833</u>
Net current assets/(liabilities)	<u>1,053,157</u>	<u>231,867</u>
Total assets less current liabilities	<u>1,177,690</u>	<u>298,876</u>

	2007 RMB'000	2006 RMB'000
Non-current liabilities		
Deferred revenue	29,726	22,040
Deferred tax liabilities	<u>14,307</u>	<u>9,009</u>
	<u>44,033</u>	<u>31,049</u>
Net assets/(liabilities)	<u><u>1,133,657</u></u>	<u><u>267,827</u></u>
Represented by:		
Equity attributable to equity holders of the Company		
Issued capital	4,322	3,564
Share premium	735,510	110,539
Ordinary shares subscribed	319	—
Statutory reserves	57,570	52,140
Employee share-based capital reserve	144,741	40,160
Foreign currency translation reserve	(28,918)	(1,657)
Retained earnings	101,953	38,415
Proposed final dividend	<u>95,710</u>	<u>—</u>
	<u>1,111,207</u>	<u>243,161</u>
Minority interests	<u>22,450</u>	<u>24,666</u>
Total equity	<u><u>1,133,657</u></u>	<u><u>267,827</u></u>

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue:			
Entertainment software		396,440	215,356
Applications software		156,521	98,432
Others		3,653	2,643
		<u>556,614</u>	<u>316,431</u>
Cost of revenue		<u>(95,484)</u>	<u>(44,671)</u>
Gross profit		461,130	271,760
Research and development costs, net of government grants		(68,450)	(58,914)
Selling and distribution costs		(108,723)	(59,504)
Administrative expenses		(65,785)	(43,766)
Share-based compensation costs		(103,764)	(6,852)
Other operating costs		(2,249)	(13,296)
Impairment of an associate		—	(6,000)
Other income and gains		11,531	28,316
Finance income		22,775	3,753
Finance costs		(1,211)	(6,271)
Share of loss of an associate		(2,460)	(527)
Profit before tax		142,794	108,699
Income tax credit /(expense)	5	<u>12,658</u>	<u>(9,589)</u>
Profit for the year		<u><u>155,452</u></u>	<u><u>99,110</u></u>
Attributable to:			
Equity holders of the Company		164,678	99,525
Minority interests/(loss)		<u>(9,226)</u>	<u>(415)</u>
		<u><u>155,452</u></u>	<u><u>99,110</u></u>
		RMB	RMB
Earnings per share attributable to ordinary equity holders of the Company			
Basic	6	0.1815	0.1245
Diluted		0.1725	0.1185

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

Attributable to equity holders of the Company

	Issued capital RMB'000	Share premium 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
January 1, 2007	3,564	110,539	—	52,140	40,160	(1,657)	38,415	—	243,161	24,666	267,827
Exchange realignment	—	—	—	—	—	(27,261)	—	—	(27,261)	(299)	(27,560)
Total income and expense for the year recognized directly in equity	—	—	—	—	—	(27,261)	—	—	(27,261)	(299)	(27,560)
Profit for the year	—	—	—	—	—	—	164,678	—	164,678	(9,226)	155,452
Total income and expense for the year	—	—	—	—	—	(27,261)	164,678	—	137,417	(9,525)	127,892
Capital contributions from minority interests	—	—	—	—	—	—	—	—	—	6,821	6,821
Share-based compensation costs	—	—	—	—	104,581	—	—	—	104,581	488	105,069
Issuance of shares	752	693,183	—	—	—	—	—	—	693,935	—	693,935
Exercise of share options	6	807	319	—	—	—	—	—	1,132	—	1,132
Profit appropriation	—	—	—	5,430	—	—	(5,430)	—	—	—	—
Share issuance expenses	—	(69,019)	—	—	—	—	—	—	(69,019)	—	(69,019)
Proposed final 2007 dividend	—	—	—	—	—	—	(95,710)	95,710	—	—	—
At December 31, 2007	4,322	735,510	319	57,570	144,741	(28,918)	101,953	95,710	1,111,207	22,450	1,133,657

Attributable to equity holders of the Company

	Issued capital RMB'000	Share premium 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	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
January 1, 2006	2,951	234	11,149	22,635	33,486	(697)	(31,605)	38,153	3,600	41,753
Exchange realignment	—	—	—	—	—	(960)	—	(960)	—	(960)
Total income and expense for the year recognized directly in equity	—	—	—	—	—	(960)	—	(960)	—	(960)
Profit for the year	—	—	—	—	—	—	99,525	99,525	(415)	99,110
Total income and expense for the year	—	—	—	—	—	(960)	99,525	98,565	(415)	98,150
Capital contributions from minority interests	—	—	—	—	—	—	—	—	21,481	21,481
Repurchase of issued shares	(36)	(17,266)	—	—	—	—	—	(17,302)	—	(17,302)
Share-based compensation costs	—	—	—	—	6,674	—	—	6,674	—	6,674
Issuance of share certificates for ordinary shares subscribed	229	10,920	(11,149)	—	—	—	—	—	—	—
Exercise of share options	135	6,295	—	—	—	—	—	6,430	—	6,430
Issuance of shares	285	113,740	—	—	—	—	—	114,025	—	114,025
Profit appropriation	—	—	—	29,505	—	—	(29,505)	—	—	—
Share issuance expenses	—	(3,384)	—	—	—	—	—	(3,384)	—	(3,384)
At December 31, 2006	3,564	110,539	—	52,140	40,160	(1,657)	38,415	243,161	24,666	267,827

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007**

	2007	2006
	RMB'000	RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	345,474	139,701
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(395,659)	(49,265)
NET CASH INFLOW FROM FINANCING ACTIVITIES	647,412	91,464
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NET INCREASE IN CASH AND CASH EQUIVALENTS	597,227	181,900
Cash and cash equivalents at the beginning of the year	318,508	137,568
Effect of foreign exchange rate changes, net	(26,813)	(960)
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Cash and cash equivalents at the end of the year	888,922	318,508
Time deposits with original maturity of over three months when acquired	357,155	15,000
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	1,246,077	333,508
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NOTES

1. General Information, Basis of Preparation and Presentation

The Group's principal operations and geographic market are in the People's Republic of China (the "PRC").

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 otherwise indicated.

The consolidated financial statements of the Company have been prepared in accordance with IFRSs.

2. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of our operations and the products and services we provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Details of the business segments are summarized as follows:

- (a) The entertainment software segment provides 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; and
- (c) The "others" segment comprises, principally the Group's software consultancy services and advertising services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. Over 97% of the Group's assets are located in the Mainland China and Hong Kong as at December 31, 2007.

(a) *Business segments*

	Entertainment software RMB'000	Applications software RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Year ended December 31, 2007					
Revenue					
Sales to external customers	396,440	156,521	3,653	—	556,614
Total revenue	<u>396,440</u>	<u>156,521</u>	<u>3,653</u>	<u>—</u>	<u>556,614</u>
Results					
Segment results	<u>233,326</u>	<u>57,688</u>	<u>3,653</u>	<u>—</u>	294,667
Unallocated expenses					(170,977)
Finance income					22,775
Finance costs					(1,211)
Share of loss of an associate	(2,460)	—	—	—	(2,460)
Profit before tax					142,794
Income tax expense					12,658
Profit for the year					<u>155,452</u>
As at December 31, 2007					
Assets and liabilities					
Segment assets	504,061	189,111	—	—	693,172
Investment in associate	1,014	—	—	—	1,014
Corporate and other unallocated assets					805,735
Total assets					<u>1,499,921</u>
Segment liabilities	136,273	123,899	—	—	260,172
Corporate and other unallocated liabilities					106,092
Total liabilities					<u>366,264</u>
Other segment information					
Depreciation and amortisation	15,621	6,147	—	—	21,768
Corporate and other unallocated amounts					2,581
Total depreciation and amortisation					<u>24,349</u>
Capital expenditure					
Tangible assets	15,512	14,742	—	—	30,254
Intangible assets	958	4,881	—	—	5,839
Other unallocated amounts					14,904
Total capital expenditure					<u>50,997</u>
Impairment loss/(reversal of impairment loss)	(14)	472	—	—	458
Write-off/(write back) of receivables	(18)	(2,531)	—	—	(2,549)

(a) *Business segments (continued)*

	Entertainment software RMB'000	Applications software RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Year ended December 31, 2006					
Revenue					
Sales to external customers	215,356	98,432	2,643	—	316,431
Total revenue	<u>215,356</u>	<u>98,432</u>	<u>2,643</u>	<u>—</u>	<u>316,431</u>
Results					
Segment results	<u>126,007</u>	<u>27,960</u>	<u>2,643</u>	<u>—</u>	156,610
Unallocated expenses					(44,866)
Finance income					3,753
Finance costs					(6,271)
Share of loss of an associate	(527)	—	—	—	(527)
Profit before tax					108,699
Income tax expense					(9,589)
Profit for the year					<u>99,110</u>
As at December 31, 2006					
Assets and liabilities					
Segment assets	239,344	124,821	—	—	364,165
Interests in an associate	3,473	—	—	—	3,473
Corporate and other unallocated assets					153,071
Total assets					<u>520,709</u>
Segment liabilities	81,188	98,476	—	—	179,664
Corporate and other unallocated liabilities					73,218
Total liabilities					<u>252,882</u>
Other segment information					
Depreciation and amortisation	13,313	4,246	—	—	17,559
Corporate and other unallocated amounts					680
Total depreciation and amortisation					<u>18,239</u>
Capital expenditure					
Tangible assets	7,191	6,373	—	—	13,564
Intangible assets	5,554	3,412	—	—	8,966
Unallocated capital expenditure					508
Total capital expenditure					<u>23,038</u>
Impairment loss/(reversal of impairment loss)	6,053	(192)	—	—	5,861
Write-off of receivables	324	9,515	—	—	9,839

(b) *Geographical segments*

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments:

Year ended December 31, 2007	Mainland China and Hong Kong RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue				
Sales to external customers	481,676	74,938	—	556,614
Other segment information				
Segment assets	1,468,478	31,443	—	1,499,921
Capital expenditure	49,897	1,100	—	50,997
Year ended December 31, 2006	Mainland China and Hong Kong RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue				
Sales to external customers	270,226	46,205	—	316,431
Other segment information				
Segment assets	500,418	20,291	—	520,709
Capital expenditure	21,881	1,157	—	23,038

3. **Share Option**

(a) *Share option schemes*

The Company 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.

No more share options will be issued under the two pre-IPO Share Option Schemes after the Company was listed on the Hong Kong Stock Exchange on October 9, 2007.

The maximum number of ordinary shares in respect of which options may be granted under the 2007 Scheme shall not in aggregate exceed 13% of the total number of issued shares on the fully diluted basis of inclusion of all of the issued and outstanding shares of the Company, as well as 6,373,800 options under the 2004 Scheme.

(b) *Movements in share options*

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, the Company's share options for the years ended December 31, 2007 and 2006.

	2007	Company	2006	2006
	No.	2007	No.	2006
		WAEP		WAEP
		US\$		US\$
Outstanding at 1 January	36,077,960	0.1062	68,597,040*	0.0537
Granted during the year	112,647,400	0.2411	5,796,000	0.2323
Forfeited during the year	(4,566,000)	0.2148	(4,440,500)	0.0845
Exercised during the year	(2,481,680)	0.0615	(33,874,580)*	0.0242
Expired during the year	—	—	—	—
Outstanding at December 31,	<u>141,677,680</u>	0.2108	<u>36,077,960</u>	0.1062
Exercisable at December 31,	<u>15,553,660</u>	0.1008	<u>4,904,840</u>	0.1326

(c) *Outstanding share options*

Out of the 141,677,680 options outstanding as at December 31, 2007 (2006: 36,077,960 options), 15,553,660 options (2006: 4,904,840 options) were currently exercisable. Options exercised for the year ended December 31, 2007 resulted in 2,481,680 ordinary shares issued. The weighted average share price at the date of exercise for the options exercised in 2007 was US\$0.5180 (2006: US\$0.2510).

4. **Profit Before Tax**

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

	For the year ended	
	December 31,	
	2007	2006
	RMB'000	RMB'000
Employee benefits expense	244,082	109,035
Minimum lease payments under operating lease	25,554	20,544
Depreciation	18,185	15,159
Amortisation of lease prepayments	124	40
Amortisation of intangible assets:		
Amortisation of capitalised software costs*	882	602
Amortisation of purchased software	4,947	2,092
Write-down/(write-back) of inventories	458	(139)
Write-off/(write-back) of receivables	(2,549)	9,839
Loss on disposal of items of property, plant and equipment	113	845
Foreign exchange differences	1,053	576
Donation	1,123	2,175
Auditors' remuneration	5,950	231
Other income and gains	(11,531)	(28,316)
Finance income	(22,775)	(3,753)
Finance costs	1,211	6,271
Government grants**	(18,788)	(5,110)

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

** Government grants are granted to support the development of software and online game technology and recorded as a reduction to research and development expenses in the consolidated income statements in the respective years. Government grants received/receivable for which related expenditure has not yet been undertaken are included in deferred income in the consolidated balance sheets. There are no unfulfilled conditions or contingencies relating to these grants.

5. Income Tax Expenses

(a) Cayman Islands profits tax

The Company has not been subject to any taxation in this jurisdiction for the year ended December 31, 2007 (2006: Nil).

(b) PRC Corporate Income Tax ("CIT") before 2008

CIT is provided on the assessable income of entities within the Group established in the PRC, calculated in accordance with the Income Tax Law and applicable regulations (the "Old CIT Law") after considering the available tax credits from refunds and allowance.

Before 2008, the CIT rates applicable to these entities for the year ended December 31, 2007 ranged from 0% to 15% except Kingsoft Qijian with minimal profit and Kingsoft Dalian, which were subject to the applicable CIT with a reduction of 18% and 33% respectively.

(c) CIT after 2008

On January 1, 2008, the PRC Corporate Income Tax Law (the "New CIT Law") became effective, which was concluded and approved in the 5th Session of the 10th National People's Congress on March 16, 2007. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the corporate income tax rate of 25% for both domestic enterprises and foreign-invested enterprises ("FIE"), tax concessions and tax treatment on certain expenses, etc.

Moreover, Zhuhai Software, Zhuhai Xishanju, Zhuhai Digital Technology and Zhuhai Juntian which were located in Zhuhai can enjoy lower tax rates in accordance to the old CIT Laws, and they are eligible for transitional arrangements to adopt expected applicable tax rate of 18%, 20%, 22%, 24%, and 25% for the 2008, 2009, 2010, 2011 and the years after 2011 respectively.

(d) Japanese profits tax

In accordance with Japanese tax laws, the CIT rate applicable to Kingsoft Japan is 40.69%.

The major components of income tax expense/(credit) for the years ended December 31, 2007 and 2006 are:

	For the year ended	
	December 31,	
	2007	2006
	RMB'000	RMB'000
<i>Current income tax</i>		
Current income tax charge	15,381	4,199
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(28,039)	5,390
Income tax expense/(credit) reported in the consolidated income statement	(12,658)	9,589

6. Earnings Per Share

(a) Basic

Basic earnings per share are calculated based on the profit for the year attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the year.

	For the year ended December 31,	
	2007	2006
Profit attributable to equity holders (RMB'000)	<u>164,678</u>	<u>99,525</u>
Weighted average number of ordinary shares in issue (thousands)*	<u>907,337</u>	<u>799,349</u>
	RMB cent	RMB cent
Basic earnings per share (EPS)	<u>18.15</u>	<u>12.45</u>

* *Weighted average number of ordinary shares in issue included Ordinary Shares subscribed as the issuance of the related shares are mandatory and subscriptions were paid by the subscribers.*

(b) Diluted

Diluted earnings per share amounts are calculated by adjusting the weighted average number of ordinary shares by the assumption of the conversion of all potential dilutive ordinary shares arising from share options granted by the Company at no consideration.

	For the year ended December 31,	
	2007	2006
Profit attributable to equity holders (RMB'000)	<u>164,678</u>	<u>99,525</u>
Weighted average number of ordinary shares in issue (thousands)	<u>907,337</u>	<u>799,349</u>
Adjustments for share options (thousands)	<u>47,376</u>	<u>40,540</u>
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousands)	<u>954,713</u>	<u>839,889</u>
	RMB cent	RMB cent
Diluted EPS	<u>17.25</u>	<u>11.85</u>

OPERATIONAL HIGHLIGHTS

	For the three months ended							
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Online Games								
Daily Average Peak Concurrent Users	324,529	397,547	458,398	553,897	508,188	491,757	529,794	605,569
Monthly Average Paid Users	1,056,028	1,114,497	1,086,633	1,172,219	1,196,656	1,136,197	1,035,371	1,001,381
Monthly Average Revenue per Paid Users (RMB)	19	14	13	18	22	28	31	37
Online Services of Internet securities								
Daily Average Paid Users	628,761	1,141,613	1,914,048	2,922,546	3,965,540	5,324,747	6,505,150	7,555,280
Monthly Average Revenue per Paid Users (RMB)	2.7	2.1	1.9	1.8	1.5	1.5	1.4	1.5

INDUSTRY REVIEW AND BUSINESS REVIEW

Industry Review

— Online Game

Asia is the largest online game market in the world. The China online game market, in particular, has significant potential for growth due to its large, relatively young and increasingly affluent population and the lack of other competing forms of entertainment in China. In 2007, the population of China internet users increased 53% year over year to 210 million and that of the China online gamers reached 120 million with a weekly playing time of 7.3 hours per head (Source: CNNIC, 2008). Online gaming subscription revenue grew 67% over 2006 and the market size of online game subscription reached RMB12.8 billion in 2007 (Source: iResearch, 2007–2008). The market size is expected to grow at over 20% annually to RMB40.0 billion in 2011 (Source: iResearch, 2007–2008).

Online game is a very engaging form of entertainment and enjoys high user loyalty. With increasing Internet, broadband and personal computer penetration and the growing prominence of the Internet as an entertainment source, the market potential for online game is enormous.

Another notable trend in the online game industry is the growing influence of domestic game developers. The early development of the online games industry in China was accomplished through the introduction of existing massively multi-player online role-playing games (MMORPGs) licensed from overseas game developers. In recent years, the number of domestically developed online games has increased rapidly and these games currently constitute a significant portion of the online game market in China. As domestic game operators develop and enhance their skills in online game development, the number and popularity of domestically developed online games are expected to continue to increase.

With technology and customer taste evolving, the online game industry has developed in complexity of revenue models, storylines, enhanced graphics and virtual community building.

— *Applications Software*

There are numerous growth drivers for China's security software market. The number of Internet users in China is increasing and the proliferation of viruses, particularly Trojan software, spyware and hacking had made Internet users more aware of the importance of network security. Online game players, users of e-mail or online messaging services, internet users downloading music and movie files are increasingly demanding for better accounts security services than ever before in China. Internet security services tailored to local internet users is the key success factor in this business. Internet security software is among the mostly downloaded contents by the internet users in China after music, movies, research materials and games; over 77% of the internet users are habitual to updating virus files on a regular basis (Source: CNNIC, 2008).

Business Review

Entertainment Software

Kingsoft develops, operates and distributes entertainment software including MMORPGs and casual games. MMORPGs are a genre of online computer games in which large numbers of users assume the roles of characters and interact simultaneously in a virtual game community which continuously evolves while casual online games are typically session-based and can be played to a conclusion within a short period of time.

— *MMORPGs*

From the launch of our first game in December 2003 to the end of 2007, Kingsoft has six self-developed and licensed games in its portfolio, namely JX Online, The First Myth, JX Online II, Xian Lu Qi Yuan II, Shui Hu Q Zhuan and CQ. JX Online is our first self-developed MMORPG. Launched in 2003, the game is the original installment of the JX Online series, which helped Kingsoft make its mark in the online game industry in China. Kingsoft developed JX Online II and launched it in 2005, which fast became popular among the game players. The First Myth is the original installment of The First Myth series. It was developed in-house and launched in 2005. CQ, a cartoon-style in-house developed game based on war stories of the ancient Chun Qiu era, was commercialised in October 2007. The two licensed games, Xian Lu Qi Yuan II and Shui Hu Q Zhuan were launched in 2006.

Our research and development team focuses on developing online games featuring cultural themes which appeal to the PRC market. For the three months ended December 31, 2007, our MMORPGs had an aggregate of 0.6 million daily average peak concurrent users, and approximately 1.0 million monthly average paid users with a monthly average revenue per paid user of RMB37.

During the reporting period, we adopted a two-pronged revenue model, i.e. pay-to-play and item based, to allow players more options and flexibility. As MMORPGs are a highly engaging and individualised form of entertainment, more and more users are choosing to play item-billing revenue model games. On the other hand, the item-billing revenue model is able to increase core user retention and extend product life cycle, and it helps fuel our strong revenue growth.

Furthermore, we have expanded our markets by introducing our games overseas. In addition to JX Online, we have launched The First Myth and JX Online II in Vietnam in March 2007 and March 2008 respectively. Games licensing revenue outside of China represented 17% of our total entertainment software revenue for 2007.

— *Casual Games*

Kingsoft Dalian Studio is currently developing a 3D graphics first-person shooter game MAT. It was launched in Thailand through our operator in January 2008, and is scheduled to be launched in the second half of 2008 in China. We believe casual games will complement our current product portfolio and may provide us with certain benefits and opportunities not typically available through MMORPGs.

Applications Software

Our applications software portfolio includes Kingsoft Internet Security, Kingsoft PowerWord and WPS Office, which are well recognized by the market.

— *Internet Security Software*

Our principal Internet security software product is Kingsoft Internet Security, which is one of the leading domestically produced Internet security software products in China. Kingsoft Internet Security offers secure content management functions, such as anti-virus, anti-Trojan, anti-spy and anti-spam, incorporated into a single and easy-to-use platform. It is used to defend against, scan and remove over 530,000 security threats such as viruses; remove spyware and Trojans from computer memory to secure user systems and block phishing websites and emails to prevent identity thefts.

During the reporting period, Kingsoft Internet Security software increased the number of users greatly at a rate of over one million each quarter. Its total number of online daily average paying users increased to 7.6 million for the three month period ended December 31, 2007.

In August 2007, Kingsoft Internet Security obtained the “VB100 Certification”.

We have increasingly leveraged the Internet to market, sell and distribute our products by entering into advertising and distributing arrangement with Internet content providers and website operators in order to increase user awareness of Kingsoft operated websites as to enhance the capacity in direct sales via the Internet. By making the Internet a more popular service platform for us, we will be at more advantageous position to capture future growth opportunities.

We maintain www.duba.net, a website dedicated to Kingsoft Internet Security, which offers online customer service, provides information regarding Kingsoft Internet Security and allows users to download Kingsoft Internet Security and communicate with other users on various topics regarding internet security. By generating a large population of viewers and users, this website helps us to increase consumer awareness of Kingsoft Internet Security software and acquire new subscribers for our other products and services.

— *Dictionary Software and Office Application Software*

Our key dictionary software is Kingsoft PowerWord, which is China's number one multilingual dictionary software. Our office applications software, WPS Office, is the leading domestically developed office applications software brand in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Kingsoft is pleased to present the first set of annual results following its listing on the Hong Kong Stock Exchange on October 9, 2007. Rapid growth in the Company's entertainment and applications software businesses continued amid China's booming internet traffic and the people's increasing needs for online entertainment and online application software services. The Company continues to expand its research and development infrastructure and franchises of Kingsoft brand names, further strengthening its position as a leading software developer, distributor and service provider in China.

2007 was a very successful year for Kingsoft. Our revenue increased by 76% year-over-year to RMB556.6 million. Approximately 71% was generated from the entertainment software business segment and 28% was generated from the applications software business segment. The Company's net profit attributable to common shareholders increased by 65% year-over-year to RMB164.7 million for the year ended December 31, 2007. In addition, profit attributable to equity holders of the Company excluding the effect of share-based compensation cost increased by 152% to RMB268.0 million for the year ended December 31, 2007.

In October 2007, Kingsoft completed its IPO and raised aggregate net proceeds of HK\$649.1 million, which greatly enhanced the Company's financial position.

For the Three Months Ended December 31, 2007

The following table sets forth the comparative numbers for the three months ended December 31, 2006, September 30, 2007 and December 31, 2007, respectively.

	For the three months ended		
	December 31, 2006 RMB'000 (Unaudited)	September 30, 2007 RMB'000 (Unaudited)	December 31, 2007 RMB'000 (Unaudited)
Revenue:			
Entertainment software	59,303	101,183	116,463
Applications software	35,106	45,607	48,769
Others	1,198	167	970
	<u>95,607</u>	<u>146,957</u>	<u>166,202</u>
Cost of revenue	(16,075)	(24,150)	(29,678)
	<u>79,532</u>	<u>122,807</u>	<u>136,524</u>
Research and development costs, net of government grants	(19,239)	(20,335)	(19,697)
Selling and distribution costs	(23,552)	(31,627)	(42,006)
Administrative expenses	(14,448)	(13,301)	(29,997)
Share-based compensation costs	(1,840)	(28,115)	(27,098)
Other operating costs	(12,202)	(146)	(1,590)
Other income and gains	10,230	(10)	7,004
Finance income	1,765	2,642	16,167
Finance costs	—	—	(1,211)
Share of loss of an associate	(338)	(937)	(689)
	<u>19,908</u>	<u>30,978</u>	<u>37,407</u>
Profit before tax	19,908	30,978	37,407
Income tax credit/expense	(1,756)	(3,621)	24,732
	<u>18,152</u>	<u>27,357</u>	<u>62,139</u>
Profit for the period	18,152	27,357	62,139
Attributable to:			
Equity holders of the Company	18,489	29,974	64,655
Minority interests	(337)	(2,617)	(2,516)
	<u>18,152</u>	<u>27,357</u>	<u>62,139</u>
	RMB	RMB	RMB
Earnings per share attributable to ordinary equity holders of the Company			
Basic	0.0204	0.0348	0.0654
Diluted	0.0203	0.0333	0.0600

Revenue

Our revenue increased by 13% quarter-over-quarter and increased by 74% year-over-year to RMB166.2 million. Revenue from our entertainment and applications software businesses represented 70% and 29%, respectively, of our total revenue.

Revenue from our entertainment software business increased by 15% quarter-over-quarter and increased by 96% year-over-year to RMB116.5 million. This sequential quarter-over-quarter increase was primarily driven by our newly launched MMORPG, CQ commercialised on September 20, 2007 and year-end promotion of existing games.

Daily average peak concurrent users, a measure we use to monitor the popularity of our MMORPGs, increased by 14% quarter-over-quarter and increased by 9% year-over-year to 0.6 million. Our number of monthly average paying users decreased by 3% quarter-over-quarter and decreased by 15% year-over-year to 1.0 million. This slight quarter-over-quarter decrease in paying users resulted from the gradual transition of our user base to the item-billing revenue model.

The monthly average revenue per paying user (“monthly ARPU”) for our MMORPGs increased by 19% quarter-over-quarter and 106% year-over-year to RMB37. We expect the trend of improvement in monthly ARPU will continue as an increasing percentage of our paying MMORPGs users are becoming item-billing users.

Revenue from our applications software business increased by 7% quarter-over-quarter and increased by 39% year-over-year to RMB48.8 million primarily due to a significant increase in the number of subscribers for online services of Kingsoft Internet Security to 7.6 million daily average paying users. This increase in users represents a 16% quarter-over-quarter increase and a 159% year-over-year increase in daily average paying users, respectively.

Monthly ARPU for online services of Kingsoft Internet Security business increased by RMB0.1 quarter-over-quarter and decreased by RMB0.3 year-over-year.

Gross Profit and Cost of Revenue

Our gross profit increased by 11% quarter-over-quarter and increased by 72% year-over-year to RMB136.5 million. Our gross profit margin decreased by 1.4% quarter-over-quarter and decreased by 1% year-over-year at 82%. The slight decrease quarter-over-quarter resulted from an increase in royalty payment of Shui Hu Q Zhuan related to its increased revenue and a decreased proportion of overseas revenue of our total revenue.

Our cost of revenue increased by 23% quarter-over-quarter and increased by 85% year-over-year to RMB29.7 million primarily due to increased revenue from MMORPGs and online services of Kingsoft Internet Security. Our server hosting related expenses increased as a result of increased server rental costs, depreciation, custody fees and bandwidth rental fees as we increased the number of our servers for MMORPGs and online services of Kingsoft Internet Security.

Research and Development Costs

Our research and development expenses, net of government grants of RMB8.2 million, decreased by 3% quarter-over-quarter and increased by 2% year-over-year to RMB19.7 million due to we received a greater amount of government grants in the fourth quarter than in the third quarter. The following table sets forth a breakdown of our research and development costs for three months ended December 31, 2007 and September 30, 2007:

	For the three months ended		
	December 31, 2006 RMB'000 (Unaudited)	September 30, 2007 RMB'000 (Unaudited)	December 31, 2007 RMB'000 (Unaudited)
Staff cost	21,029	18,730	25,516
Depreciation & Amortisation	971	1,250	1,510
Others	1,024	3,394	1,462
	<u>23,024</u>	<u>23,374</u>	<u>28,488</u>
Less: Capitalised software costs (except share-based compensation costs)	(239)	(455)	(835)
Add: Amortisation of capitalised software costs	56	222	215
Less: Government grants for research and development activities	(3,602)	(2,806)	(8,171)
Total	<u>19,239</u>	<u>20,335</u>	<u>19,697</u>

Selling and Distribution Costs

Our selling and distribution expenses increased by 33% quarter-over-quarter primarily due to marketing expenses related to the beta launch of CQ and increased by 78% year-over-year to RMB42.0 million primarily due to an increase in online advertisement expenses related to promoting CQ and online services of Kingsoft Internet Security.

Administrative Expenses

Our administrative expenses increased by 126% quarter-over-quarter and increased by 108% year-over-year to RMB30.0 million primarily due to the expensing of audit fees and an increase in employee year-end discretionary bonuses.

Share-based Compensation Costs

Our share-based compensation costs decreased by 4% quarter-over-quarter. It increased significantly by 1,373% year-over-year to RMB27.1 million primarily due to the issue and grant of approximately 112.6 million share options to our employees under the 2007 Pre-IPO Share Option Scheme in 2007. We expect such costs will reduce in 2008.

Income Tax Credit/Expense

Our income tax expense changed from 3.6 million to a tax credit of 24.7 million quarter-over-quarter.

Please refer to the section of Income Tax Credit/Expense in the management discussion and analysis for 2007.

Profit Attributable to Equity Holders of the Company

For the reasons described above, our profit attributable to equity holders of the Company increased by 116% quarter-over-quarter and increased by 250% year-over-year to RMB64.7 million.

Profit Attributable to Equity Holders of the Company before share-based Compensation Costs

Profit attributable to equity holders of the Company before share-based compensation costs, which is defined as profit attributable to equity holders 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 IFRSs.

We believe the profit attributable to equity holders 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 IFRS. In addition, our profit attributable to equity holders of the Company before share-based compensation costs may not be comparable to similarly titled measures utilized by other companies.

Our profit attributable to equity holders of the Company before share-based compensation costs increased by 58% quarter-over-quarter and increased by 351% year-over-year to RMB91.8 million. The profit margin excluding the effect of share-based compensation costs was 55%, 39% and 21% for the three months ended December 31, 2007, September 30, 2007 and December 31, 2006, respectively.

Certain Balance Sheet and Cash Flow Items

Cash and Net Cash Generated from Operating Activities

Our cash balance increased by 150% quarter-over-quarter and 274% year-over-year to RMB1.25 billion as at December 31, 2007 as a result of the received net IPO proceeds and the increase in net cash generated by our operating activities.

Cash generated by our operating activities reflects our profit for the three months periods, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalized 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 was RMB131.2 million, RMB76.0 million and RMB77.9 million for the three months ended December 31, 2007, September 30, 2007 and December 31, 2006, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of fixed assets and intangible assets such as software. Cash used for capital expenditures was RMB12.5 million, RMB11.4 million and RMB6.6 million for the three months ended December 31, 2007, September 30, 2007 and December 31, 2006, respectively.

For the Year Ended December 31, 2007

The following table sets forth the comparative numbers for the years ended December 31, 2006 and December 31, 2007, respectively.

	2007	2006
	RMB'000	RMB'000
Revenue:		
Entertainment software	396,440	215,356
Applications software	156,521	98,432
Others	3,653	2,643
	556,614	316,431
Cost of revenue	(95,484)	(44,671)
Gross profit	461,130	271,760
Research and development costs, net of government grants	(68,450)	(58,914)
Selling and distribution costs	(108,723)	(59,504)
Administrative expenses	(65,785)	(43,766)
Share-based compensation costs	(103,764)	(6,852)
Other operating costs	(2,249)	(13,296)
Impairment of an associate	—	(6,000)
Other income and gains	11,531	28,316
Finance income	22,775	3,753
Finance costs	(1,211)	(6,271)
Share of loss of an associate	(2,460)	(527)

	2007 RMB'000	2006 RMB'000
Profit before tax	142,794	108,699
Income tax credit/(expense)	12,658	(9,589)
	<hr/>	<hr/>
Profit for the year	155,452	99,110
	<hr/> <hr/>	<hr/> <hr/>
Attributable to:		
Equity holders of the Company	164,678	99,525
Minority interests/(loss)	(9,226)	(415)
	<hr/>	<hr/>
	155,452	99,110
	<hr/> <hr/>	<hr/> <hr/>
	RMB	RMB
Earnings per share attributable to ordinary equity holders of the Company		
Basic	0.1815	0.1245
Diluted	0.1725	0.1185

Revenue

Our revenue increased by 76% year-over-year to RMB556.6 million. Approximately 71% was generated from the entertainment software business segment and 28% was generated from the applications software business segment.

— Entertainment Software

Revenue from our entertainment software increased by 84% to RMB396.4 million and the increased monthly average revenue per paid user (“Monthly ARPU”). The strong revenue growth was mainly attributable to the increased popularity of our MMOPRGs. Our daily average peak concurrent users increased by 9% to 0.6 million year-over-year for the three month period ended December 31, 2007. Monthly ARPU for our MMOPRGs increased by 106% year-over-year to RMB37 year-over-year for the three month period ended December 31, 2007. We expect an upward trend in the monthly ARPU to continue as more and more of our paying users are shifting to the item-billing revenue model while we launch more new item-billing revenue model games.

— Applications Software

Revenue from our applications software business increased by 59% year-over-year to RMB156.5 million primarily due to a significant increase in the number of subscribers for online services of Kingsoft Internet Security software.

During the year, the revenue contributed from Kingsoft Internet Security including individual subscriptions and enterprise products and services was RMB111.4 million, represented 71% of the total revenue of our applications software and an 132% increase from last year.

Gross Profit and Cost of Revenue

Our gross profit increased by 70% year-over-year to RMB461.1 million. Our gross profit margin decreased by 3% year-over-year to 83%. The decrease was resulted mainly from that our overseas revenue from entertainment made up a decreased proportion of the total revenue. The cost of revenue related to support such revenue is minimum.

Our cost of revenue increased by 114% year-over-year to RMB95.5 million primarily due to increased revenue from MMORPGs and online services of Kingsoft Internet Security compared to the previous year. Our server hosting related expenses increased year-over-year as a result of increased server rental costs, depreciation, custody fees and bandwidth rental fees as we increased the number of our servers for MMORPGs and online services of Kingsoft Internet Security.

Research and Development Costs

Our R&D expenses, before government grants increased by 36% year-over-year to RMB87.2 million primarily due to the increase in salaries and benefits paying to our R&D personnel and an overall increase in R&D headcount.

Government grants for 2007 and 2006 were research project based for our development of software and online game technologies and amounted to RMB18.8 million and RMB5.1 million, respectively. Government grants we received to some extent offset the increase in research and development expenses during the period.

The following table sets forth a breakdown of our research and development costs for the year ended December 31, 2007 and 2006:

	For the year ended December 31,	
	2007	2006
	RMB'000	RMB'000
Staff cost	75,795	57,188
Depreciation & Amortization	4,468	2,973
Others	7,910	6,095
	88,173	66,256
Less: Capitalised software costs (except share-based compensation costs)	(1,817)	(2,834)
Add: Amortization of capitalised software costs	882	602
Less: Government grants for research and development activities	(18,788)	(5,110)
Total	68,450	58,914

Selling and Distribution Costs

Our selling and distribution expenses increased 83% year-over-year to RMB108.7 million primarily due to an increase in online advertisement expenses related to promoting our MMORPGs and online services of Kingsoft Internet Security.

Administrative Expenses

Our administrative expenses increased by 50% year-over-year to RMB65.8 million primarily due to an increase in professional fees, employee salary costs and benefits, increased depreciation and amortization charges and increased administrative office expenses, which were mainly rental costs and utilities expenses.

Share-based Compensation Costs

Our share-based compensation costs increased significantly by 1,414% year-over-year to RMB103.8 million primarily due to the issue and grant of approximately 112.6 million share options to our employees under the 2007 Pre-IPO Share Option Scheme in 2007.

Other operating costs

Our other operating costs decreased by 83% year-over-year to RMB2.2 million primarily due to significant decrease in our bad-debt impaired receivables.

Other Income and Gains

Other income and gains decreased by 59% year-over-year to RMB11.5 million primarily due to reduced non-research-project based government grants.

Finance Income

Our finance income increased by 507% year-over-year to RMB22.8 million due to our increased bank deposits.

Finance Costs

Our finance costs decreased by 81% year-over-year to RMB1.2 million primarily due to the transaction costs associated with the issuance of old shares in the IPO were repaid or repayable by the selling shareholders on a pro-rata basis and those costs related to the issuance of new shares were mostly charged to share premium, a balance sheet item.

Share of loss of an associate

Our share of loss of an associate increased by 367% year-over-year to RMB2.5 million, which is our share, as the 40% equity holder, of the losses by our associate, Kingsoft Guangzhou. Kingsoft Guangzhou launched its first game, Meng Xiang Shi Jie in November 2007 with daily average peak concurrent users of 41 thousands in December 2007. We expect to record a recurring investment income from Kingsoft Guangzhou in 2008.

Income Tax Credit/Expenses

Our income tax credit was RMB12.7 million in 2007 versus income tax expenses of RMB9.6 million in 2006.

The income tax credit of RMB12.7 million resulted from a combination of the current income tax charges of RMB15.4 million and deferred tax credit of RMB28.0 million

Pursuant to the new corporate income tax laws concluded and approved in the 5th session of the 10th National Congress March 16, 2007 and under applicable accounting standards, the Company reports deferred tax assets as of December 31, 2007 at the new unified statutory income tax rate of 25% for its subsidiaries in China. This changed estimate for the applicable income taxes of the Company resulted an extra tax credit of RMB15.1 million for 2007. However, if the Company's high and new technology enterprise status is granted by the Chinese tax authorities, we will continue enjoy preferential tax treatments and accordingly reduce the deferred tax assets to reflect the lower preferred income tax rates.

Profit attributable to equity holders of the Company

Our profit attributable to equity holders of the Company increased by 65% year-over-year to RMB164.7 million.

Profit attributable to equity holders of the Company before stock compensation costs

Profit attributable to equity holders of the Company before stock compensation costs, which is defined as profit attributable to equity holders 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 IFRSs.

We believe the profit attributable to equity holders of the Company before stock 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 equity holders of the Company before stock compensation costs may not be comparable to similarly titled measures utilized by other companies.

Our profit attributable to equity holders of the Company before stock compensation costs increased by 152% year-over-year to RMB268.0 million.

The profit margin excluding the effect of stock compensation costs was improved to 48% for the year ended December 31, 2007 versus 34% for the year ended December 31, 2006.

Certain Balance Sheet and Cash Flow Items

— *Deferred Revenue*

Deferred revenue (including current and non-current portion) increased by 38% year-over-year to RMB191.7 million as at December 31, 2007. The increases in deferred revenue were consistent with our increased sales of prepaid games cards and online points for our online games and prepayments for online subscription for our application software products.

— *Cash and Net Cash Generated from Operating Activities*

Cash and Cash equivalent increased by 274% year-over-year to RMB1.2 billion mostly resulted from the net IPO proceeds and the increase in net cash generated by our operating activities.

Cash generated by our operating activities reflects our profit for the year, as the case may be, as adjusted for non-cash items, such as depreciation, amortization of capitalized 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 increase by 147% to RMB345.5 million for the year ended December 31, 2007.

— *Capital Expenditures*

Capital expenditures represent cash payments for acquisition of fixed assets and intangible assets such as software. Cash used for capital expenditures increased by 110% year-over-year to RMB51.0 million for year ended December 31, 2007. During the year, we incurred more capital expenditures due to the following factors: as we began the operation of CQ and purchased additional servers; we paid US\$1 million for licensing 3D game engine software; we made payments for the construction of our research centre in Zhuhai and expenditures associated with the implementation of SAP and upgrades of our billing systems.

Prospects

Our dual-engine growth strategy has been fueled by China's internet growth. Looking ahead, we believe the strong market demands will further drive our business growth in both the entertainment and applications software segments.

As at December 31, 2007, we have approximately 953 research and development staff. We have restructured the R&D resources for entertainment software and applications software in 2007 to optimize our R&D capability. There are four major research and development centers including multiple game and software research studios located in Zhuhai, Chengdu, Beijing and Dalian with individually focused specialty.

With continuously strengthened R&D capability, we will be able to shorten our game development cycle and improve our game quality to better meet players' demand in 2008. We will have three major online games in the pipeline. JX Online World, which is a special installment of the original JX Online series, and The First Myth II, which is the second installment of the original First Myth

series, are expected to be launched in the first half of 2008. MAT — our first 3D FPS game will be launched in the second half of 2008.

The development of JX Online III, the third installment of the original JX Online series featuring full 3D graphics and powered by our proprietary JX3 engine, has been a focus of Kingsoft and is expected to be in open beta in the second half of 2008. Building on the success of JX Online I and II series, JX Online III has been constantly ranked one of the most-anticipated online games by a number of online communities in recent years.

We will continue to leverage our successes in overseas markets and expand our businesses in other selected markets in Asia where our products and services are competitive and appealing to users in those markets, and where we can identify and work with suitable local partners who can facilitate our entry into these markets. Our strong franchise overseas, is further evidenced by the recent launch of JX Online II, Kingsoft's third MMORPG after JX Online and First Myth operated by Vinagame in Vietnam. It has recorded peak concurrent users of over 110,000 since commercialised on March 17, 2008.

Within the applications software business segment, we will allocate more resources in developing and operating our internet security software. On March 27, 2008, we have announced our strategic partnership with Baidu, the largest Chinese language Internet search provider, to launch a free Internet security service that will benefit as many as 200 million users in China. This strategic partnership highlights our commitment to creating a more secure Web surfing experience for Chinese users.

We will continue to leverage the Internet to market, sell and distribute our Internet security products. The number of the online subscribers of our Internet security grew at a rate of over 1 million quarterly. We will continue to introduce and improve our comprehensive customer-care programs and keep a focus on the delivery of the best-in-class online software service experience. We will increase our investment in the market of Internet security services to small and medium enterprises in 2008.

We are in the process of studying a number of projects for possible acquisition and joint venture with local enterprises which would create synergy with our existing businesses.

We are very optimistic about the operating environment in 2008 and believe Kingsoft will continue its robust growth in the coming year.

OTHER INFORMATION

Exposure to Exchange Rate Fluctuations

Certain expenses of the Group are denominated in currencies other than the RMB. The Group generates foreign currency revenue from license sales made in other Asian countries. RMB against US\$, HK\$ and JPY have been comparatively stable in the past.

A majority of the Group's businesses are transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China. However, the unification of the exchange rates does not imply the free convertibility of RMB into US\$ or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Commencing on July 21, 2005, PRC reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Under the managed floating exchange rate regime, the RMB is no longer pegged to the US\$. The exchange rate of the US\$ against the RMB was adjusted to RMB8.11 per US\$ as at July 21, 2005, representing an appreciation of approximately 2%.

The People's Bank of China announces the closing prices of foreign currencies such as the US\$ traded against the RMB in the interbank foreign exchange market after the closing of the market on each business day, and makes these prices the central parity for trading against the RMB on the following business day.

Conversely, if the RMB had strengthened (weakened) 5% against the US\$, HK\$ and JPY with all other variables held constant, profit would have been RMB955 thousand and RMB869 thousand lower (higher) for years ended December 31, 2007 and 2006, respectively; equity would have been RMB37,736 thousand and RMB4,447 thousand lower (higher) as at December 31, 2007 and 2006, respectively.

Employee and Remuneration Policies

As at December 31, 2007, the Group had approximately 1,660 full-time employees (2006: 1,300). The number of employees of the Group varies from time to time depending on needs and they are remunerated based on industry practice.

The Group determines its staff's remuneration based on factors such as qualifications and years of experience. The staff cost of the Group (including Directors' and senior management's emoluments) in 2005, 2006 and 2007 were approximately RMB88.3 million, RMB109.0 million and RMB244.1 million, respectively.

Purchase, Sale or Redemption of Listed Securities

During the year ended December 31, 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Use of IPO Proceeds

The Company has raised the aggregate net proceeds from the Global Offering of approximately HK\$649.1 million. The Global Offering was completed in the fourth quarter of 2007 and the use of proceeds as of the end of 2007 is set out in the table below:

Area of use	Planned amount (HK\$' Mil)	Amount remaining as at December 31, 2007 (HK\$' Mil)
Expansion of research and development capabilities	170.1	168.8
Expansion in certain overseas market	76.0	75.5
IT infrastructure upgrade	94.1	75.9
Strategic acquisitions and joint ventures	115.8	115.8
Construction of research and development facilities in Zhuhai	72.4	66.8
General corporate purposes	27.9	20.0

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, May 19, 2008 to Friday, May 23, 2008 both dates inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM and to qualify for the proposed final dividend, 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 Friday, May 16, 2008.

AUDIT COMMITTEE

The Audit committee, which comprises two independent non-executive directors and one non-executive director of the Company, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial statements for the year ended December 31, 2007. The Audit Committee has reviewed the Group's audited financial statements for the year ended December 31, 2007.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company complied with all code provisions of the Code on Corporate Governance Practices (the “Code”) set out 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”) since the Company’s shares were listed on the Stock Exchange on October 9, 2007 (“Listing Date”) and until the year ended December 31, 2007 except for the deviation in respect of the code A.2.1 of the Code which provides that the roles of the chairman and chief executive officer (“CEO”) should be separate and should not be performed by the same individual.

The chairman and chief executive officer (“CEO”) were Pak Kwan Kau and Jun Lei respectively until Mr. Lei officially relinquished his position as CEO and chief technology officer of the Company on December 20, 2007. Mr. Lei still remained his roles in the Board as an executive director and vice chairman of the Board of the Company and took up the position as the chairman of the Board Strategy Committee. Pak Kwan Kau, chairman of the company took up the position of acting CEO. The Board has set up a Board committee to recruit the next CEO, thus it is in the Company’s interest to have the roles of the chairman and CEO occupied by separate individuals in the long term.

Save as disclosed above, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for the period from the Listing Date until December 31, 2007, complied with the code provisions of the Code.

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.

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

The PRC, March 31, 2008

As at the date of this announcement, the Executive Directors are Messrs. Pak Kwan KAU and Jun LEI; the Non-executive Directors are Messrs. Wing Chung Anders CHEUNG, Tuck Lye KOH, Wai Ming WONG, and Choon Chong TAY; the Independent Non-Executive Directors are Messrs. Shun Tak WONG, Guangming George LU and Mingming HUANG.