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Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 3888)

Announcement of the Results
For the Three and Six Months Ended June 30, 2009

The Board of Directors (the “Board”) of Kingsoft Corporation Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group” or “Kingsoft”) for the three and six months ended June 30, 2009 with comparative figures for the corresponding periods in 2008. These interim results have been reviewed by Ernst & Young, the auditors of the Company (the “Auditors”) and the Company’s audit committee (the “Audit Committee”), comprising a majority of the independent non-executive directors of the Company.

FINANCIAL INFORMATION

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended June 30, 2009

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Revenue:	4				
Entertainment software		158,251	107,849	321,055	228,111
Applications software		78,869	62,361	150,899	116,274
Others		2,861	1,559	4,255	2,421
		<u>239,981</u>	<u>171,769</u>	<u>476,209</u>	<u>346,806</u>
Cost of revenue		(29,812)	(24,721)	(59,130)	(49,139)
Gross profit		<u>210,169</u>	<u>147,048</u>	<u>417,079</u>	<u>297,667</u>
Research and development costs, net of government grants		(44,776)	(30,301)	(87,906)	(54,310)
Selling and distribution costs		(30,793)	(44,718)	(59,751)	(68,606)
Administrative expenses		(23,094)	(18,573)	(44,985)	(40,236)
Share-based compensation costs		(11,728)	(11,165)	(24,295)	(27,912)
Other operating costs		(344)	(1,973)	(790)	(2,809)
Other income and gains		1,084	240	1,157	621
Finance income		5,572	5,830	12,569	14,207
Share of profits of associates		7,283	8,233	16,222	10,316
Share of losses of jointly- controlled entities		(1,599)	(288)	(2,834)	(288)
Profit before tax	5	<u>111,774</u>	<u>54,333</u>	<u>226,466</u>	<u>128,650</u>
Income tax expense	6	(14,573)	(4,358)	(28,171)	(23,560)
Profit for the period		<u>97,201</u>	<u>49,975</u>	<u>198,295</u>	<u>105,090</u>
Attributable to:					
Owners of the Company		96,551	50,823	197,460	107,874
Minority interests		650	(848)	835	(2,784)
		<u>97,201</u>	<u>49,975</u>	<u>198,295</u>	<u>105,090</u>
		RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
Earnings per share attributable to owners of the Company	7				
Basic		0.0907	0.0476	0.1862	0.1013
Diluted		0.0835	0.0455	0.1756	0.0972

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2009

	For the three months ended June 30,		For the six months ended June 30,	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Profit for the period	97,201	49,975	198,295	105,090
Exchange differences on translation of foreign operations	<u>791</u>	<u>(15,556)</u>	<u>(715)</u>	<u>(38,372)</u>
Other comprehensive income/(loss) for the period, net of tax	<u>791</u>	<u>(15,556)</u>	<u>(715)</u>	<u>(38,372)</u>
Total comprehensive income for the period, net of tax	<u>97,992</u>	<u>34,419</u>	<u>197,580</u>	<u>66,718</u>
Attributable to:				
Owners of the Company	97,141	36,282	197,280	69,126
Minority interests	<u>851</u>	<u>(1,863)</u>	<u>300</u>	<u>(2,408)</u>
	<u>97,992</u>	<u>34,419</u>	<u>197,580</u>	<u>66,718</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2009

		As at June 30, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
	Notes		
Non-current assets			
Property, plant and equipment	8	413,916	345,626
Goodwill		2,377	2,377
Other intangible assets	9	35,178	39,071
Lease prepayment		7,055	7,138
Interests in associates	10	43,699	27,077
Interests in jointly-controlled entities	11	44,268	4,722
Loan receivables		2,823	2,520
Deferred tax assets		27,743	29,262
Deferred cost		646	273
Long-term prepayments	12	38,738	11,620
		<u>616,443</u>	<u>469,686</u>
Current assets			
Inventories		5,607	4,686
Trade receivables	13	102,801	84,819
Prepayments, deposits and other receivables		69,151	55,138
Income tax receivable		182	182
Deferred cost		4,060	5,889
Credit-linked deposit	14	—	111,708
Cash and cash equivalents	15	1,004,755	1,007,115
		<u>1,186,556</u>	<u>1,269,537</u>
Current liabilities			
Trade payables	16	6,494	7,649
Dividend payable	19	1,170	134
Accrued expenses and other payables		149,870	160,972
Deferred revenue		167,747	183,445
Income tax payable		19,689	19,616
		<u>344,970</u>	<u>371,816</u>
Net current assets		<u>841,586</u>	<u>897,721</u>
Total assets less current liabilities		<u>1,458,029</u>	<u>1,367,407</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at June 30, 2009

	Notes	As at June 30, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
Total assets less current liabilities		<u>1,458,029</u>	<u>1,367,407</u>
Non-current liabilities			
Deferred revenue		34,169	31,179
Deferred tax liabilities		<u>8,506</u>	<u>7,863</u>
		<u>42,675</u>	<u>39,042</u>
Net assets		<u>1,415,354</u>	<u>1,328,365</u>
Equity attributable to owners of the Company			
Issued capital	17	4,405	4,362
Share premium	17	654,800	639,034
Shares held for share award scheme	17	(47,795)	(40,050)
Statutory reserves		81,481	81,481
Employee share-based capital reserve		215,190	194,648
Foreign currency translation reserve		(66,308)	(66,128)
Retained earnings		559,907	362,447
Proposed final dividend	19	—	139,723
		<u>1,401,680</u>	<u>1,315,517</u>
Minority interests		<u>13,674</u>	<u>12,848</u>
Total equity		<u>1,415,354</u>	<u>1,328,365</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2009

	Attributable to owners of the Company										
	Issued capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Shares held for award scheme RMB'000 (Unaudited)	Statutory reserves RMB'000 (Unaudited)	Employee share-based capital reserve RMB'000 (Unaudited)	Foreign currency translation reserve RMB'000 (Unaudited)	Retained earnings RMB'000 (Unaudited)	Proposed final dividend RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Minority interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
At January 1, 2009	4,362	639,034	(40,050)	81,481	194,648	(66,128)	362,447	139,723	1,315,517	12,848	1,328,365
Profit for the period	—	—	—	—	—	—	197,460	—	197,460	835	198,295
Other comprehensive loss	—	—	—	—	—	(180)	—	—	(180)	(535)	(715)
Total comprehensive income	—	—	—	—	—	(180)	197,460	—	197,280	300	197,580
2008 final dividend declared	—	—	—	—	—	—	—	(139,723)	(139,723)	—	(139,723)
Dividend on shares issued for employee share options exercised after December 31, 2008	—	(1,068)	—	—	—	—	—	—	(1,068)	—	(1,068)
Shares purchased for share award scheme	—	—	(11,193)	—	—	—	—	—	(11,193)	—	(11,193)
Share-based compensation costs	—	—	—	—	23,990	—	—	—	23,990	26	24,016
Exercise of share options	43	16,834	—	—	—	—	—	—	16,877	—	16,877
Vested awarded shares transferred to employees	—	—	3,448	—	(3,448)	—	—	—	—	—	—
Capital contribution from minority interests	—	—	—	—	—	—	—	—	—	500	500
At June 30, 2009	4,405	654,800	(47,795)	81,481	215,190	(66,308)	559,907	—	1,401,680	13,674	1,415,354

For the six months ended June 30, 2008

	Attributable to owners of the Company											
	Issued capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Shares held for Share Award Scheme RMB'000 (Unaudited)	Ordinary shares subscribed RMB'000 (Unaudited)	Statutory reserves RMB'000 (Unaudited)	Employee share-based capital reserve RMB'000 (Unaudited)	Foreign currency translation reserve RMB'000 (Unaudited)	Retained earnings RMB'000 (Unaudited)	Proposed final dividend RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Minority interests RMB'000 (Unaudited)	Total equity RMB'000 (Unaudited)
At January 1, 2008	4,322	735,510	—	319	57,570	144,741	(28,918)	101,953	95,710	1,111,207	22,450	1,133,657
Profit for the period	—	—	—	—	—	—	—	107,874	—	107,874	(2,784)	105,090
Other comprehensive loss	—	—	—	—	—	—	(38,748)	—	—	(38,748)	376	(38,372)
Total comprehensive income	—	—	—	—	—	—	(38,748)	107,874	—	69,126	(2,408)	66,718
2007 final dividend declared	—	—	—	—	—	—	—	—	(95,710)	(95,710)	—	(95,710)
Dividend on shares issued for employee share options exercised after December 31, 2007	—	—	—	—	—	—	—	(421)	—	(421)	—	(421)
Shares purchased for share award scheme	—	—	(706)	—	—	—	—	—	—	(706)	—	(706)
Share-based compensation costs	—	—	—	—	—	27,680	—	—	—	27,680	70	27,750
Issuance of share certificates for ordinary share subscribed	3	316	—	(319)	—	—	—	—	—	—	—	—
Capital contribution from owners of the Company	—	32,741	—	—	—	—	—	—	—	32,741	—	32,741
Exercise of share options	16	3,654	—	—	—	—	—	—	—	3,670	—	3,670
Acquisition of minority interest	—	—	—	—	—	—	—	(22,675)	—	(22,675)	(7,625)	(30,300)
At June 30, 2008	4,341	772,221	(706)	—	57,570	172,421	(67,666)	186,731	—	1,124,912	12,487	1,137,399

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2009

		For the six months ended June 30,	
		2009	2008
	Note	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Net cash inflow from operating activities		155,958	108,108
Net cash outflow from investing activities		(113,878)	(303,331)
Net cash outflow from financing activities		(134,370)	(62,932)
Net decrease in cash and cash equivalents		(92,290)	(258,155)
Cash and cash equivalents at beginning of period	15	616,955	888,922
Effect of foreign exchange rate changes, net		(126)	(38,124)
Cash and cash equivalents at end of period	15	524,539	592,643

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

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

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

2. Basis of preparation and accounting policies

Basis of preparation

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

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

Significant accounting policies

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

IFRS 2 Share-based Payment — Vesting Conditions and Cancellations

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

2. Basis of preparation and accounting policies (continued)

IFRS 8 Operating Segments

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

IAS 1 Revised Presentation of Financial Statements

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

Improvement to IFRSs

In May 2008, the International Accounting Standards Board ("IASB") issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments, which are applicable to the Group, resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

IAS 16 Property, Plant and Equipment

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

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

2. Basis of preparation and accounting policies (continued)

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

3. Segment information

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

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

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

3. Segment information (continued)

Operating segments

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

	Entertainment software RMB'000 (Unaudited)	Applications software RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
<i>For the six months ended June 30, 2009</i>			
Revenue:			
Sales to external customers	<u>321,317</u>	<u>154,892</u>	<u>476,209</u>
Total revenue	<u><u>321,317</u></u>	<u><u>154,892</u></u>	<u><u>476,209</u></u>
Results:			
Segment profit before tax	<u><u>207,289</u></u>	<u><u>62,133</u></u>	269,422
Administrative expenses			(44,985)
Share-based compensation costs			(24,295)
Other operating costs			(790)
Other income and gains			1,157
Finance income			12,569
Share of profits of associates			16,222
Share of losses of jointly-controlled entities			<u>(2,834)</u>
Profit before tax			<u><u>226,466</u></u>
<i>For the six months ended June 30, 2008</i>			
Revenue:			
Sales to external customers	<u>229,836</u>	<u>116,970</u>	<u>346,806</u>
Total revenue	<u><u>229,836</u></u>	<u><u>116,970</u></u>	<u><u>346,806</u></u>
Results:			
Segment profit before tax	<u><u>118,358</u></u>	<u><u>56,393</u></u>	174,751
Administrative expenses			(40,236)
Share-based compensation costs			(27,912)
Other operating costs			(2,809)
Other income and gains			621
Finance income			14,207
Share of profits of associates			10,316
Share of losses of jointly-controlled entities			<u>(288)</u>
Profit before tax			<u><u>128,650</u></u>

4. Revenue

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

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
<i>Revenue</i>				
Sales of goods	19,432	21,335	36,237	38,822
Rendering of service	220,549	150,434	439,972	307,984
	239,981	171,769	476,209	346,806

5. Profit before tax

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

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

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

6. Income tax

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

	For the three months ended June 30,		For the six months ended June 30,	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
<i>Current income tax</i>				
Current income tax charge	17,814	3,931	26,009	18,888
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(3,241)	427	2,162	4,672
Income tax expense	<u>14,573</u>	<u>4,358</u>	<u>28,171</u>	<u>23,560</u>

6. Income tax (continued)

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

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

7. Earnings per share attributable to owners of the Company

The calculation of basic earnings per share amounts is based on the profit for the period attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the period.

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

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

	For the six months ended June 30,	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Earnings</i>		
Profit attributable to owners of the Company	<u>197,460</u>	<u>107,874</u>
	Number of shares for the six months ended June 30,	
	2009	2008
	(Unaudited)	(Unaudited)
<i>Shares</i>		
Weighted average number of ordinary shares in issue less shares held for share award scheme*	1,060,421,431	1,065,047,552
Effect of dilution:		
Share options	54,041,806	44,853,583
Awarded shares	<u>10,268,978</u>	<u>139,533</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,124,732,215</u>	<u>1,110,040,668</u>

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

8. Property, plant and equipment

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

9. Other intangible assets

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

10. Interests in associates

	As at June 30, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
Share of net assets	<u>43,699</u>	<u>27,077</u>

Particulars of the associates are as follows:

Name	Place and date of registration and place of operations	Nominal value of registered capital	Percentage of equity interest attributable to the Group	Principal activities
Guangzhou Kingsoft Duoyi Internet Technology Co. Ltd (“Kingsoft Guangzhou”)	PRC July 14, 2006	RMB10,000,000	40	Research, development and provision of online game services
Guangzhou Tuotu Computer Technology Co., Ltd. *	PRC February 14, 2007	RMB100,000	19.9	Research and development of computer and network related technology; provision of network service; design and publish of advertisement

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

11. Interests in jointly-controlled entities

	As at June 30, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
Share of net assets	16,010	1,122
Goodwill — at cost	<u>28,258</u>	<u>3,600</u>
	<u>44,268</u>	<u>4,722</u>

Particulars of the jointly-controlled entities are as follows:

Name	Place and date of registration and place of operations	Nominal value of registered capital	Percentage of equity interest attributable to the Group	Principal activities
Beijing Kingsoft Lianking Technology Corporation Limited	PRC June 10, 2008	RMB8,000,600	40	Research and development of games
Shanghai Zhixiong Network Technology Co., Ltd.*	PRC April 1, 2004	RMB24,970,000	19.9	Research and development of games
Sky Profit Limited (“Sky Profit”)*	Cayman Islands January 3, 2008	US\$ 50,000	21.42	Investment holding

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

12. Long-term prepayments

	As at June 30, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
Prepayments for investments	—	1,620
Deposits for land use rights	<u>38,738</u>	<u>10,000</u>
	<u>38,738</u>	<u>11,620</u>

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

13. Trade receivables

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

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

	As at June 30, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
0–30 days	85,382	60,032
31–60 days	6,041	7,408
61–90 days	5,410	9,715
91–365 days	4,495	6,348
Over one year	1,473	1,316
	<u>102,801</u>	<u>84,819</u>

14. Credit-linked deposit

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

15. Cash and cash equivalents

	As at June 30, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
Cash and bank balances	176,511	219,080
Time deposits with original maturity of three months or less when acquired	<u>348,028</u>	<u>397,875</u>
	524,539	616,955
Time deposits with original maturity of over three months when acquired	<u>480,216</u>	<u>390,160</u>
	<u>1,004,755</u>	<u>1,007,115</u>

For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents consist of cash at bank and in hand and time deposits with an original maturity of three months or less when acquired.

16. Trade payables

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

	As at June 30, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
0–30 days	1,985	4,813
31–60 days	812	223
61–90 days	1,000	224
91–365 days	453	580
Over one year	<u>2,244</u>	<u>1,809</u>
	<u>6,494</u>	<u>7,649</u>

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

17. Issued capital, share premium and shares held for share award scheme

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

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

18. Share-based compensation costs

(a) Share options

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

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

18. Share-based compensation costs (continued)

(b) Share Award Scheme

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

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

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

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

	2009	2008
	Number of	Number of
	awarded	awarded
	shares	shares
	(Unaudited)	(Unaudited)
Outstanding at January 1,	15,558,000	—
Awarded during the period	7,612,000	5,079,000
Forfeited during the period	(870,000)	—
Vested during the period	(1,455,000)	—
	<hr/>	<hr/>
Outstanding at June 30,	20,845,000	5,079,000
	<hr/> <hr/>	<hr/> <hr/>

19. Dividends

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

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

20. Capital commitments

	As at June 30, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
Contracted, but not provided for:		
Purchase of electronic equipment	2,188	5,219
Acquisition of land and buildings (note)	1,010,689	1,074,710
Investment	2,200	63,787
Acquisition of intangible assets	<u>909</u>	<u>1,998</u>
 Total	 <u>1,015,986</u>	 <u>1,145,714</u>

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

21. Related party transactions

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

	For the three months ended June 30,		For the six months ended June 30,	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Loan to shareholders of a subsidiary	<u>13,928</u>	<u>—</u>	<u>13,928</u>	<u>—</u>

(b) Outstanding balance with related parties:

	As at June 30, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
Loan to shareholders of a subsidiary included in other receivables (note)	<u>13,928</u>	<u>—</u>

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

21. Related party transactions (continued)

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

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

22. Comparative amounts

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

23. Events after the statement of financial position date

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

OPERATIONAL HIGHLIGHTS

	September 30, 2007	December 31, 2007	March 31, 2008	For the three months ended			March 31, 2009	June 30, 2009
				June 30, 2008	September 30, 2008	December 31, 2008		
Online Games								
Daily Average Peak Concurrent Users	529,794	605,569	633,487	846,180	990,855	1,029,611	951,685	953,817
Monthly Average Paying Users	1,035,371	1,001,381	1,093,789	1,036,692	1,239,609	1,531,993	1,489,797	1,317,755
Monthly Average Revenue per Paying User in RMB	31	37	36	34	40	38	36	39
Online Services of Internet securities								
Daily Average Paying Users	6,505,150	7,555,280	8,277,873	8,696,519	8,657,001	8,409,533	8,450,146	8,211,110
Monthly Average Revenue per Paying User in RMB	<u>1.4</u>	<u>1.5</u>	<u>1.4</u>	<u>1.6</u>	<u>1.7</u>	<u>1.9</u>	<u>1.9</u>	<u>2.1</u>

FINANCIAL HIGHLIGHTS

For the six months ended June 30,

	For the six months ended 30 June,	
	2008	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue:		
Entertainment software	228,111	321,055
Applications software	116,274	150,899
Others	2,421	4,255
	<u>346,806</u>	<u>476,209</u>
Cost of revenue	<u>(49,139)</u>	<u>(59,130)</u>
Gross profit	297,667	417,079
Research and development costs, net of government grants	(54,310)	(87,906)
Selling and distribution costs	(68,606)	(59,751)
Administrative expenses	(40,236)	(44,985)
Share-based compensation costs	(27,912)	(24,295)
Other operating costs	(2,809)	(790)
Other income and gains	621	1,157
	<u>104,415</u>	<u>200,509</u>
Operating profit	104,415	200,509
Finance income	14,207	12,569
Share of profits of associates	10,316	16,222
Share of losses of jointly-controlled entities	(288)	(2,834)
	<u>128,650</u>	<u>226,466</u>
Profit before tax	128,650	226,466
Income tax expense	(23,560)	(28,171)
	<u>105,090</u>	<u>198,295</u>
Profit for the period	<u>105,090</u>	<u>198,295</u>
Attributable to:		
Owners of the Company	107,874	197,460
Minority interests	(2,784)	835
	<u>105,090</u>	<u>198,295</u>
	<u>105,090</u>	<u>198,295</u>
	RMB	RMB
	(Unaudited)	(Unaudited)
Earnings per share attributable to owners of the Company		
Basic	0.1013	0.1862
Diluted	0.0972	0.1756
	<u>0.0972</u>	<u>0.1756</u>

	For the three months ended		
	June 30, 2008 RMB'000 (Unaudited)	March 31, 2009 RMB'000 (Unaudited)	June 30, 2009 RMB'000 (Unaudited)
Revenue:			
Entertainment software	107,849	162,804	158,251
Applications software	62,361	72,030	78,869
Others	1,559	1,394	2,861
	<u>171,769</u>	<u>236,228</u>	<u>239,981</u>
Cost of revenue	<u>(24,721)</u>	<u>(29,318)</u>	<u>(29,812)</u>
Gross profit	147,048	206,910	210,169
Research and development costs, net of government grants	(30,301)	(43,130)	(44,776)
Selling and distribution costs	(44,718)	(28,958)	(30,793)
Administrative expenses	(18,573)	(21,891)	(23,094)
Share-based compensation costs	(11,165)	(12,567)	(11,728)
Other operating costs	(1,973)	(446)	(344)
Other income and gains	240	73	1,084
	<u>40,558</u>	<u>99,991</u>	<u>100,518</u>
Operating profit	40,558	99,991	100,518
Finance income	5,830	6,997	5,572
Share of profits of associates	8,233	8,939	7,283
Share of losses of jointly-controlled entities	(288)	(1,235)	(1,599)
	<u>54,333</u>	<u>114,692</u>	<u>111,774</u>
Profit before tax	54,333	114,692	111,774
Income tax expense	(4,358)	(13,598)	(14,573)
	<u>49,975</u>	<u>101,094</u>	<u>97,201</u>
Profit for the period	<u>49,975</u>	<u>101,094</u>	<u>97,201</u>
Attributable to:			
Owners of the Company	50,823	100,909	96,551
Minority interests	(848)	185	650
	<u>49,975</u>	<u>101,094</u>	<u>97,201</u>
	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)
Earnings per share attributable to owners of the Company			
Basic	0.0476	0.0955	0.0907
Diluted	0.0455	0.0920	0.0835

MANAGEMENT DISCUSSION AND ANALYSIS

First Half of 2009 Compared to First Half of 2008

Revenue

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

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

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

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

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

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

Gross Profit and Cost of Revenue

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

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

Research and Development Costs

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

Selling and Distribution Costs

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

Administrative Expenses

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

Share-based Compensation Costs

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

Share of Profits of Associates

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

Operating Profit Excluding Share-based Compensation Costs

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

Income Tax Expense

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

Profit Attributable to Owners of the Company

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

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

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

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

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

Liquidity and Financial Resource

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

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

Foreign Currency Risk Management

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

As at June 30, 2009, RMB133.8 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

Deferred Revenue

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

Net Cash Generated from Operating Activities

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

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

Capital Expenditures

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

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

Revenue

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

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

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

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

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

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

Gross Profit and Cost of Revenue

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

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

Research and Development Costs

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

Selling and Distribution Costs

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

Administrative Expenses

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

Share-based Compensation Costs

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

Share of Profits of Associates

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

Operating Profit Excluding Share-based Compensation Costs

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

Income Tax Expense

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

Profit Attributable to Owners of the Company

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

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

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

BUSINESS OUTLOOK

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

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

OTHER INFORMATION

Employee and Remuneration Policies

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

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

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

Audit Committee

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

Compliance with the Code on Corporate Governance Practices

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

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

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

Appreciation

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

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

Hong Kong, August 25, 2009

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, Wai Ming WONG and Wing Chung Anders CHEUNG; the Independent Non-Executive Directors are Messrs. Shun Tak WONG, Guangming George LU and Mingming HUANG.