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中华神话 万人团战
The First Myth

Kingsoft Corporation Limited
2008 Interim Report

 **KINGSOFT**

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

Beijing Zhuhai Chengdu Dalian Shenzhen Japan



Kingsoft Corporation Limited

Interim Report 2008 | KINGSOFT CORPORATION LIMITED

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CORPORATION INFORMATION

Legal Name of the Company

Kingsoft Corporation Limited

Stock Code

3888

Date of Listing

October 9, 2007

Head Office and Principal Place of Business

21st Floor, Baiyan Building

238 Beisihuan Zhong Road

Haidian District

Beijing

PRC

Principal Place of Business in Hong Kong

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Cable TV Tower

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Tsuen Wan, N.T.

Hong Kong

Registered Office

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75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman

Cayman Islands

Executive Directors

Mr. Pak Kwan Kau

Mr. Donghui Wang

Non-executive Directors

Mr. Jun Lei

Mr. Choon Choong Tay

Mr. Wai Ming Wong

Mr. Wing Chung Anders Cheung

Independent Non-executive Directors

Mr. Shun Tak Wong

Mr. Guangming George Lu

Mr. Mingming Huang

Audit Committee

Mr. Shun Tak Wong (Chairman)

Mr. Guangming George Lu

Mr. Wing Chung Anders Cheung

Remuneration Committee

Mr. Wing Chung Anders Cheung (Chairman)

Mr. Shun Tak Wong

Mr. Mingming Huang

Nomination Committee

Mr. Guangming George Lu (Chairman)

Mr. Wing Chung Anders Cheung

Mr. Mingming Huang

Strategy Committee

Mr. Guangming George Lu (Chairman)

Mr. Pak Kwan Kau

Mr. Jun Lei

Board Secretary/Company Secretary and Qualified Accountant

Ms. Michelle Feng Harnett (ACCA)

CORPORATION INFORMATION (continued)

Compliance Adviser

Evolution Watterson Securities Limited
5th Floor, 8 Queen's Road Central
Hong Kong

Authorised Representatives

Pak Kwan Kau
Michelle Feng Harnett

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P.O. Box 1350 GT
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Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
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Hopewell Centre
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Hong Kong

Auditors

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Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Legal Advisers on Hong Kong law

Woo Kwan Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
Bank of Beijing
China Merchants Bank Beijing
Bank of Communications

Investor and Media Relations

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UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended June 30, 2008

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, 2008 with comparative figures for the corresponding periods in 2007. These interim results have been reviewed by Ernst & Young, the auditors of the Company (the "Auditors") and the Company's Audit Committee.

	NOTE	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
		2008 RMB'000 (UNAUDITED)	2007 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)	2007 RMB'000 (UNAUDITED)
REVENUE:					
Entertainment software		107,849	101,660	228,111	178,794
Applications software		62,361	36,510	116,274	62,145
Others		1,559	1,346	2,421	2,516
		171,769	139,516	346,806	243,455
Cost of revenue		(24,721)	(25,116)	(49,139)	(41,656)
Gross profit		147,048	114,400	297,667	201,799
Research and development costs, net of government grants		(30,301)	(15,180)	(54,310)	(28,418)
Selling and distribution costs		(44,718)	(21,397)	(68,606)	(35,090)
Administrative expenses		(18,573)	(12,326)	(40,236)	(22,487)
Share-based compensation costs		(11,165)	(27,464)	(27,912)	(48,551)
Other operating costs		(1,973)	92	(2,809)	(513)
Other income and gains		240	66	621	4,537
Finance income		5,830	2,167	14,207	3,966
Share of gain/(loss) of an associate		8,233	(397)	10,316	(834)
Share of loss of a jointly-controlled entity		(288)	—	(288)	—
PROFIT BEFORE TAX		54,333	39,961	128,650	74,409
Income tax expense	3	(4,358)	(4,818)	(23,560)	(8,453)
PROFIT FOR THE PERIOD		49,975	35,143	105,090	65,956
Attributable to:					
Equity holders of the Company		50,823	37,335	107,874	70,049
Minority interests		(848)	(2,192)	(2,784)	(4,093)
		49,975	35,143	105,090	65,956
		RMB	RMB	RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY					
Basic		0.0476	0.0433	0.1013	0.0813
Diluted		0.0455	0.0422	0.0972	0.0792

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at June 30, 2008

	NOTES	AS AT JUNE 30, 2008 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2007 RMB'000 (AUDITED)
NON-CURRENT ASSETS			
Property, plant and equipment	4	74,076	45,446
Intangible assets	5	18,172	14,281
Lease prepayment		7,221	7,304
Interest in an associate	6	11,330	1,014
Interest in a jointly-controlled entity	7	1,912	—
Loan receivables		1,417	1,784
Deferred tax assets		57,966	52,814
Deferred cost		1,075	1,890
Long-term prepayments	8	141,800	—
		314,969	124,533
CURRENT ASSETS			
Inventories	9	1,491	2,019
Trade receivables	10	87,014	60,226
Prepayments and other receivables		44,258	47,743
Income tax receivable		182	522
Deferred cost		7,717	8,939
Due from related parties	19	—	9,862
Credit-linked deposits	11	180,660	—
Cash and cash equivalents	12	850,443	1,246,077
		1,171,765	1,375,388
CURRENT LIABILITIES			
Trade payables	13	8,165	7,120
Dividend payable	16	1,488	—
Accrued expenses and other payables		121,597	147,062
Deferred revenue		160,235	162,002
Income tax payable		8,013	6,047
		299,498	322,231
NET CURRENT ASSETS		872,267	1,053,157
TOTAL ASSETS LESS CURRENT LIABILITIES		1,187,236	1,177,690
NON-CURRENT LIABILITIES			
Deferred revenue		25,706	29,726
Deferred tax liabilities		24,131	14,307
		49,837	44,033
NET ASSETS		1,137,399	1,133,657

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at June 30, 2008

	NOTES	AS AT JUNE 30, 2008 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2007 RMB'000 (AUDITED)
Represented by:			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital	14	4,341	4,322
Share premium	14	772,221	735,510
Shares held for Share Award Scheme		(706)	—
Ordinary shares subscribed		—	319
Statutory reserves		57,570	57,570
Employee share-based capital reserve	15	172,421	144,741
Foreign currency translation reserve		(67,666)	(28,918)
Retained earnings		186,731	101,953
Proposed final dividend	16	—	95,710
		1,124,912	1,111,207
MINORITY INTERESTS			
		12,487	22,450
TOTAL EQUITY			
		1,137,399	1,133,657

Pak Kwan Kau
Director

Jun Lei
Director

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2008

ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	ISSUED CAPITAL RMB'000	SHARE PREMIUM 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
AT JANUARY 1, 2007	3,564	110,539	52,140	40,160	(1,657)	38,415	243,161	24,666	267,827
Exchange realignment (unaudited)	—	—	—	—	(1,573)	—	(1,573)	(801)	(2,374)
Total income and expense for the period recognised directly in equity (unaudited)	—	—	—	—	(1,573)	—	(1,573)	(801)	(2,374)
Profit for the period (unaudited)	—	—	—	—	—	70,049	70,049	(4,093)	65,956
Total income and expense for the period (unaudited)	—	—	—	—	(1,573)	70,049	68,476	(4,894)	63,582
Capital contribution from minority interests (unaudited)	—	—	—	—	—	—	—	8,421	8,421
Share-based compensation costs (unaudited)	—	—	—	48,932	—	—	48,932	308	49,240
Exercise of share options (unaudited)	—	22	—	—	—	—	22	—	22
AT JUNE 30, 2007 (UNAUDITED)	3,564	110,561	52,140	89,092	(3,230)	108,464	360,591	28,501	389,092

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2008

	NOTE	FOR THE SIX MONTHS ENDED JUNE 30,	
		2008 RMB'000 (UNAUDITED)	2007 RMB'000 (UNAUDITED)
NET CASH INFLOW FROM OPERATING ACTIVITIES		108,108	140,783
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(303,331)	(168,014)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(62,932)	(2,539)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(258,155)	(29,770)
Cash and cash equivalents at beginning of period	12	888,922	318,508
Effect of foreign exchange rate changes, net		(38,124)	(2,530)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	12	592,643	286,208

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND REORGANISATION

The condensed consolidated interim financial statements were authorised for issue in accordance with a resolution of the directors on August 28, 2008.

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 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. The Company's and the Group's principal operations and geographic market are in the People's Republic of China (the "PRC"). The Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries established in the PRC. The principal executive office of the Company is located at 21/F, Baiyan Building, No. 238 Beisihuan Zhong Road, Haidian District, Beijing 100083, the PRC.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated interim financial statements for the six months ended June 30, 2008 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The condensed consolidated interim 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 audited financial statements as at December 31, 2007.

Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's audited financial statements for the year ended December 31, 2007, with the addition of the accounting policies described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments of these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition".

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant accounting policies (continued)

Financial assets at fair value through profit or loss (continued)

Where a contract contains one or more embedded derivatives, like credit-linked deposits, the entire hybrid contract may be designated as financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Acquisitions of minority interests

Acquisitions of minority interests are accounted for using the entity concept method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as a deduction of "retained earnings".

Interest in a jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in the jointly-controlled entity are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively.

The Group has not applied the following relevant new and revised International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations that have been issued but are not yet effective in these financial statements:

- IAS 1 Revised Presentation of Financial Statements
- IAS 23 Revised Borrowing Costs
- IAS 27 Revised Consolidated and Separate Financial Statements
- IAS 28 Revised Investments in Associates
- IAS 31 Revised Interests in Joint Ventures
- IAS 32 Revised Financial Instruments: Presentation
- IFRS 2 Revised Share-based Payment
- IFRS 3 Revised Business Combinations
- IFRS 8 Operating Segments
- IFRIC-Int 11 Group and Treasury Share Transactions
- IFRIC-Int 12 Service Concession Arrangements
- IFRIC-Int 13 Customer Loyalty Programmes

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

3. INCOME TAX

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2008 RMB'000 (UNAUDITED)	2007 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)	2007 RMB'000 (UNAUDITED)
<i>Current income tax</i>				
Current income tax charge	3,931	3,805	18,888	8,966
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	427	1,013	4,672	(513)
Income tax expense	4,358	4,818	23,560	8,453

4. PROPERTY, PLANT AND EQUIPMENT

	2008 RMB'000 (UNAUDITED)	2007 RMB'000 (UNAUDITED)
Net book amount at January 1,	45,446	32,790
Additions	38,210	10,359
Disposals	(80)	(138)
Depreciation charge	(9,500)	(8,171)
Net book amount at June 30,	74,076	34,840

5. INTANGIBLE ASSETS

	2008 RMB'000 (UNAUDITED)	2007 RMB'000 (UNAUDITED)
Net book amount at January 1,	14,281	7,178
Additions	9,317	9,700
Amortisation charge	(5,426)	(2,699)
Net book amount at June 30,	18,172	14,179

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

6. INTEREST IN AN ASSOCIATE

	AS AT JUNE 30, 2008 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2007 RMB'000 (AUDITED)
Shares of net assets	11,330	1,014

Particulars of the associate 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	RMB 10,000,000	40	Research, development and provision of online game services

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	AS AT JUNE 30, 2008 RMB'000	AS AT DECEMBER 31, 2007 RMB'000
Assets	36,111	8,271
Liabilities	(7,786)	(5,737)

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2008 RMB'000	2007 RMB'000
Revenue	39,534	98
Gain/(loss)	25,791	(2,085)

Pursuant to the cooperative agreement, the Company is required to transfer up to 20% of its equity interest in Kingsoft Guangzhou at a consideration of RMB1 to the only other shareholder of Kingsoft Guangzhou should Kingsoft Guangzhou's revenue achieve certain pre-determined revenue targets in the coming years.

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

7. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	AS AT JUNE 30, 2008 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2007 RMB'000 (AUDITED)
Shares of net assets	912	—
Loans to jointly-controlled entity	1,000	—
	1,912	—

The loans to the jointly-controlled entity were unsecured, interest-free and have a fixed term of repayment of 45 days since the establishment of the jointly-controlled entity. The carrying amount of the loans approximates to their fair values.

Particulars of the jointly-controlled entity 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 ("Kingsoft Lianking")	PRC June 10, 2008	RMB 3,000,600	40	Research and development of games

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	AS AT JUNE 30, 2008 RMB'000	AS AT DECEMBER 31, 2007 RMB'000
Assets	3,280	—
Liabilities	(1,000)	—

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2008 RMB'000	2007 RMB'000
Revenue	—	—
Loss	(720)	—

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

7. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

Pursuant to the cooperative agreement, the Group is required to transfer up to 15% of its equity interest in Kingsoft Lianking at no consideration to the only other shareholder of Kingsoft Lianking should the revenue of the first online game developed by Kingsoft Lianking achieve certain pre-determined revenue targets in the coming years, or upon the happening of specified events. Another 10% equity interest of Kingsoft Lianking will be required to transfer to the only other shareholder should the revenue of online games developed by Kingsoft Lianking achieve certain predetermined revenue targets during the first five years. In addition, if the revenue of the first online game developed by Kingsoft Lianking is below certain pre-determined revenue targets and the first online game of Kingsoft Lianking is not ready for commercialisation during the first 24 months of its operation, the Group is entitled to acquire up to 19% of equity interest in Kingsoft Lianking from the only other shareholder at no consideration.

8. LONG-TERM PREPAYMENTS

The long-term prepayments are unsecured and interest free. As of June 30, 2008, included in the balance is prepayment of RMB140 million for the acquisition of a property in Beijing.

9. INVENTORIES

The amount of the write-off of inventories recognised as an expense for the six months ended June 30, 2008 was RMB483 thousand (unaudited). This expense is included in "other operating costs".

10. 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 as at the balance sheet dates, based on the invoice date, is as follows:

	AS AT JUNE 30, 2008 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2007 RMB'000 (AUDITED)
0-30 days	71,652	51,147
31-60 days	4,209	1,141
61-90 days	3,825	1,926
91-365 days	5,557	2,555
Over one year	1,771	3,457
	87,014	60,226

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

11. CREDIT-LINKED DEPOSITS

At June 30, 2008, the Group held assets in the form of credit-linked deposits. The Group placed deposits in major financial institutions and these deposits are credit-linked to debt securities ("reference securities") issued by other entities ("reference entities"). The ultimate repayment of the deposit is dependent on the occurrence of credit event, such as bankruptcy or default by the reference entities. In addition, as those reference securities may be denominated in a currency other than the principal amount of the credit-linked deposits, the credit-linked deposits may also contain cross-currency swaps. The Group can receive deposit interests periodically under a predetermined rate. If a credit event occurs, the Group may suffer a loss on its credit-linked deposits because the financial institutions can terminate the interest payment and settle the Group's credit-linked deposits with cash received from the sale of the reference securities, if any, or by transferring the reference securities to the Group.

In accordance to IAS 39, *Financial Instruments: Recognition and Measurement*, the credit-linked deposits, which are linked to the credit worthiness of the reference securities, contain an embedded derivative that is not clearly and closely related to the interest-bearing deposit. As the Group managed and evaluated the performance of individual credit-linked deposits on a fair value basis, credit-linked deposits are considered as financial assets at fair value through profit or loss and are measured at fair value at each reporting date with changes in fair value recorded in the consolidated income statement.

The details of credit linked deposits held by the Group at the balance sheet date are disclosed as follows:

As at June 30, 2008

CREDIT-LINKED DEPOSITS REFERENCED TO	PRINCIPAL AMOUNT	DUE DATE	FAIR AND CARRYING VALUE RMB'000 (UNAUDITED)
Bank of Korea 4.94% Monetary Stabilisation Bonds	HK\$123.4 million	January 10, 2009	108,473
Republic of Korea 4.80% Bonds	US\$10.5 million	August 23, 2008	72,187
			180,660

As at December 31, 2007

The Group did not hold any credit-linked deposits as at December 31, 2007.

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

12. CASH AND CASH EQUIVALENTS

	AS AT JUNE 30, 2008 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2007 RMB'000 (AUDITED)
Cash and bank balances	383,388	171,801
Time deposits with original maturity of less than three months when acquired	209,255	717,121
Time deposits with original maturity of over three months when acquired	592,643	888,922
	257,800	357,155
	850,443	1,246,077

Cash and cash equivalents in the consolidated balance sheet comprise cash at bank and in hand and time deposits.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash at bank and in hand and time deposits with an original maturity of less than three months.

13. TRADE PAYABLES

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

	AS AT JUNE 30, 2008 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2007 RMB'000 (AUDITED)
0-30 days	4,816	2,328
31-60 days	1,620	1,307
61-90 days	26	1,192
91-365 days	437	773
Over one year	1,266	1,520
	8,165	7,120

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

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

14. AUTHORISED AND ISSUED CAPITAL

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

	NOTE	NUMBER OF SHARES IN ISSUE	ISSUED SHARE CAPITAL RMB'000	SHARE PREMIUM ACCOUNT RMB'000	TOTAL RMB'000
At January 1, 2008		1,061,726,020	4,322	735,510	739,832
Exercise of share options (unaudited)		5,329,313	16	3,654	3,670
Issuance of share certificates for ordinary share subscribed (unaudited)		—	3	316	319
Capital contribution from equity holders (unaudited)		—	—	32,741	32,741
At June 30, 2008 (Unaudited)		1,067,055,333	4,341	772,221	776,562
At January 1, 2007	(a)	861,315,540	3,564	110,539	114,103
Exercise of share options (unaudited)		80,000	—	22	22
At June 30, 2007 (unaudited)		861,395,540	3,564	110,561	114,125

(a) Pursuant to a resolution passed on September 3, 2007, the Company undertook a share split whereby each of the then issued ordinary share was split into 20 ordinary shares. Accordingly, the total number of issued shares as of September 3, 2007 increased from 43,069,777 shares to 861,395,540 shares and the nominal value of each share was changed from US\$0.01 each to US\$0.0005 each. All numbers/per share data of ordinary share of the Company have been presented after the effect of the share split, except where otherwise indicated.

15. SHARE-BASED COMPENSATION RESERVE

(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 (No.) and weighted average exercise prices (WAEP) of, and movements in, the Company's share options for the six months ended June 30, 2008 and for the year ended December 31, 2007. All numbers/per share data of ordinary share of the Company have been presented after the effect of the share split, which is mentioned in note 14(a), except where otherwise indicated.

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

15. SHARE-BASED COMPENSATION RESERVE (continued)

(a) Share options (continued)

	COMPANY			
	2008 NO.	2008 WAEP US\$	2007 NO.	2007 WAEP US\$
Outstanding at January 1,	141,677,680	0.2108	36,077,960	0.1062
Granted during the period	—	—	112,647,400	0.2411
Forfeited during the period	(4,477,967)	0.2394	(4,566,000)	0.2148
Exercised during the period	(4,434,313)	0.1174	(2,481,680)	0.0615
Expired during the period	—	—	—	—
Outstanding at June 30, 2008/ December 31, 2007	132,765,400	0.2130	141,677,680	0.2108

(b) Share Award Scheme

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

Pursuant to the rules of the Share Award Scheme, the Group has signed an agreement with Core Pacific-Yamaichi International (H.K.) Nominees Limited (“the trustee”), for the purpose of administering the Share Award Scheme and holding the awarded shares before they vest.

On June 26, 2008, 5,079,000 shares were awarded to a number of employees which will be transferred to the employees at nil consideration upon vesting between June 26, 2009 and June 26, 2011. The trustee acquired 200,000 shares of the Company at a total cost (including related transaction costs) of HK\$0.8 million in June 2008 and 4,903,000 shares at a total cost (including related transaction costs) of HK\$18.3 million in July 2008. The excess 24,000 shares would be awarded to employees in future.

16. DIVIDENDS

A final dividend for 2007 of HK\$0.1 per ordinary share was proposed pursuant to a resolution passed by the Board on March 31, 2008 and was approved by the shareholders in the annual general meeting held on May 23, 2008.

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended June 30, 2008.

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

17. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they 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 summarised 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.

The following table presents revenue and results for the Group's primary segments for the three and six months ended June 30, 2008 and 2007:

	ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED)	APPLICATIONS SOFTWARE RMB'000 (UNAUDITED)	OTHERS RMB'000 (UNAUDITED)	ELIMINATIONS RMB'000 (UNAUDITED)	CONSOLIDATED RMB'000 (UNAUDITED)
FOR THE THREE MONTHS ENDED JUNE 30, 2008 (UNAUDITED)					
REVENUE					
Sales to external customers	107,849	62,361	1,559	—	171,769
TOTAL REVENUE	107,849	62,361	1,559	—	171,769
RESULTS					
Segment results	41,132	28,353	1,559	—	71,044
Unallocated expenses					(30,486)
Finance income					5,830
Share of gain of an associate	8,233				8,233
Share of loss of a jointly-controlled entity	(288)				(288)
Profit before tax expense					54,333
Income tax expense					(4,358)
PROFIT FOR THE PERIOD					49,975

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

17. SEGMENT INFORMATION (continued)

	ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED)	APPLICATIONS SOFTWARE RMB'000 (UNAUDITED)	OTHERS RMB'000 (UNAUDITED)	ELIMINATIONS RMB'000 (UNAUDITED)	CONSOLIDATED RMB'000 (UNAUDITED)
FOR THE THREE MONTHS ENDED JUNE 30, 2007 (UNAUDITED)					
REVENUE					
Sales to external customers	101,660	36,510	1,346	—	139,516
TOTAL REVENUE	101,660	36,510	1,346	—	139,516
RESULTS					
Segment results	63,234	14,884	1,346	—	79,464
Unallocated expenses					(41,273)
Finance income					2,167
Share of loss of an associate	(397)				(397)
Profit before tax expense					39,961
Income tax expense					(4,818)
PROFIT FOR THE PERIOD					35,143

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

17. SEGMENT INFORMATION (continued)

	ENTERTAINMENT SOFTWARE RMB'000 (UNAUDITED)	APPLICATIONS SOFTWARE RMB'000 (UNAUDITED)	OTHERS RMB'000 (UNAUDITED)	ELIMINATIONS RMB'000 (UNAUDITED)	CONSOLIDATED RMB'000 (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2008 (UNAUDITED)					
REVENUE					
Sales to external customers	228,111	116,274	2,421	—	346,806
TOTAL REVENUE	228,111	116,274	2,421	—	346,806
RESULTS					
Segment results	116,326	54,473	2,421	—	173,220
Unallocated expenses					(68,805)
Finance income					14,207
Share of gain of an associate	10,316				10,316
Share of loss of a jointly-controlled entity	(288)				(288)
Profit before tax expense					128,650
Income tax expense					(23,560)
PROFIT FOR THE PERIOD					105,090
FOR THE SIX MONTHS ENDED JUNE 30, 2007 (UNAUDITED)					
REVENUE					
Sales to external customers	178,794	62,145	2,516	—	243,455
TOTAL REVENUE	178,794	62,145	2,516	—	243,455
RESULTS					
Segment results	118,228	24,201	2,516	—	144,945
Unallocated expenses					(73,668)
Finance income					3,966
Share of loss of an associate	(834)				(834)
Profit before tax expense					74,409
Income tax expense					(8,453)
PROFIT FOR THE PERIOD					65,956

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

18. COMMITMENTS

Capital commitments

The Group had the following commitments at the balance sheet date:

	AS AT JUNE 30, 2008 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2007 RMB'000 (AUDITED)
Contracted, but not provided for:		
Electronic equipment	8,177	3,230
Building	35,445	18,804
Total	43,622	22,034

19. RELATED PARTY TRANSACTIONS

The following table provides the total amount of material transactions, which have been entered into with related parties during the period.

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2008 RMB'000 (UNAUDITED)	2007 RMB'000 (UNAUDITED)	2008 RMB'000 (UNAUDITED)	2007 RMB'000 (UNAUDITED)
Sales to related parties:				
Entity with significant influence over a non-wholly owned subsidiary	—	—	—	4,359
Entity with a significant interest held by shareholder's family member	20	—	20	—
Total	20	—	20	4,359
Purchase from related parties:				
Company with a common shareholder of the Company	346	105	346	155

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

19. RELATED PARTY TRANSACTIONS (continued)

	NOTE	AS AT JUNE 30, 2008 RMB'000 (UNAUDITED)	AS AT DECEMBER 31, 2007 RMB'000 (AUDITED)
Due from related parties:			
Shareholders and directors of the Company	(a)	—	9,862

Note:

- (a) The balance as at December 31, 2007 represented the IPO expenses allocated to Lenovo Manufacturing Limited ("Lenovo"), New Horizon Goldensoft Investment Co., Ltd. ("New Horizon"), Super Faith International Limited ("Super Faith") and Tetrad Ventures Pte Ltd ("Tetrad") (collectively known as the "Selling Shareholders"). Before the IPO, the Company and the Selling Shareholders entered into an agreement, according to which, the IPO expenses should be borne by each of the Company and the Selling Shareholders in proportions according to the percentage of shares issued or sold in the IPO and the over-allotment. As of June 30, 2008, the four selling shareholders have paid their portions of IPO expenses to the Company.

20. POST BALANCE SHEET EVENTS

- (a) On June 1, 2008, the Group entered into an agreement to acquire the business of Shenzhen Zhaoshangzhuoer Infogate Co., Ltd. ("Shenzhen ZSZE") for a total cash consideration of RMB14.5 million. The Group will pay additional RMB3 million to Shenzhen ZSZE should the revenue of the acquired business achieve certain pre-determined revenue targets in 2008. The transaction was completed on July 31, 2008.

Due to the fact that the Group is still in the process of evaluating the fair value of the identifiable assets and liabilities acquired, and the Group is unable to obtain the pre-acquisition results of the acquired business, it is impractical to disclose such information as required under IFRS 3.

- (b) On August 28, 2008, the Board of Directors approved the plan for issuing 3,600,000 shares to some selected employees under the Share Award Scheme. The detail of the Share Award Scheme is disclosed in Note 15(b).

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

TO THE BOARD OF DIRECTORS OF KINGSOFT CORPORATION LIMITED

INTRODUCTION

We have reviewed the interim financial information set out on pages 4 to 23 which comprises the condensed consolidated balance sheet of Kingsoft Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as at June 30, 2008 and the related condensed consolidated statements of income for the three and six months then ended, changes in equity and cash flows for the six months then ended, and explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") promulgated by the International Accounting Standards Board.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Certified Public Accountants
Hong Kong

August 28, 2008

OPERATIONAL HIGHLIGHTS

	FOR THE THREE MONTHS ENDED					
	MARCH 31, 2007	JUNE 30, 2007	SEPTEMBER 30, 2007	DECEMBER 31, 2007	MARCH 31, 2008	JUNE 30, 2008
ONLINE GAMES						
Daily Average Peak						
Concurrent Users	508,188	491,757	529,794	605,569	633,487	846,180
Monthly Average Paying Users	1,196,656	1,136,197	1,034,864	1,001,381	1,093,789	1,036,692
Monthly Average Revenue per Paying User in RMB	21	28	31	37	36	34
ONLINE SERVICES OF INTERNET SECURITIES						
Daily Average Paying Users	3,965,540	5,324,747	6,503,647	7,555,280	8,277,873	8,696,519
Monthly Average Revenue per Paying User in RMB	1.5	1.5	1.4	1.5	1.4	1.6

FINANCIAL HIGHLIGHTS

	FOR THE SIX MONTHS ENDED	
	JUNE 30, 2007 RMB'000 (UNAUDITED)	JUNE 30, 2008 RMB'000 (UNAUDITED)
REVENUE:		
Entertainment software	178,794	228,111
Applications software	62,145	116,274
Others	2,516	2,421
	243,455	346,806
Cost of revenue	(41,656)	(49,139)
GROSS PROFIT	201,799	297,667
Research and development costs, net of government grants	(28,418)	(54,310)
Selling and distribution costs	(35,090)	(68,606)
Administrative expenses	(22,487)	(40,236)
Share-based compensation costs	(48,551)	(27,912)
Other operating costs	(513)	(2,809)
Other income and gains	4,537	621
OPERATING PROFIT	71,277	104,415
Finance income	3,966	14,207
Share of gain/(loss) of an associate	(834)	10,316
Share of loss of a jointly-controlled entity	—	(288)
PROFIT BEFORE TAX	74,409	128,650
Income tax expense	(8,453)	(23,560)
PROFIT FOR THE PERIOD	65,956	105,090
Attributable to:		
Equity holders of the Company	70,049	107,874
Minority interests	(4,093)	(2,784)
	65,956	105,090
	RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY		
Basic	0.0813	0.1013
Diluted	0.0792	0.0972

FINANCIAL HIGHLIGHTS (continued)

	FOR THE THREE MONTHS ENDED		
	JUNE 30, 2007	MARCH 31, 2008	JUNE 30, 2008
	RMB'000	RMB'000	RMB'000
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
REVENUE:			
Entertainment software	101,660	120,262	107,849
Applications software	36,510	53,913	62,361
Others	1,346	862	1,559
	139,516	175,037	171,769
Cost of revenue	(25,116)	(24,418)	(24,721)
GROSS PROFIT	114,400	150,619	147,048
Research and development costs, net of government grants	(15,180)	(24,009)	(30,301)
Selling and distribution costs	(21,397)	(23,888)	(44,718)
Administrative expenses	(12,326)	(21,663)	(18,573)
Share-based compensation costs	(27,464)	(16,747)	(11,165)
Other operating costs	92	(836)	(1,973)
Other income and gains	66	381	240
OPERATING PROFIT	38,191	63,857	40,558
Finance income	2,167	8,377	5,830
Share of gain/(loss) of an associate	(397)	2,083	8,233
Share of loss of a jointly-controlled entity	—	—	(288)
PROFIT BEFORE TAX	39,961	74,317	54,333
Income tax expense	(4,818)	(19,202)	(4,358)
PROFIT FOR THE PERIOD	35,143	55,115	49,975
Attributable to:			
Equity holders of the Company	37,335	57,051	50,823
Minority interests	(2,192)	(1,936)	(848)
	35,143	55,115	49,975
	RMB	RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	0.0433	0.0536	0.0476
Diluted	0.0422	0.0517	0.0455

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Kingsoft is pleased to present a set of encouraging operational and financial results for the first half of 2008. The initial six-month period was marked by the launch of two new major MMORPGs, JX Online World and The First Myth II, to level up JX franchise and The First Myth franchise, taking our entertainment software business to a record average peak of 0.85 million concurrent users for the second quarter. Whilst the Group continued to transform the existing application business towards web-based services, Kingsoft Internet Security online service utilization grew to a daily average of 8.7 million paying customers within the same time frame.

In order to seize new business opportunities within the booming Internet space both within China and overseas markets, the Group has formed a number of joint ventures and continued to sustain long term growth through strategic acquisitions. Overall these efforts have provided the Group a chance to strengthen the leading position as a major software developer, distributor and service provider in China.

Entertainment Software Business Segment

MMORPGs

Following a successful limited close beta testing, The First Myth II, the second installment of the Group's internally developed MMORPG game The First Myth series, commenced unlimited close beta testing on May 30, 2008. Celebrity Ekin Cheng was invited to be the game icon to further increase the game's popularity in China.

On June 6, 2008, JX Online World, a sequel of the original JX Online series, conducted unlimited close beta testing which recorded peak concurrent users of over 280,000 in August, 2008, a solid proof of its popularity in the market.

In order to expand the online game genre, the Group entered into a seed-investment framework agreement with Lianking, an online game R&D studio in China, in April 2008.

Casual Games

In May, the Group agreed to acquire a 29.4% equity interest in Kingsoft Dalian from Dalian Shang Shang Digital Technology Co., Ltd. for a total cash consideration of RMB30.3 million. Upon the completion of the transaction in June, 2008, Kingsoft Dalian became an 80.4%-owned

subsidiary of the Group. By acquiring a much larger shareholding in Kingsoft Dalian, the Group will benefit more from the full commercial deployment of Kingsoft Dalian's games after two years of internal development and testing.

Applications Software Business Segment

During the reporting period, the Group continued to expand its applications software business. In March 2008, the Group partnered with Baidu to launch a free internet security service that will benefit as many as 200 million users in China. In May 2008, the Group partnered with Google to launch "Google-Kingsoft Ciba", a free online translation service. The partnership started a new chapter for Kingsoft Ciba as it transforms itself into a web-based service provider.

The Group is in the process of acquiring Shenzhen Zhaoshangzhuoer Infogate Co., Ltd., an internet security products and services provider in China, at a cash consideration of RMB14.52 million plus future earn-outs. It will provide Kingsoft with a platform to access the growing market of internet security services for small and medium enterprises (SMEs).

In April, Kingsoft's top online English learning community in China, I Love Power Word (www.iciba.com), entered into a cooperation agreement with ChinaHR.com, one of the earliest and most professional recruitment websites in China. The cooperation will see ChinaHR.com in every column and channel of www.iciba.com. Users of www.iciba.com can enjoy better quality of service.

The Group is committed to improving the quality and functions of its products. In April 2008, Kingsoft Internet Security 2008 was awarded the VB100 certificate by Virus Bulletin, the international authority in anti-virus software testing, in recognition of its outstanding protection against viruses. It was the second time that Kingsoft Internet Security was granted the award.

Overseas Markets

Following the introduction of JX Online and The First Myth, JX Online II was commercially launched in Vietnam in March 2008. The three games recorded daily average peak concurrent users of over 350,000 for the three months ended June 30, 2008. The popularity of Kingsoft games in the Vietnamese online game market has demonstrated a local dominance.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

To further expand the business in Vietnam, the Group entered into an agreement with two Vietnamese parties to form a joint venture company named Kim Quang Software and Technology Joint Stock Company in Hanoi, Vietnam. The joint venture company will manufacture, process and distribute Kingsoft's software; design, manufacture and supply the products and value added services for mobile and information technology; and act as an agent for Kingsoft's Internet services.

Apart from Vietnam, Thailand becomes a new overseas market for the Group. In January 2008, the Group launched the first three dimensional ("3D") first-person shooter game MAT in the territory.

First Half of 2008 Compared to First Half of 2007

Revenue

Our revenue increased by 42% year-over-year to RMB346.8 million. Revenue from our entertainment and applications software businesses represented 66% and 34%, respectively, of our total revenue.

Revenue from our entertainment software business increased by 28% year-over-year to RMB228.1 million.

Daily average peak concurrent users, a measure we use to monitor the popularity of our MMORPGs, increased by 72% year-over-year to 0.85 million. Our number of monthly average paying users decreased by 9% year-over-year to 1.04 million. This year-over-year decrease in monthly paying users resulted from the attenuation of our existing games. The year-over-year increase in daily average peak concurrent users resulted from the introduction of two new online games, The First Myth II and JX Online World, during the reporting period.

The monthly average revenue per paying user ("monthly ARPU") for our MMORPGs increased by 21% year-over-year to RMB34.

Revenue from our applications software business increased by 87% year-over-year to RMB116.3 million, primarily due to an increase in the number of subscribers for online services of Kingsoft Internet Security to 8.7 million daily average paying users in the second quarter of 2008 from 5.3 million in the same period last year. This increase in users represents a 63% year-over-year increase in daily average paying users.

Monthly ARPU for the online services of Kingsoft Internet Security business increased by RMB0.1 year-over-year.

Gross Profit and Cost of Revenue

Our gross profit increased by 48% year-over-year to RMB297.7 million. Our gross profit margin increased by three percentage points year-over-year to 86%. The increase resulted primarily from a combination of the improved utilization of servers and bandwidth and increased proportion of revenue from online subscription of our application software, of which gross profit margin is relatively higher.

Our cost of revenue increased by 18% year-over-year to RMB49.1 million, primarily due to increased bandwidth and server costs associated with growing revenue from MMORPGs and online services of Kingsoft Internet Security.

Research and Development Costs

Our research and development expenses, net of government grants increased by 91% year-over-year to RMB54.3 million primarily due to (i) the company-wide rise in salaries and benefits and (ii) an overall increase in research and development headcount.

Selling and Distribution Costs

Our selling and distribution expenses increased by 96% year-over-year to RMB68.6 million due to the launch of a series of marketing campaigns to promote the two new online games, The First Myth II and JX Online World.

Administrative Expenses

Our administrative expenses increased by 79% year-over-year to RMB40.2 million primarily due to increased professional fees, a general rise in employee salary costs and benefits and increased administrative office expenses which were mainly rental costs and utility expenses.

Share-based Compensation Costs

Our share-based compensation costs decreased by 43% year-over-year to RMB27.9 million primarily due to the adoption of the accelerated method in accordance with the graded vesting schedule.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Operating Profit Excluding Share-based Compensation Costs

Our operating profit excluding share-based compensation costs increased by 10% year-over-year to RMB132.3 million. The operating profit margin decreased by 11 percentage points year-over-year to 38% primarily due to the increased selling and distribution costs.

Share of loss/gain of an associate

Our share of gain of an associate surged to RMB10.3 million versus a share of loss of RMB0.8 million, which is our share, as the 40% equity holder, of the gain/loss of our associate, Kingsoft Guangzhou. During the reporting period, Meng Xiang Shi Jie, the first game launched by Kingsoft Guangzhou, recorded strong operational performance and growing revenue.

Income Tax Expense

Our income tax expenses increased by 179% year-over-year to RMB23.6 million. Since the introduction of the new PRC Corporate Income Tax Law that became effective on January 1, 2008, there are still some uncertainties involved in applying the qualification rules for new technology enterprises which are subject to a favorable corporate income tax ("CIT") rate of 15%. We have been assessing our eligibility and adjusting the CITs of our local operating entities in accordance with the recent developments of the detailed rules.

The effective tax rate (excluding the impact of share-based compensation costs) was 15% for the reporting period versus 7% for the same period last year.

Profit attributable to equity holders of the Company

For the reasons described above, our profit attributable to equity holders increased by 54% year-over-year to RMB107.9 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, is a measure supplementary to the consolidated financial statements presented in accordance with International Financial Reporting Standards ("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 of 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 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 15% year-over-year to RMB135.7 million. The net profit margin excluding the effect of share-based compensation costs was 39% and 49% for the six months ended June 30, 2008 and June 30, 2007 respectively.

Liquidity and Financial Resources

The Group had a strong cash flow position towards the end of the reporting period. As at June 30, 2008, the Group had major financial resources in the forms of cash, time deposits and credit-linked deposits amounting to RMB383.4 million, RMB467.0 million and RMB180.7 million, respectively, which totally represented 69% of the Group's total assets.

As at June 30, 2008, the Group did not have any interest-bearing borrowings.

Gearing Ratio

As at June 30, 2008, the Group's gearing ratio, which represent total liabilities divided by total assets, was 23%, decreased 1 percentage point from 24% as at December 31, 2007. This minor decrease was mainly resulted from the decrease of accrued expenses and other payables.

Foreign Currency Risk Management

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. As the exchange rates of the RMB against US dollar rose continuously during the period under review, the Group sold US dollar for RMB upon receiving US dollar revenue. Besides, the Group adopted "natural immunity" method to match the income and payment in foreign currencies by arranging some expenses denominated in foreign currencies.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Cash and Net Cash Generated from Operating Activities

During the first half of 2008, the total balance of our cash and cash equivalent and credit-linked deposits decreased by 17% to RMB1.03 billion as at June 30, 2008 primarily as a result of cash outflows of dividend payment for the financial year of 2007 and payment for the acquisition of a new office property in Beijing.

Our net cash generated by operating activities was RMB108.1 million and RMB140.8 million for the six months ended June 30, 2008 and June 30, 2007, respectively. The decrease of our net cash generated by operating activities year-over-year was primarily due to an increase of RMB26.3 million in trade receivables and a decrease of RMB11.6 million in accrued expenses and other payables during the reporting period.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of property, fixed assets and intangible assets such as software. Cash used for capital expenditures was RMB189.6 million and RMB27.0 million for the six months ended June 30, 2008 and June 30, 2007, respectively. The year-over-year increase was resulted from the acquisition of a new office property in Beijing, the construction of the Zhuhai Research Center, and the purchase of additional servers for beginning the operation of The First Myth II and JX Online World during the reporting period.

Second Quarter of 2008 Compared to First Quarter of 2008 and Second Quarter of 2007

Revenue

Our revenue decreased by 2% quarter-over-quarter and increased by 23% year-over-year to RMB171.8 million. Revenue from our entertainment and applications software businesses represented 63% and 36%, respectively, of our total revenue in the second quarter of 2008.

Revenue from our entertainment software business decreased by 10% quarter-over-quarter and increased by 6% year-over-year to RMB107.8 million.

This quarter-over-quarter decrease was primarily due to the halt of online entertainment in the nation as a result of the 3 days of mourning for the Sichuan Earthquake in China in

May 2008 and the cannibalization impact incurred by the launch of JX Online World.

Daily average peak concurrent users increased by 34% quarter-over-quarter and increased by 72% year-over-year to 0.85 million. Our number of monthly average paying users decreased by 5% quarter-over-quarter and decreased by 9% year-over-year to 1.04 million.

The monthly ARPU for our MMORPGs decreased by 6% quarter-over-quarter and increased by 21% year-over-year to RMB34.

Revenue from our applications software business increased by 16% quarter-over-quarter and increased by 71% year-over-year to RMB62.4 million primarily due to an increase in the number of subscribers for online services of Kingsoft Internet Security to 8.7 million daily average paying users in the second quarter of 2008 from 5.3 million during the same period last year. This increase in daily average paying users represents a 63% year-over-year increase.

Monthly ARPU for online services of Kingsoft Internet Security business increased by RMB0.2 quarter-over-quarter and increased by RMB0.1 year-over-year.

Gross Profit and Cost of Revenue

Our gross profit decreased by 2% quarter-over-quarter and increased by 29% year-over-year to RMB147.0 million. Our gross profit margin remained unchanged quarter-over-quarter and increased by four percentage points year-over-year to 86%.

Our cost of revenue increased by 1% quarter-over-quarter and decreased by 2% year-over-year to RMB24.7 million. The quarter-over-quarter increase was primarily due to the launch of the two new online games, The First Myth II and JX Online World during the reporting period.

Research and Development Costs

Our research and development expenses, net of government grants increased by 26% quarter-over-quarter due to the full quarterly impact of the company-wide rise in salaries and benefits which was commenced in February 2008. In addition to this, as a result of the increased research and development headcount, our research and development expenses, net of government grants increased by 100% year-over-year to RMB30.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Selling and Distribution Costs

Our selling and distribution expenses increased by 87% to RMB44.7 million quarter-over-quarter and increased by 109% year-over-year primarily due to the launching expenditures of the two new online games, The First Myth II and JX Online World.

Administrative Expenses

Our administrative expenses decreased by 14% quarter-over-quarter and increased by 51% year-over-year to RMB18.6 million. It increased by 51% year-over-year primarily due to increased professional fees, a general rise in employee salary costs and benefits and administrative office expenses which were mainly rental costs and utility expenses.

Share-based Compensation Costs

Our share-based compensation costs decreased by 33% quarter-over-quarter and decreased by 59% year-over-year to RMB11.2 million primarily due to the adoption of the accelerated method in accordance with the graded vesting schedule.

Operating Profit Excluding Share-based Compensation Costs

Our operating profit excluding share-based compensation costs decreased by 36% quarter-over-quarter and 21% year-over-year to RMB51.7 million. The operating profit margin decreased by 16 percentage points quarter-over-quarter and 17 percentage points year-over-year to 30% primarily due to the increased selling and distribution costs.

Share of loss/gain of an associate

Our share of gain of an associate increased by 295% quarter-over-quarter and surged to RMB8.2 million versus a loss of RMB0.4 million in the same period last year, which is our share, as the 40% equity holder, of the gain/loss of our associate, Kingsoft Guangzhou. During the reporting period, Meng Xiang Shi Jie, the first game launched by Kingsoft Guangzhou has recorded strong operational performance and growing revenue.

Income Tax Expense

Our income tax expenses decreased by 77% quarter-over-quarter and decreased by 10% year-over-year to RMB4.4 million.

Profit attributable to equity holders of the Company

For the reasons described above, our profit attributable to equity holders of the Company decreased by 11% quarter-over-quarter and increased by 36% year-over-year to RMB50.8 million.

Profit attributable to equity holders of the Company before share-based compensation costs

Our profit attributable to equity holders of the Company before share-based compensation costs decreased by 16% quarter-over-quarter and decreased by 4% year-over-year to RMB62.0 million primarily due to the increased selling and distribution costs. The net profit margin excluding the effect of share-based compensation costs was 36%, 42% and 46% for the three months ended June 30, 2008, March 31, 2008 and June 30, 2007, respectively.

BUSINESS OUTLOOK

The challenging second quarter of 2008 during which Kingsoft entertainment software experienced a sequential decline of 10% and a mere 6% year on year growth is resulted from the impact of the cannibalized existing JX series by JX Online World together with the deferred revenue recognition of these two games.

Since JX Online World commenced unlimited closed beta testing in June, it has become one of the most successful MMORPGs for the year to date. JX series have become a strong, well recognised franchise not only within China but additionally within South East Asia.

JX Online World recorded strong peak concurrent users of over 280,000 in August, 2008. As both JX Online World and The First Myth II will make a full quarterly revenue impact within the third quarter, we expect a better revenue momentum for our entertainment software in the second half of 2008.

Although the internet security software market in China has enormous potential for growth, we are experiencing tougher competition in internet security online subscriptions, where some of our peers have engaged in aggressive price cutting and even longer free trial tactics to increase market share. As a result, the net growth of our daily average paying users has slowed down in the second quarter. Kingsoft has a very strong commitment to technology and quality improvement perspective that this is the key to sustaining our long term growth. Furthermore, internet security services for SMEs in China shows a strong sign of taking off. Upon the acquisition of the business of Shenzhen Zhaoshangzhuoer Infogate Co., Ltd., an internet security products and services provider in China, we will further expand into the business of SMEs SaaS (Software as a Service), which is expected to be a major growth driver to our application software in the foreseeable future.

OTHER INFORMATION

Directors' Interests in Securities

As at June 30, 2008, the interests and short positions of the Directors and the chief executive officer (the "CEO") of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO

(including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time (the "Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Long position in the ordinary shares of the Company:

NAME OF DIRECTOR	NATURE OF INTERESTS	NUMBER OF SHARES HELD	PERCENTAGE OF ISSUED SHARE CAPITAL
Pak Kwan Kau	Corporate (Note 1)	221,489,800	20.76%
Jun Lei	Corporate (Note 2)	160,040,280	15.00%

Long positions in share options of the Company:

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

Notes:

- These shares are held by Topclick Holdings Limited, a BVI company wholly owned by Mr. Pak Kwan Kau.
- These share are held by Color Link Management Limited and Go Corporate Limited, which are both a BVI company wholly owned by Mr. Jun Lei.
- The relevant interests include number of options of 22,451,800 which was granted on February 1, 2007 and its exercise period is from February 1, 2007 to February 1, 2017 with exercise price of USD\$0.2400, and the number of options of 5,311,500 which was granted on August 1, 2004 and its exercise period is from August 1, 2004 to August 1, 2014 with exercise price of USD\$0.0353.
- The relevant interests are 500,000 number of share options which were granted on August 1, 2004. Its exercise period is from August 1, 2004 to August 1, 2014 and its exercise price is USD\$0.0353.
- The relevant interests include number of share options of 5,000,000 which was granted on February 1, 2007 and its exercise period is from February 1, 2007 to February 1, 2017 with exercise price of USD\$0.2400, the number of share options of 800,000 which was granted on December 1, 2006 and its exercise period is from December 1, 2006 to December 1, 2016 with exercise price of USD\$0.2400, the number of share options of 600,000 which was granted on August 1, 2005 and its exercise period is from August 1, 2005 to August 1, 2015 with exercise price of USD\$0.2118, and the number of share options of 800,000 which was granted on March 1, 2005 and its exercise period is from March 1, 2005 to March 1, 2015 with exercise price of USD\$0.2118.

OTHER INFORMATION (continued)

Save as disclosed above, none of the directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at June 30, 2008.

Share Option Schemes

The Company adopted the 2004 and 2007 Pre-IPO Share Option Schemes which were approved by resolutions in

writing of all the shareholders passed on June 30, 2004 and January 22, 2007.

The following share options are outstanding under the 2004 and 2007 Pre-IPO Share Option Schemes during the period ended June 30, 2008, all numbers/per share data of ordinary share of the Company have been presented after the effect of the share split, which is mentioned in note 14(a), except where otherwise indicated. More details of Share Option Schemes are stated in note 15(a).

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS						AT JUNE 30, 2008	DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US\$ PER SHARE
	AT JANUARY 1, 2008	GRANTED DURING THE PERIOD	MODIFIED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD				
EXECUTIVE DIRECTORS									
Jun Lei	5,311,500	—	—	—	—	5,311,500	August 1, 2004	0.0353	
	22,451,800	—	—	—	—	22,451,800	February 1, 2007	0.2400	
	27,763,300	—	—	—	—	27,763,300			
Donghui Wang	800,000	—	—	—	—	800,000	March 1, 2005	0.2118	
	600,000	—	—	—	—	600,000	August 1, 2005	0.2118	
	800,000	—	—	—	—	800,000	December 1, 2006	0.2400	
	5,000,000	—	—	—	—	5,000,000	February 1, 2007	0.2400	
	7,200,000	—	—	—	—	7,200,000			

OTHER INFORMATION (continued)

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS						DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS US\$ PER SHARE
	AT JANUARY 1, 2008	GRANTED DURING THE PERIOD	MODIFIED DURING THE PERIOD	EXERCISED DURING THE PERIOD	FORFEITED DURING THE PERIOD	AT JUNE 30, 2008		
NON-EXECUTIVE DIRECTOR								
Wing Chung								
Anders Cheung	500,000	—	—	—	—	500,000	August 1, 2004	0.0353
OTHER EMPLOYEES								
In aggregate	1,770,500	—	—	—	—	1,770,500	January 1, 2000	0.0005
	152,460	—	—	(152,460)	—	—	January 1, 2001	0.0283
	11,547,820	—	—	(2,455,320)	(55,000)	9,037,500	August 1, 2004	0.0353
	3,541,000	—	—	—	—	3,541,000	January 1, 2005	0.2118
	250,000	—	—	—	—	250,000	April 1, 2005	0.2118
	2,617,000	—	—	(190,000)	(30,000)	2,397,000	August 1, 2005	0.2118
	556,000	—	—	(157,500)	(130,000)	268,500	January 1, 2006	0.2118
	800,000	—	—	—	—	800,000	August 1, 2006	0.2118
	3,400,000	—	—	(50,000)	—	3,350,000	December 1, 2006	0.2400
	79,341,600	—	—	(1,374,033)	(4,037,967)	73,929,600	February 1, 2007	0.2400
	1,008,000	—	—	(55,000)	(165,000)	788,000	April 1, 2007	0.2400
	680,000	—	—	—	—	680,000	May 8, 2007	0.2400
	550,000	—	—	—	(60,000)	490,000	August 1, 2007	0.4616
	106,214,380	—	—	(4,434,313)	(4,477,967)	97,302,100		
	141,677,680	—	—	(4,434,313)	(4,477,967)	132,765,400		

Share Award Scheme of the Company

The Share Award Scheme (the "Share Award Scheme") was adopted by the Board on March 31, 2008 (the "Adoption Date"). Unless it is terminated earlier by the Board, the Share Award Scheme shall be valid and effective for a term of five years commencing on the Adoption Date.

Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time) select an employee for participation in the Share Award Scheme and determine the number of shares to be awarded. The Board

shall not grant any award of shares which would result in the total number of shares which are the subject of awards granted by the Board under the Share Award Scheme (but not counting any which have lapsed or have been forfeited) representing in aggregate over 10% of the issued share capital of the Company as at the date of such grant.

On June 25, 2008, the committee of the Board of the Directors of the Company which was set up on May 30, 2008 and approved by a board resolution to deal with the Share Award Scheme on behalf of the Board approved 5,103,000 awarded shares to some selected employees, of which 5,079,000 awarded shares were accepted. The details of the Share Award Scheme are stated in note 15 (b) in the consolidated financial statements.

OTHER INFORMATION (continued)

Substantial Shareholders

As at June 30, 2008, as far as the Directors are aware of, the following, other than the directors or chief executive of the Company, had an interest in the shares or underlying shares in the Company which would fall to be disclosed to

the Company under the provision of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued capital of the Company:

NAME OF SHAREHOLDER	CAPACITY	NUMBER OF SHARES HELD IN THE COMPANY	PERCENTAGE OF ISSUED SHARE AS AT JUNE 30, 2008
Topclick Holdings Limited ⁽¹⁾	Beneficial owner	221,489,800	20.76%
Tetrad Ventures Pte Ltd	Beneficial owner	165,143,115	15.48%
GIC Special Investments Pte. Ltd. ⁽²⁾	Interest of a controlled corporation	165,143,115	15.48%
Government of Singapore Investment Corp. Pte. Ltd. ⁽²⁾	Interest of a controlled corporation	165,143,115	15.48%
Minister for Finance (Incorporated) ⁽²⁾	Interest of a controlled corporation	165,143,115	15.48%
Government of Singapore Investment Corporation (Ventures) Pte. Ltd. ⁽²⁾	Interest of a controlled corporation	165,143,115	15.48%
Color Link Management Limited ⁽³⁾	Beneficial owner	158,230,280	14.83%
Super Faith International Limited	Beneficial owner	101,946,386	9.55%
Caprice Pacific Limited ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.55%
Highland Crest Limited ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.55%
World Conquest Limited ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.55%
Pacific Star Overseas Limited ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.55%
Shuen Lung Cheung ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.55%
Nien Shian Chu ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.55%
Siu Lung Cheung ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.55%
Tung Ping Lau ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.55%
Siu Ha Cheung ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.55%
Ka Yeung Yip ⁽⁴⁾	Interest of a controlled corporation	101,946,386	9.55%
Lenovo Manufacturing Limited ⁽⁵⁾	Beneficial owner	78,920,796	7.40%
Lenovo Holdings (BVI) Limited ⁽⁵⁾	Interest of a controlled corporation	78,920,796	7.40%
Lenovo Group Limited ⁽⁵⁾	Interest of a controlled corporation	78,920,796	7.40%

- Mr. Pak Kwan Kau is deemed to be interested in Topclick Holdings Limited's interest in the Company by the SFO because Topclick Holdings Limited is wholly owned by Mr. Pak Kwan Kau.
- Government of Singapore Investment Corporation (Ventures) Pte. Ltd. is deemed to be interested in Tetrad Ventures Pte Ltd's interest in the Company under the SFO because Tetrad Ventures Pte Ltd is a wholly owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd.
- Mr. Jun Lei is deemed to be interested in Color Link Management Limited's interest in the Company by the SFO because Color Link Management Limited is wholly owned by Mr. Jun Lei.
- Each of Caprice Pacific Limited, Highland Crest Limited and World Conquest Limited is deemed to be interested in Super Faith International Limited's interest in the Company under the

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

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

OTHER INFORMATION (continued)

Save as disclosed above, the Directors confirm that they are not aware of any other person who has beneficial interests or short positions in any of the shares or underlying shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of the Shares carrying the right to vote in all circumstances at general meetings of the Company.

Employee and Remuneration Policies

As at June 30, 2008, the Group had 1,970 employees. The Group had not experienced any serious labour 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.

On March 31, 2008, the Company adopted the Share Award Scheme. Any award of shares granted by the Board according to the rules of the Share Award Scheme (the "Awarded Shares") and discretionary bonus will be awarded to employees with outstanding performance having regard to the Group's overall audited results. Employees of the Group are also entitled to other staff benefits including medical insurance and mandatory provident fund.

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 200,000 shares being Awarded Shares. The total amount paid to acquire these 200,000 shares during the period was about HK\$802,487.

Audit Committee

The Company has an audit committee which 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 Group's unaudited interim financial statements for the three and six months ended June 30, 2008 were reviewed and approved by the audit committee at an audit committee meeting held on August 22, 2008.

Adoption of Code of Conduct regarding Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (The "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended June 30, 2008.

Compliance with the Code on Corporate Governance Practices

For the six months ended June 30, 2008, 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. On May 30, 2008, Mr. Pak Kwan Kau who is the chairman of the Board of the Directors of the Company was appointed to be 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

Pak Kwan Kau
Chairman

PRC, August 28, 2008