Kingsoft Corporation Limited
金 山 軟 件 有 限 公 司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 3888)

Announcement of Audited Results For the Year Ended December 31, 2008

The Board ("Board") of directors (the "Directors") of Kingsoft Corporation Limited (the "Company") announces the audited results of the Company and its subsidiaries (the "Group" or "Kingsoft") for the year ended December 31, 2008 based on the International Financial Reporting Standards ("IFRSs"). These results have been audited by Ernst & Young, the auditors of the Company in accordance with Hong Kong Standards on Auditing. In addition, the results have also been reviewed by the audit committee of the Company.

FINANCIAL HIGHLIGHTS

	For the year ended			
	December 31, 2007 RMB'000	**December 31, 2008 RMB'000**	**December 31, 2008** HKD'000**	Year over Year change %
Revenue	556,614	**820,944**	**930,881**	47%
Profit attributable to equity holders of the Company*	164,678	**307,501**	**348,680**	87%
	RMB cent	**RMB cent**	**HKD cent**	
Basic earnings per share	18.15	**28.95**	**32.83**	60%
Diluted earnings per share	17.25	**27.74**	**31.45**	61%

* Profit attributable to equity holders of the Company excluding the effect of share-based compensation cost is RMB357.3 million and RMB268.0 million for the years ended December 31, 2008 and December 31, 2007, respectively; representing an increase of 33% year-over-year.

** The conversion of RMB into HKD in this release is based on RMB0.8819 to HKD1.00 as published by the People's Bank of China on December 31, 2008. Translations of amounts from RMB into Hong Kong Dollars ("HKD") are solely for the convenience of the reader. This convenient translation is not intended to imply that RMB amounts could have been, or could be, converted, realized, or settled into HKD at that rate on December 31, 2008, or at any other rate.

DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.15 per share for the year ended December 31, 2008 (2007: HKD0.10 per share), subject to the approval of the shareholders at the Annual General Meeting ("AGM") to be held on May 25, 2009. Such proposed dividend will be payable on June 5, 2009 to shareholders whose names appear on the register of members of the Company on May 25, 2009.

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2008

	Notes	**2008** RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	**345,626**	45,446
Goodwill		**2,377**	—
Other intangible assets		**39,071**	14,281
Lease prepayment		**7,138**	7,304
Interest in an associate		**27,077**	1,014
Interest in a jointly-controlled entity		**4,722**	—
Loan receivables		**2,520**	1,784
Deferred tax assets		**29,262**	52,814
Deferred cost		**273**	1,890
Long-term prepayments		**11,620**	—
		469,686	124,533
CURRENT ASSETS			
Inventories		**4,686**	2,019
Trade receivables	9	**84,819**	60,226
Prepayments, deposits and other receivables		**55,138**	47,743
Income tax receivable		**182**	522
Deferred cost		**5,889**	8,939
Due from related parties		**—**	9,862
Credit-linked deposit		**111,708**	—
Cash and cash equivalents		**1,007,115**	1,246,077
		1,269,537	1,375,388

	Note	2008 RMB'000	2007 RMB'000
CURRENT LIABILITIES			
Trade payables	10	**7,649**	7,120
Dividend payable		**134**	—
Accrued expenses and other payables		**160,972**	147,062
Deferred revenue		**183,445**	162,002
Income tax payable		**19,616**	6,047
		371,816	322,231
NET CURRENT ASSETS		**897,721**	1,053,157
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,367,407**	1,177,690
NON-CURRENT LIABILITIES			
Deferred revenue		**31,179**	29,726
Deferred tax liabilities		**7,863**	14,307
		39,042	44,033
Net assets		**1,328,365**	1,133,657
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		**4,362**	4,322
Share premium		**639,034**	735,510
Shares held for share award scheme		**(40,050)**	—
Ordinary shares subscribed		**—**	319
Statutory reserves		**81,481**	57,570
Employee share-based capital reserve		**194,648**	144,741
Foreign currency translation reserve		**(66,128)**	(28,918)
Retained earnings		**362,447**	101,953
Proposed final dividend		**139,723**	95,710
		1,315,517	1,111,207
Minority interests		**12,848**	22,450
Total equity		**1,328,365**	1,133,657

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE:			
Entertainment software		**553,723**	396,440
Applications software		**261,150**	156,521
Others		**6,071**	3,653
		820,944	556,614
Cost of revenue		**(110,935)**	(95,484)
GROSS PROFIT		**710,009**	461,130
Research and development costs, net of government grants		**(124,926)**	(68,450)
Selling and distribution costs		**(148,565)**	(108,723)
Administrative expenses		**(93,772)**	(65,785)
Share-based compensation costs	4	**(49,909)**	(103,764)
Other operating costs		**(4,822)**	(2,249)
Other income and gains		**18,898**	11,531
Finance income		**31,022**	22,775
Finance costs		**—**	(1,211)
Share of profit/(loss) of an associate		**27,263**	(2,460)
Share of loss of a jointly-controlled entity		**(1,278)**	—
PROFIT BEFORE TAX	5	**363,920**	142,794
Income tax credit/(expense)	6	**(59,885)**	12,658
PROFIT FOR THE YEAR		**304,035**	155,452
Attributable to:			
Equity holders of the Company		**307,501**	164,678
Minority interests		**(3,466)**	(9,226)
		304,035	155,452
PROPOSED FINAL DIVIDEND		**139,723**	95,710
		RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic		**0.2895**	0.1815
Diluted		**0.2774**	0.1725

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 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, 2007	3,564	110,539	—	—	52,140	40,160	(1,657)	38,415	—	243,161	24,666	267,827
Exchange realignment	—	—	—	—	—	—	(27,261)	—	—	(27,261)	(299)	(27,560)
Total income and expense for the year recognised directly in equity	—	—	—	—	—	—	(27,261)	—	—	(27,261)	(299)	(27,560)
Profit for the year	—	—	—	—	—	—	—	164,678	—	164,678	(9,226)	155,452
Total income and expense for the year	—	—	—	—	—	—	(27,261)	164,678	—	137,417	(9,525)	127,892
Capital contributions from minority interests	—	—	—	—	—	—	—	—	—	—	6,821	6,821
Share-based compensation costs	—	—	—	—	—	104,581	—	—	—	104,581	488	105,069
Issuance of shares	752	693,183	—	—	—	—	—	—	—	693,935	—	693,935
Exercise of share options	6	807	—	319	—	—	—	—	—	1,132	—	1,132
Profit appropriation	—	—	—	—	5,430	—	—	(5,430)	—	—	—	—
Share issuance expenses	—	(69,019)	—	—	—	—	—	—	—	(69,019)	—	(69,019)
Proposed final 2007 dividend	—	—	—	—	—	—	—	(95,710)	95,710	—	—	—
At December 31, 2007 and 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	**—**	**—**	**—**	**—**	**—**	**—**	**(37,210)**	**—**	**—**	**(37,210)**	**1,376**	**(35,834)**
Total income and expense for the year recognised directly in equity	**—**	**—**	**—**	**—**	**—**	**—**	**(37,210)**	**—**	**—**	**(37,210)**	**1,376**	**(35,834)**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**307,501**	**—**	**307,501**	**(3,466)**	**304,035**
Total income and expense for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(37,210)**	**307,501**	**—**	**270,291**	**(2,090)**	**268,201**
2007 final dividend declared	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(95,710)**	**(95,710)**	**—**	**(95,710)**
Dividend on shares issued for employee share options exercised after December 31, 2007	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(421)**	**—**	**(421)**	**—**	**(421)**
Shares purchased for share award scheme	**—**	**—**	**(40,050)**	**—**	**—**	**—**	**—**	**—**	**—**	**(40,050)**	**—**	**(40,050)**
Share-based compensation costs	**—**	**—**	**—**	**—**	**—**	**49,907**	**—**	**—**	**—**	**49,907**	**113**	**50,020**
Issuance of share certificates for ordinary shares subscribed	**3**	**316**	**—**	**(319)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Capital contribution from shareholders	**—**	**32,741**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**32,741**	**—**	**32,741**
Profit appropriation	**—**	**—**	**—**	**—**	**23,911**	**—**	**—**	**(23,911)**	**—**	**—**	**—**	**—**
Exercise of share options	**37**	**10,190**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**10,227**	**—**	**10,227**
Acquisition of a minority interest	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(22,675)**	**—**	**(22,675)**	**(7,625)**	**(30,300)**
Proposed final 2008 dividend	**—**	**(139,723)**	**—**	**—**	**—**	**—**	**—**	**—**	**139,723**	**—**	**—**	**—**
At December 31, 2008	**4,362**	**639,034**	**(40,050)**	**—**	**81,481**	**194,648**	**(66,128)**	**362,447**	**139,723**	**1,315,517**	**12,848**	**1,328,365**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	For the year ended December 31, 2008 RMB'000	2007 RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	**381,472**	345,474
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(520,533)**	(395,659)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	**(97,073)**	647,412
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(236,134)**	597,227
Cash and cash equivalents at beginning of year	**888,922**	318,508
Effect of foreign exchange rate changes, net	**(35,833)**	(26,813)
Cash and cash equivalents at end of the year	**616,955**	888,922
Time deposits with original maturity of over three months when acquired	**390,160**	357,155
	1,007,115	1,246,077

1. Corporate Information and Basis of Preparation

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

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

- research, development, operation and distribution of online game, mobile game and casual game services; and

- research, development, operation and distribution of internet security, dictionary and office applications software products.

Basis of Preparation

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

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

2. Significant Accounting Policies

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

Impact of New and Revised IFRSs

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

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments*: *Recognition and Measurement* and IFRS 7 *Financial Instruments*: *Disclosures — Reclassification of Financial Assets*
IFRIC-Int 11	*IFRS 2 — Group and Treasury Share Transactions*
IFRIC-Int 12	*Service Concession Arrangements*
IFRIC-Int 14	*IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of adopting these new and revised IFRSs are as follows:

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from July 1, 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) IFRIC-Int 11 *IFRS 2 — Group and Treasury Share Transactions*

IFRIC-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. There have been no significant changes to the accounting policies applied in these financial statements.

(c) IFRIC-Int 12 *Service Concession Arrangements*

IFRIC-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) IFRIC-Int 14 *IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC-Int 14 addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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 interest in a jointly-controlled entity is 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. Goodwill arising from the acquisition of the jointly-controlled entity is included as part of the Group's interest in a jointly-controlled entity.

Business Combination and Goodwill

Business combination are accounted for using the purchase method.

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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. Gains or losses on investments held for trading or these financial assets are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a 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.

Acquisition of Minority Interests

An acquisition of minority interests is 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 an equity transaction.

3. Segment Information

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

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

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. Over 90% of the Group's assets are located in the Mainland China and Hong Kong as at December 31, 2008.

(a) Business Segments

	Entertainment software RMB'000	Applications software RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Year ended December 31, 2008					
Revenue					
Sales to external customers	553,723	261,150	6,071	—	820,944
Total revenue	553,723	261,150	6,071	—	820,944
Results					
Segment results	340,155	106,454	6,071	—	452,680
Unallocated expenses					(145,767)
Finance income					31,022
Share of profit of an associate	27,263	—	—	—	27,263
Share of loss of a jointly-controlled entity	(1,278)	—	—	—	(1,278)
Profit before tax					363,920
Income tax expense					(59,885)
Profit for the year					304,035
As at December 31, 2008					
Assets and liabilities					
Segment assets	753,261	536,664	—	—	1,289,925
Interest in an associate	27,077	—	—	—	27,077
Interest in a jointly-controlled entity	4,722	—	—	—	4,722
Corporate and other unallocated assets					417,499
Total assets					1,739,223
Segment liabilities	127,657	119,782	—	—	247,439
Corporate and other unallocated liabilities					163,419
Total liabilities					410,858
Other segment information					
Depreciation and amortisation	11,641	15,566	—	—	27,207
Corporate and other unallocated amounts					5,159
Total depreciation and amortisation					32,366
Capital expenditure					
Tangible assets	173,207	146,842	—	—	320,049
Intangible assets	1,837	27,227	—	—	29,064
Other unallocated amounts					9,879
Total capital expenditure					358,992
Impairment loss recognised in the income statement	137	1,069	—	—	1,206
Write-off of receivables	—	102	—	—	102

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

(b) Geographical Segments

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

Year ended December 31, 2008	**Mainland China and Hong Kong RMB'000**	**Others RMB'000**	**Eliminations RMB'000**	**Consolidated RMB'000**
Segment revenue				
Sales to external customers	**722,029**	**98,915**	**—**	**820,944**
Other segment information				
Segment assets	**1,697,609**	**41,614**	**—**	**1,739,223**
Capital expenditure	**358,275**	**717**	**—**	**358,992**
Year ended December 31, 2007				
Segment revenue				
Sales to external customers	481,676	74,938	—	556,614
Other segment information				
Segment assets	1,468,478	31,443	—	1,499,921
Capital expenditure	49,897	1,100	—	50,997

4. Share-based Compensation Costs

(a) *Share Option Schemes*

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

The 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 years ended December 31, 2008 and 2007. All numbers/per share data of ordinary share of the Company have been presented after the effect of the share split.

	Company			
	2008 No.	**2008 WAEP USD**	2007 No.	2007 WAEP USD
Outstanding at January 1	**141,677,680**	**0.2108**	36,077,960[1]	0.1062
Granted during the year	**—**	**—**	112,647,400	0.2411
Forfeited during the year	**(7,152,467)**	**0.2411**	(4,566,000)	0.2148
Exercised during the year	**(10,745,688)**[2]	**0.1371**	(2,481,680)[2]	0.0615
Expired during the year	**—**	**—**	—	—
Outstanding at December 31	**123,779,525**	**0.2154**	141,677,680	0.2108
Exercisable at December 31	**55,207,640**	**0.1843**	15,553,660	0.1008

1 Included within these balances are options to subscribe for over 23,995,440 shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before November 7, 2002.

2 The weighted average share price at the date of exercise for the options exercised in 2008 was USD0.2996 (2007: USD0.5180).

(b) *Share Award Scheme*

On March 31, 2008 ("Adoption Date"), the Board of Directors approved and adopted a share award scheme ("Share Award Scheme") in which selected employees of the Group are entitled to participate. Unless early terminated by the Board of Directors, the Share Award Scheme 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.

For the Company's shares granted ("Awarded Shares") under the Share Award Scheme, the fair value of the employee services received in exchange for the grant of the Awarded Shares is recognised as an expense and credited to equity over the period in which the vesting conditions (i.e., service conditions and/or performance conditions) are fulfilled. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Awarded Shares granted. Non-vesting conditions and market conditions shall be taken into account when estimating the fair value of the equity instruments granted.

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. In October 2008, another 9,450,000 shares were awarded, most of which were subject to vesting over three years and certain performance conditions. In addition, in November and December 2008, another 1,050,000 shares were awarded with vesting period of three years. During the year ended December 31, 2008, the trustee acquired 17,138,000 shares of the Company through purchases on the open market at a total cost (including related transaction costs) of HKD45.6 million. The excess 1,559,000 shares would be awarded to employees in future.

The expenses recognised for employee services received in respect the Share Award Scheme for the year ended December 31, 2008 were RMB5.4 million.

The following table illustrates the number and movements in the Company's awarded shares for the year ended December 31, 2008.

	2008 Number of Awarded Shares
Outstanding at January 1	**—**
Awarded during the year	**15,579,000**
Forfeited during the year	**(21,000)**
Vested during the year	**—**
Outstanding at December 31	**15,558,000**

The fair value of the Awarded Shares was based on the market value of the Company's shares at award date.

5. Profit before Tax

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

	2008 **RMB'000**	2007 RMB'000
Employee benefit expense	**253,405**	244,082
Minimum lease payments under operating leases	**38,985**	25,554
Depreciation	**20,585**	18,185
Amortisation of lease prepayment	**166**	124
Amortisation of intangible assets:		
Amortisation of capitalised software costs*	**4,110**	882
Amortisation of purchased software	**7,019**	4,947
Amortisation of other intangible assets	**444**	—
Write-down of inventories	**1,206**	458
Write-off/(write-back) of receivables	**102**	(2,549)
Loss on disposal of items of property, plant and equipment	**89**	113
Foreign exchange differences	**1,602**	1,053
Bank interest income	**(31,022)**	(22,775)
Government grants**	**(7,589)**	(18,788)

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

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

6. Income Tax Credit/(Expense)

(a) Cayman Islands Profits Tax

The Group has not been subject to any taxation in this jurisdiction for the year ended December 31, 2008 (2007: Nil).

(b) Hong Kong Profits Tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in Hong Kong for the year ended December 31, 2008 (2007: Nil).

(c) PRC Corporate Income Tax ("CIT")

On January 1, 2008, the People's Republic of China Corporate Income Tax Law (the "New CIT Law") became effective, after being concluded and approved during the 5th Session of the 10th National People's Congress on March 16, 2007. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the corporate income tax rate of 25% for domestic incorporated enterprises and foreign-invested enterprises ("FIE"), tax concessions and tax treatment on certain expenses, etc. The New CIT Law Implementation Regulations ("CITLIR") and State Council Circular GuoFa [2007] No.39 were released at the end of 2007.

In 2008, the Company's PRC subsidiaries are governed by the New CIT Law, and are subject to corporate income tax at 25%. The Group's major subsidiaries are entitled to preferential income tax rates as follows:

(i) Zhuhai Kingsoft Software Co., Ltd., which was certified as an important software enterprise (國家規劃佈局內重點軟件企業) in the year 2008, was entitled to enjoy a reduced tax rate of 10% for the year of 2008 on its taxable income.

(ii) Beijing Kingsoft Software Co., Ltd., as an advanced technology enterprise (高新技術企業), is entitled to enjoy a reduced tax rate of 15% for the three years from 2008.

(iii) Beijing Kingsoft Digital Entertainment Co., Ltd., an advanced technology enterprise, was exempted from corporate income tax for the years from 2003 to 2005, and entitled to a 50% tax reduction for the three years from 2006 to 2008.

(iv) As a software enterprise, Chengdu Kingsoft Interactive Entertainment Co, Ltd. was exempted from state income tax from 2006 and 2007 and is entitled to a 50% tax reduction for the three years from 2008.

(d) Japanese Profits Tax

In accordance with Japanese tax laws, the income tax rate applicable to Kingsoft Japan Inc. ("Kingsoft Japan") is 40.86%.

The major components of income tax expense/(credit) for the years ended December 31, 2008 and 2007 are:

	Group	
	2008	2007
	RMB'000	RMB'000
Current income tax		
Current income tax charge	**43,329**	15,381
Deferred income tax		
Relating to origination and reversal of temporary differences	**428**	(12,936)
Resulting from change in the tax rates	**16,128**	(15,103)
Income tax expense/(credit) reported in the consolidated income statement	**59,885**	(12,658)

7. Earnings per Share Attributable to Ordinary Equity Holders of the Company

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

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

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

	2008 RMB'000	2007 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company	**307,501**	164,678

	Number of shares 2008	 2007
Shares		
Weighted average number of ordinary shares in issue less shares held for the Share Award Scheme*	**1,062,346,787**	907,336,598
Effect of dilution:		
Share options	**45,509,235**	47,376,651
Awarded Shares	**539,693**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,108,395,715**	954,713,249

The weighted average number of ordinary shares in issue for year ended December 31, 2007 has been retrospectively adjusted for the effect of the share split of the ordinary shares.

* 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 the subscribers.

8. Property, Plant and Equipment

	Electronic equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Group						
At January 1, 2007, net of accumulated depreciation	24,650	1,772	1,160	5,092	116	32,790
Additions	20,842	312	—	1,730	8,143	31,027
Disposals	(186)	—	—	—	—	(186)
Depreciation charge for the year	(13,978)	(587)	(240)	(3,380)	—	(18,185)
At December 31, 2007, and January 1, 2008, net of accumulated depreciation	**31,328**	**1,497**	**920**	**3,442**	**8,259**	**45,446**
Additions	**33,890**	**267**	**270**	**539**	**285,621**	**320,587**
Acquisition from a business combination	**125**	**—**	**229**	**—**	**—**	**354**
Disposals	**(176)**	**—**	**—**	**—**	**—**	**(176)**
Depreciation charge for the year	**(16,253)**	**(746)**	**(291)**	**(3,295)**	**—**	**(20,585)**
At December 31, 2008, net of accumulated depreciation	**48,914**	**1,018**	**1,128**	**686**	**293,880**	**345,626**

9. Trade Receivables

Trade receivables, which are non-interest-bearing and generally on credit terms of 30 to 90 days, are recognised and carried at original invoiced amounts less any impairment loss. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. 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 is as follows:

	Group	
	2008 RMB'000	2007 RMB'000
0–30 days	**60,032**	51,147
31–60 days	**7,408**	1,141
61–90 days	**9,715**	1,926
91–365 days	**6,348**	2,555
Over one year	**1,316**	3,457
	84,819	60,226

10. Trade Payables

An aged analysis of the Group's trade payables as at the balance sheet dates is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
0–30 days	**4,813**	2,328
31–60 days	**223**	1,307
61–90 days	**224**	1,192
91–365 days	**580**	773
Over one year	**1,809**	1,520
	7,649	7,120

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

11. Post Balance Sheet Events

(a) The Company acquired 21.42% preferred shares of Sky Profit Limited ("Sky Profit") at a consideration of USD5.2 million in January 2009, pursuant to an agreement dated on December 18, 2008 with Sky Profit and its subsidiaries (collectively, the "Sky Profit Group"), Sky Profit's 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. Furthermore, in accordance to the agreement, the Company shall pay an additional USD2.8 million, to acquire up to an aggregate 30.03% interest in the share capital of Sky Profit, and shall enter into a strategic business partnership arrangement with the Sky Profit Companies.

(b) The Group acquired 6.63% equity interest of Shanghai Zhixiong Internet Technology Co., Ltd. ("Shanghai Zhixiong"), at a consideration of RMB1.4 million. The transaction was completed in January 2009. Pursuant to the agreement entered into with Shanghai Zhixiong and its shareholders, the Group shall pay an additional RMB3.6 million to acquire an aggregate 19.9% equity interest of Shanghai Zhixiong.

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**	**September 30, 2008**	**December 31, 2008**
Online Games								
Daily Average Peak Concurrent Users	508,188	491,757	529,794	605,569	**633,487**	**846,180**	**990,885**	**1,029,611**
Monthly Average Paying Users	1,196,656	1,136,197	1,035,371	1,001,381	**1,093,789**	**1,036,192**	**1,239,609**	**1,531,993**
Monthly Average Revenue per Paying Users (RMB)	22	28	31	37	**36**	**34**	**40**	**38**
Online Services of Internet securities								
Daily Average Paying Users	3,965,540	5,324,747	6,505,150	7,555,280	**8,277,873**	**8,696,519**	**8,657,001**	**8,409,533**
Monthly Average Revenue per Paying Users (RMB)	1.5	1.5	1.4	1.5	**1.4**	**1.6**	**1.7**	**1.9**

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended December 31, 2008

The following table sets forth the comparative numbers for the three months ended December 31, 2008, September 30, 2008 and December 31, 2007, respectively.

	For the three months ended		
	December 31, 2007 RMB'000 (Unaudited)	September 30, 2008 RMB'000 (Unaudited)	**December 31, 2008 RMB'000 (Unaudited)**
REVENUE:			
Entertainment software	116,463	148,916	**176,696**
Applications software	48,769	64,472	**80,404**
Others	970	3,568	**82**
	166,202	216,956	**257,182**
COST OF REVENUE	(29,678)	(29,036)	**(32,760)**
GROSS PROFIT	136,524	187,920	**224,422**
Research and development costs, net of government grants	(19,697)	(28,463)	**(42,153)**
Selling and distribution costs	(42,006)	(40,944)	**(39,015)**
Administrative expenses	(29,997)	(21,342)	**(32,194)**
Share-based compensation costs	(27,098)	(12,350)	**(9,647)**
Other operating costs	(1,590)	(1,675)	**(338)**
Other income and gains	7,004	12,500	**5,777**
OPERATING PROFIT	23,140	95,646	**106,852**
Finance income	16,167	6,464	**10,351**
Finance costs	(1,211)	—	**—**
Share of profit/(loss) of an associate	(689)	7,367	**9,580**
Share of loss of a jointly-controlled entity	—	(359)	**(631)**
PROFIT BEFORE TAX	37,407	109,118	**126,152**
Income tax credit/(expense)	24,732	(6,849)	**(29,476)**
PROFIT FOR THE PERIOD	62,139	102,269	**96,676**
Attributable to:			
Equity holders of the Company	64,655	102,868	**96,759**
Minority interests	(2,516)	(599)	**(83)**
	62,139	102,269	**96,676**
	RMB	RMB	**RMB**
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	0.0654	0.0968	**0.0915**
Diluted	0.0600	0.0918	**0.0884**

Revenue

Revenue increased by 19% quarter-over-quarter and increased by 55% year-over-year to RMB257.2 million. Revenue from the entertainment and applications software businesses represented 69% and 31%, respectively, of our total revenue.

Revenue from the entertainment software business increased by 19% quarter-over-quarter and increased by 52% year-over-year to RMB176.7 million. This sequential quarter-over-quarter increase was primarily driven by our newly open beta launched massively multi-player online role playing games ("MMORPGs"), JX Online World and year-end promotion of existing games.

Daily average peak concurrent users, a measure used to monitor the popularity of the Group's MMORPGs, increased by 4% quarter-over-quarter and increased by 70% year-over-year to 1.0 million. The monthly average paying users increased by 24% quarter-over-quarter and increased by 53% year-over-year to 1.5 million. This quarter-over-quarter increase in paying users and daily average peak concurrent users resulted from the rapid growth of JX Online World player base, which started open beta testing in October, 2008.

The monthly average revenue per paying user ("monthly ARPU") for the Group's MMORPGs decreased by 5% quarter-over-quarter and increased by 3% year-over-year to RMB38.

Revenue from the applications software business increased by 25% quarter-over-quarter and increased by 65% year-over-year to RMB80.4 million primarily due to a significant growth revenue from online service of Kingsoft Internet Security both in mainland China and Japan.

Kingsoft Japan, in which the Group holds a 51% equity interest, recorded rapid growing revenue both from Kingsoft Office and Kingsoft Internet Security, especially advertising revenue from free version of Kingsoft Internet Security.

The number of subscribers for online services of Kingsoft Internet Security recorded 8.4 million daily average paying users, which represent a decrease of 3% quarter-over-quarter and an increase of 11% year-over-year. This quarter-over-quarter downward was mostly due to the decreasing users brought by the original equipment manufacturers and brick-and-mortar retailers. Monthly ARPU for online services of Kingsoft Internet Security business increased by RMB0.2 quarter-over-quarter and increased by RMB0.4 year-over-year to RMB1.9. This increase resulted primarily from the increased proportion of SMS and bank card subscribers contributing higher monthly ARPU.

Gross Profit and Cost of Revenue

Gross profit increased by 19% quarter-over-quarter and increased by 64% year-over-year to RMB224.4 million. The Group's gross profit margin held flat quarter-over-quarter and increased by five percentage points year-over-year to 87%. The increase resulted primarily from a combination of the improved utilisation of servers and bandwidth, reduced proportion of royalty fees for ShuiHu Q Zhuan, and increased proportion of revenue from online service of Kingsoft Internet Security of which gross profit margin is relatively higher.

Cost of revenue increased by 13% quarter-over-quarter and increased by 10% year-over-year to RMB32.8 million primarily due to the increased revenue from MMORPGs and online services of Kingsoft Internet Security.

Research and Development ("R&D") Costs

R&D costs, net of government grants of RMB1.8 million, increased by 48% quarter-over-quarter and increased by 114% year-over-year to RMB42.2 million. This quarter-over-quarter increase was primarily due to the recognition of discretionary year-end bonuses. The year-over-year increase mainly resulted from (i) a company-wide raise in salaries and benefits; (ii) an overall increase in research and development headcount and; (iii) a greater amount of government grants recognised in the same quarter of last year.

The following table sets forth a breakdown of the Group's research and development costs for the three months ended December 31, 2008, September 30, 2008 and December 31, 2007:

	For the three months ended		
	December 31, 2007 RMB'000 (Unaudited)	September 30, 2008 RMB'000 (Unaudited)	**December 31, 2008 RMB'000 (Unaudited)**
Staff costs	25,516	25,815	**40,373**
Depreciation & Amortisation	1,510	1,793	**1,981**
Others	1,462	4,770	**4,983**
	28,488	32,378	**47,337**
Less: Captalised software costs (except share-based compensation costs)	(835)	(2,442)	**(4,428)**
Add: Amortisation of capitalised software costs	215	1,299	**1,083**
Less: Government grants for research and development activities	(8,171)	(2,772)	**(1,839)**
Total	19,697	28,463	**42,153**

Selling and Distribution Costs

Selling and distribution expenses decreased by 5% quarter-over-quarter and decreased by 7% year-over-year to RMB39.0 million primarily due to that the Group reduced marketing and promotion for open beta testing of JX Online World in consideration of the rising word-of-mouth of the game.

Administrative Expenses

Administrative expenses increased by 51% quarter-over-quarter primarily due to the recognition of annual audit fees and employee year-end discretionary bonuses and increased by 7% year-over-year to RMB32.2 million.

Share-based Compensation Costs

Share-based compensation costs decreased by 22% quarter-over-quarter and decreased by 64% year-over-year to RMB9.6 million primarily due to the graded vesting of the granted share options and awarded shares.

Operating Profit Excluding Share-based Compensation Costs

Our operating profit excluding share-based compensation costs increased by 8% quarter-over-quarter and 132% year-over-year to RMB116.5 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs lowered by five percentage points quarter-over-quarter mainly due to the recognition of discretionary year-end bonuses and improved fifteen percentage points year-over-year to 45%.

Share of Profit/Loss of an Associate

The Group's share of gain of an associate increased by 30% quarter-over-quarter to RMB9.6 million from RMB7.4 million of the previous quarter as a result of the continuously growth of the revenue from Meng Xiang Shi Jie, the first game launched by the Group's associate: Guangzhou Kingsoft Duoyi Internet Technology Co., Ltd.("Kingsoft Guangzhou"), while we recorded a loss of RMB0.7 million for the same quarter of 2007.

Income Tax Expense/Credit

Income tax expense increased by 330% quarter-over-quarter to RMB29.5 million versus a tax credit of RMB24.7 million in the same reporting period last year. The increase was largely attributable to lower tax rates applicable to most of the Group's subsidiaries which were qualified as high/new technology, software, or key software enterprises. A deferred tax asset of RMB16.1 million was reversed accordingly, most of which was once recognised in the fourth quarter of 2007 referring to the new enterprise income tax law effective as of January 1, 2008 and new rules for application for new technology enterprises.

Profit Attributable to Equity Holders of the Company

For the reasons described above, the Group's profit attributable to equity holders of the Company decreased by 6% quarter-over-quarter and increased by 50% year-over-year to RMB96.8 million.

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

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

We believe the profit attributable to equity holders of the Company before share-based compensation costs will enhance investors' overall understanding of the Company's operating performance. When assessing the Group's 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, 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.

Profit attributable to equity holders of the Company before share-based compensation costs decreased by 8% quarter-over-quarter and increased by 16% year-over-year to RMB106.3 million. The quarter-over-quarter decrease was primarily due to the recognition of the increased income tax expenses and employee year-end discretionary bonuses. The year-over-year increase reflected the Group's improved profitability, which was largely offset by the increased income tax expenses for the reasons described above. The profit margin excluding the effect of share-based compensation costs was 41%, 53% and 55% for the three months ended December 31, 2008, September 30, 2008 and December 31, 2007, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at December 31, 2008, the Group had major financial resources in the forms of cash and cash equivalent, time deposits with initial term of over three months and credit-linked deposits amounting to RMB617.0 million, RMB390.2 million, RMB111.7 million, respectively, which totally represented 64% of the Group's total assets. The Group received the principle and interests of the credit-linked deposits in full amounts of HKD126.7million, when it was due on January 10, 2009.

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

Foreign Currency Risk Management

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

As at December 31, 2008, RMB308.9 million of the Group's financials assets were held in deposits and investments denominated in non-RMB currencies. There is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and investments.

Deferred Revenue

Deferred revenue (including current and non-current portion) increased by 5% quarter-over-quarter and increased by 12% year-over-year to RMB214.6 million as at December 31, 2008, which primarily resulted from the increased sales of the prepaid cards related to online games.

Net Cash Generated from Operating Activities

Cash and cash equivalent and credit-linked deposits increased by 6% quarter-over-quarter to RMB1,118.8 million as a combined result of net cash inflows from operating activities and payments for the acquisition and decoration of a new office in Beijing and the construction of Zhuhai Research Center, acquisition of Liankíng studio and Infogate business, and purchased-back shares under the Share Award Scheme.

Cash generated by the operating activities reflects the Group's profit for the three months periods, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalised software costs, and share-based compensation costs, as well as the effect of changes in certain balance sheet items, such as deferred revenue and accrued expenses and other payables. Net cash generated by operating activities was RMB148.8 million, RMB124.5 million and RMB129.1 million for the three months ended December 31, 2008, 30 September, 2008 and December 31, 2007, respectively.

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 RMB70.9 million, RMB69.1 million and RMB12.5 million for the three months ended December 31, 2008, September 30, 2008 and December 31, 2007, respectively. For the three months ended December 31, 2008, we incurred more capital expenditures related to the purchase and decoration of the new office property in Beijing and the construction and decoration of the Zhuhai Research Center.

For the Year Ended December 31, 2008

The following table sets forth the comparative numbers for the years ended December 31, 2007 and December 31, 2008, respectively.

	2008	2007
	RMB'000	RMB'000
REVENUE:		
Entertainment software	**553,723**	396,440
Applications software	**261,150**	156,521
Others	**6,071**	3,653
	820,944	556,614
COST OF REVENUE	**(110,935)**	(95,484)
GROSS PROFIT	**710,009**	461,130
Research and development costs, net of government grants	**(124,926)**	(68,450)
Selling and distribution costs	**(148,565)**	(108,723)
Administrative expenses	**(93,772)**	(65,785)
Share-based compensation costs	**(49,909)**	(103,764)
Other operating costs	**(4,822)**	(2,249)
Other income and gains	**18,898**	11,531
OPERATING PROFIT	**306,913**	123,690
Finance income	**31,022**	22,775
Finance costs	**—**	(1,211)
Share of profit/(loss) of an associate	**27,263**	(2,460)
Share of loss of a jointly-controlled entity	**(1,278)**	—
PROFIT BEFORE TAX	**363,920**	142,794
Income tax credit/(expense)	**(59,885)**	12,658
PROFIT FOR THE YEAR	**304,035**	155,452
Attributable to:		
Equity holders of the Company	**307,501**	164,678
Minority interests	**(3,466)**	(9,226)
	304,035	155,452
PROPOSED FINAL DIVIDEND	**139,723**	95,710
	RMB	RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY		
Basic	**0.2895**	0.1815
Diluted	**0.2774**	0.1725

Revenue

Revenue increased by 47% year-over-year to RMB820.9 million. Approximately 67% was generated from the entertainment software business segment and 32% was generated from the applications software business segment.

— Entertainment Software

Revenue from the entertainment software increased by 40% to RMB553.7 million. This strong revenue growth was mainly attributable to the increasing popularity of the Group's MMOPRGs, especially the success of JX franchise. The Group's daily average peak concurrent users increased by 70% to 1.0 million year-over-year for the three month period ended December 31, 2008.

The monthly ARPU for our MMOPRGs increased by 3% year-over-year to RMB38 year-over-year for the three month period ended December 31, 2008.

— Applications Software

Revenue from the applications software business increased by 67% year-over-year to RMB261.2 million primarily due to a significant increase in the number of subscribers for online services of Kingsoft Internet Security software and a rapid growth of software revenue from Kingsoft Japan.

During the year, the revenue contributed from Kingsoft Internet Security was RMB201.4 million, represented 77% of the total revenue of our applications software and an 81% increase from last year.

Gross Profit and Cost of Revenue

Gross profit increased by 54% year-over-year to RMB710.0 million. The Group's gross profit margin increased by three percentage points year-over-year to 86%. This increase was primarily due to a combination of the improved utilisation of servers and bandwith, reduced proportion of royalty fees for ShuiHu Q Zhuan, and increased proportion of revenue from online service of Kingsoft Internet Security.

Cost of revenue increased by 16% year-over-year to RMB110.9 million primarily due to the increased revenue from MMORPGs and online services of Kingsoft Internet Security compared to the previous year.

R&D Costs

R&D costs, before government grants, increased by 52% year-over-year to RMB132.5 million primarily due to the increase in salaries, benefits, bonuses paid to our R&D personnel and an overall increase in R&D headcount.

Government grants for 2008 and 2007 were research-project based for the Group's development of software and online game technologies and amounted to RMB7.6 million and RMB18.8 million, respectively.

The following table sets forth a breakdown of R&D costs for the year ended December 31, 2008 and 2007:

	For the year ended December 31,	
	2008	2007
	RMB'000	RMB'000
Staff cost	**114,641**	75,795
Depreciation & Amortisation	**6,869**	4,468
Others	**16,455**	7,910
	137,965	88,173
Less: Captalised software costs (except share-based compensation costs)	**(9,560)**	(1,817)
Add: Amortisation of capitalised software costs	**4,110**	882
Less: Government Grants for research and development activities	**(7,589)**	(18,788)
Total	**124,926**	68,450

Selling and Distribution Costs

Selling and distribution expenses increased 37% year-over-year to RMB148.6 million primarily due to an increase in online advertisement expenses related to promoting our MMORPGs and online services of Kingsoft Internet Security.

Administrative Expenses

Administrative expenses increased by 43% year-over-year to RMB93.8 million primarily due to growth in headcount for supporting the business expansion, the salary benefits and bonuses increases implemented in 2008, and the increased professional fee for enhancement of the Group's management.

Share-based Compensation Costs

Share-based compensation costs decreased substantially by 52% year-over-year to RMB49.9 million primarily due to the graded vesting of the granted share options.

Other Operating Costs

Other operating costs increased by 114% year-over-year to RMB4.8 million primarily due to the increased donation for Sichuan earthquake in 2008 and the write back of bad-debt impaired receivables in 2007 with amount of RMB2.5 million.

Other Income and Gains

Other income and gains increased by 64% year-over-year to RMB18.9 million primarily due to the increased non-research-project based government grants.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs increased by 57% year-over-year to RMB356.8 million as a result of the combination of above reasons. The margin of operating profit excluding share-based compensation costs improved by two percentage points year-over-year to 43% which reflected the enhanced profitability as a combined result of larger scale of the Group's entertainment software, greater portion of revenue from online service of Kingsoft Internet Security and initial success of new business model of Kingsoft Internet Security in oversea markets.

Finance Income

Finance income increased by 36% year-over-year to RMB31.0 million due to the higher average cash deposit balances in 2008.

Finance Costs

Finance costs were nil in 2008 versus RMB1.2 million in 2007, which resulted from that the Group did not have any borrowings for the year ended December 31, 2008.

Share of Profit/Loss of an associate

Share of gain of an associate was RMB27.3 million in 2008, while the Group recorded a loss of RMB2.5 million in 2007. For the year of 2008, Meng Xiang Shi Jie, the first game launched by Kingsoft Guangzhou, remained a strong and rising operational performance.

Income Tax Expense/Credit

Income tax expenses was RMB59.9 million in 2008 versus an income tax credit of RMB12.7 million in 2007.

This income tax expense of RMB59.9 million was a result of a combination of the current income tax charges of RMB43.3 million and deferred tax expense of RMB16.6 million. The deferred tax expense mainly constituted of a deferred tax asset reversal of RMB16.1 million due to the preferential applicable rates for calculating deferred tax assets as at December 31, 2008.

Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company increased by 87% year-over-year to RMB307.5 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 increased by 33% year-over-year to RMB357.3 million.

The profit margin excluding the effect of share-based compensation costs was lowered to 44% for the year ended December 31, 2008 versus 48% for the year ended December 31, 2007 for the reasons for increased income tax expense described above.

Deferred Revenue

Deferred revenue (including current and non-current portion) increased by 12% year-over-year to RMB214.6 million as at December 31, 2008. The increases in deferred revenue were consistent with the increased sales of prepaying games cards and online points for the Group's online games and prepayments for online subscription for the Group's application software products.

Net Cash Generated from Operating Activities

Cash generated by our operating activities reflects our profit for reporting year, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalised software costs, and share-based compensation costs, as well as the effect of changes in certain balance sheet items, such as deferred revenue and accrued expenses and other payables. Our net cash generated by operating activities increase by 10% to RMB381.5 million for the year ended December 31, 2008.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of property, fixed assets and intangible assets such as software. Cash used for capital expenditures increased by 545% year-over-year to RMB329.6 million for the year ended December 31, 2008. During the reporting year, we incurred larger capital expenditures due to the purchase and decoration of the new office property in Beijing, the construction and decoration of the Zhuhai Research Center, and the purchase of additional server for First Myth II and JX Online World.

BUSINESS REVIEW AND PROSPECTS

2008 was another successful year for Kingsoft following the IPO in 2007. We made robust financial and operational performance in entertainment software and application software. Our online games' traffic, ADPCU reached to a record of in over 1 million for the fourth quarter of 2008; in a constant transit to a web-based software as a service model, our application software also recorded a year-over-year growth of 67% as we increased the proportion of subscription revenue and advertising revenue.

Our 2008 annual results showed the resilience of our dual-engine growth model to the global economy recession. This dual-engine growth model has been fundamentally driven by the growth of internet. China Internet Network Information Center recent report shows that total number of Internet users in China reached 298 million at the end of 2008, representing a year-on-year growth of 42% as a combined result of increased broadband penetration, increased online activities and applications, particularly in the usages of interactive communities and entertainment contents.

— MMORPGs

Since the launch of our first game in 2003, Kingsoft has expanded the game portfolio into eight games, six self-developed and two licensed.

JX Online World was launched in July 2008, which continued the successful story of JX brand name and recorded PCU of over 0.37 million in the fourth quarter of 2008. Our flagship game series, JX has become one of the most influential martial-arts genre game series in China and Southeast Asia with ADPCU of over 0.80 million for the fourth quarter. JX III has possessed top ranking on the game wish-list by 17173.com.

The limited close-beta testing of JX III running on our proprietary state-of-the-art 3D engine commenced in November, 2008 and received overwhelmingly strong support from the fans. We expect JX III will be in full commercialisation in the second half of 2009. In addition to JX III, we plan to launch four new games in 2009.

Kingsoft was an early believer in game diversification. We have multiple studios specialised in different game genres of martial-arts, Chinese mythology, cartoon and FPS in four major locations, Zhuhai, Beijing, Chengdu and Dalian. The total number of research and development staff of online games is over 760. To further diversify and leverage our operating and user platforms, in addition to Kingsoft Guangzhou, we made investment into two other domestic game studios, "Lianking" studio in Beijing in 2008, and "Zhixiong" studio in Shanghai in 2009.

To broaden Kingsoft's access to gamers, in January 2009, we acquired a 30% interest of Sky Profit, a leading gamer voice-chat platform in China.

Kingsoft games' overseas expansion continued in 2008 as we launched a number of new games into Southeast Asia, such as JX Online II and First Myth II in Vietnam and MAT in Thailand and Taiwan. JX series have been leading the local market in Vietnam through the game operator Vinagame since 2005.

Applications Software

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

— Internet Security Software

Our principal Internet security software product is Kingsoft Internet Security, which is the one of the leading domestically produced Internet security software products in China.

During the reporting period, its total number of online daily average paying users reached to over 8.4 million. Kingsoft Internet Security teamed up with Baidu, the largest Chinese language internet search provider and launched a free internet security service that will benefit as many as 200 million users in China in January 2008.

In December 2008, Kingsoft Internet Security 2008 was the fourth time awarded the VB100 certificate by Virus Bulletin, the international authority in anti-virus software testing.

Kingsoft Internet Security reached a strategic cooperation agreement with Microsoft MSN to jointly launch the free "MSN Protection Shield v1.0" and "MSN Security Center" in November 2008.

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

— Dictionary Software

Our key dictionary software, Kingsoft PowerWord, is China's number one multilingual dictionary software. The website www.iciba.com provides an all-round environment for foreign language learning and is dedicated to becoming a comprehensive community for foreign language learners. It has the highest traffic among its Chinese peers issued by Alexa.

In May 2008, Kingsoft PowerWord partnered with Google to launch "Google-Kingsoft PowerWord". The partnership is the start of a new chapter for Kingsoft PowerWord as it transforms into a web-based service. As the first co-branded and free version of the Kingsoft PowerWord series with local dictionary, "Google-Kingsoft PowerWord" leverages on the firm foundation of the PowerWord product, offering quality translation services.

— Office Application Software

Our office application software, WPS Office, is the leading domestically developed office applications software in China.

In August 2008, PRC government departments implemented mandatory application of Uniform Office Format standard ("UOF"), which is expected to accelerate development of PRC-made software. As one of the setters of the UOF standard, Kingsoft's key new product WPS Office 2007 is in full compliance with UOF.

OTHER INFORMATION

Employee and Remuneration Policies

As at December 31, 2008, the Group had approximately 2,271 full-time employees (2007: 1,660). The number of employees of the Group varies from time to time depending on business development and plan. The Group determines its staff's remuneration based on factors such as their experience, responsibilities, qualifications, relevant market rate and industry practice. The staff cost of the Group (including Directors' and senior management's emoluments in 2007 and 2008 were approximately RMB244.1 million and RMB253.4 million, respectively.

Purchase, Sale or Redemption of Listed Securities

During the year ended December 31, 2008, none of the Company or any of its subsidiaries had purchased, sold or redeemed any of its listed securities, except that the trustee of the Share Award Scheme had, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased from the market a total of 17,138,000 Kingsoft's shares being the awarded shares which are held on behalf of selected employees pursuant to the terms of the scheme. The total amount paid to acquire these 17,138,000 shares during the year was about HKD45,555,338. Details of awarded shares purchased are as follows:

		Purchase consideration per share		
Month of purchase in 2008	**No. of shares purchased**	**Highest price paid HKD**	**Lowest price paid HKD**	**Aggregate consideration paid HKD**
June	200,000	4.00	3.98	802,488
July	4,903,000	3.99	3.50	18,309,968
September	3,567,000	3.12	2.01	9,379,465
October	7,468,000	2.00	1.75	14,493,807
December	1,000,000	2.76	2.23	2,569,610
Total	17,138,000			45,555,338

Use of IPO Proceeds

The Company has raised the aggregate net proceeds from the Global Offering of approximately HKD649.1 million. The Global Offering was completed in the fourth quarter of 2007 and the use of proceeds as of the end of 2008 is set out in the table below:

Area of use	**Planned amount (HKD' Mil)**	**Amount remaining as at December 31, 2008 (HKD' Mil)**
Expansion of research and development capabilities	170.1	117
Expansion in certain overseas market	76.0	69.4
IT infrastructure upgrade	94.1	30.6
Strategic acquisitions and joint ventures	115.8	62.1
Construction of research and development facilities in Zhuhai	72.4	—
General corporate purposes	27.9	3.9

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, May 18, 2009 to Monday, May 25, 2009 both dates inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming AGM and to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, May 15, 2009.

AUDIT COMMITTEE

The Audit Committee of the Company has been established since 2007 and is responsible for assisting the Board in providing an independent review of the financial statements and internal control system. It acts in an advisory capacity and makes recommendations to the Board. The Audit Committee is chaired by an independent non-executive director, Mr. Shun Tak Wong, and currently comprises one other independent non-executive director and one non-executive director of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial statements for the year ended December 31, 2008. The Audit Committee has reviewed the Group's audited financial statements for the year ended December 31, 2008.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the year, the Company has adopted and complied with all code provisions set out in the code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") except for the deviation in respect of the code A.2.1 of the Code which provides that the roles of the chairman (the "Chairman") and chief executive officer (the "CEO") should be separated and should not be performed by the same individual.

Mr. Pak Kwan Kau, Chairman of the Company took up the position of acting CEO since December 20, 2007 until May 30, 2008, when Mr. Pak Kwan Kau was officially appointed to be the CEO of the Company. During the year, the roles of Chairman and CEO 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 Mr. Kau's appointment being both the Chairman and CEO is beneficial to the business prospect of the Company.

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

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

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

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

PRC, March 31, 2009

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