



Kingsoft Corporation Limited
金山軟件有限公司

(Continued into the Cayman Islands with limited liability)
(Stock Code : 3888)

Announcement of Unaudited Results
For the Three Months Ended March 31, 2008

The Board (“Board”) of directors (the “Directors”) of Kingsoft Corporation Limited (the “Company”) announces the unaudited results of the Company and its subsidiaries (the “Group”) for the three months ended March 31, 2008. This announcement is made as part of the Group’s current practice to publish its quarterly financial results and pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

FINANCIAL HIGHLIGHTS

	For the three months ended			YoY*	QoQ*
	March 31, 2007	December 31, 2007	March 31, 2008		
	RMB’000 (Audited)	RMB’000 (Unaudited)	RMB’000 (Unaudited)	change %	change %
Revenue	103,939	166,202	175,037	68	5
Profit attributable to equity holders of the Company**	32,714	64,655	57,051	74	(12)
	RMB cent	RMB cent	RMB cent		
Basic earnings per share	3.80	6.54	5.36	41	(18)
Diluted earnings per share	3.70	6.00	5.17	40	(14)

* YoY change % represents a comparison between the current reporting period and the same period last year, QoQ change % represents the comparison between the current reporting period and the previous period.

** Profit attributable to equity holders of the Company excluding the effect of share-based compensation cost is RMB73.7 million, RMB91.7 million and RMB53.6 million for the three months ended at March 31, 2008, December 31, 2007 and March 31, 2007, respectively. This represents a YoY increase of 38% and a QoQ decrease of 20%.

OPERATIONAL HIGHLIGHTS

For the three months ended

	March 31, 2007	December 31, 2007	March 31, 2008	YoY change %	QoQ change %
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Online Games

Daily Average Peak

Concurrent Users	508,188	605,569	633,487	25	5
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Monthly Average

Paying Users	1,196,656	1,001,381	1,093,789	(9)	9
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Monthly Average

Revenue per Paying User in RMB	22	37	36	64	(3)
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Online Services of Internet securities

Daily Average

Paying Users	3,965,540	7,555,280	8,277,873	109	10
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Monthly Average

Revenue per Paying User in RMB	1.5	1.5	1.4	(7)	(7)
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The Board announces the unaudited results of the Group for the three months ended March 31, 2008.

The unaudited consolidated income statement, and unaudited consolidated balance sheet of the Group are listed below:

CONSOLIDATED INCOME STATEMENT

	For the three months ended		
	March 31, 2007 RMB'000 (Audited)	December 31, 2007 RMB'000 (Unaudited)	March 31, 2008 RMB'000 (Unaudited)
Revenue:			
Entertainment software	77,134	116,463	120,262
Applications software	25,635	48,769	53,913
Others	1,170	970	862
	<u>103,939</u>	<u>166,202</u>	<u>175,037</u>
Cost of revenue	<u>(16,540)</u>	<u>(29,678)</u>	<u>(24,418)</u>
Gross Profit	87,399	136,524	150,619
Research and development costs, net of government grants	(13,238)	(19,697)	(24,009)
Selling and distribution costs	(13,693)	(42,006)	(23,888)
Administrative expenses	(10,161)	(29,997)	(21,663)
Share-based compensation costs	(21,087)	(27,098)	(16,747)
Other operating costs	(605)	(1,590)	(836)
Other income and gains	4,471	7,004	381
Finance income	1,799	16,167	8,377
Finance costs	—	(1,211)	—
Share of gain/(loss) of an associate	<u>(437)</u>	<u>(689)</u>	<u>2,083</u>
Profit before tax	34,448	37,407	74,317
Income tax expense	<u>(3,635)</u>	<u>24,732</u>	<u>(19,202)</u>
Profit for the period	<u>30,813</u>	<u>62,139</u>	<u>55,115</u>
Attributable to:			
Equity holders of the Company	32,714	64,655	57,051
Minority interests	<u>(1,901)</u>	<u>(2,516)</u>	<u>(1,936)</u>
	<u>30,813</u>	<u>62,139</u>	<u>55,115</u>
	RMB	RMB	RMB
Earnings per share attributable to ordinary equity holders of the Company			
— Basic	0.0380	0.0654	0.0536
— Diluted	0.0370	0.0600	0.0517

CONSOLIDATED BALANCE SHEET

	As at March 31, 2008 RMB'000 (Unaudited)	As at December 31, 2007 RMB'000 (Audited)
Non-current assets		
Property, plant and equipment	55,485	45,446
Intangible assets	16,670	14,281
Lease prepayment	7,262	7,304
Interest in an associate	3,097	1,014
Loan receivables	1,631	1,784
Deferred tax assets	52,695	52,814
Deferred cost	1,540	1,890
	<u>138,380</u>	<u>124,533</u>
Current assets		
Inventories	1,523	2,019
Trade receivables	71,004	60,226
Prepayments and other receivables	40,823	47,743
Income tax receivable	182	522
Deferred cost	8,210	8,939
Due from related parties	3,590	9,862
Credit-linked deposits	185,155	—
Cash and cash equivalents	1,049,811	1,246,077
	<u>1,360,298</u>	<u>1,375,388</u>
Current liabilities		
Trade payables	4,732	7,120
Accrued expenses and other payables	104,190	147,062
Deferred revenue	146,490	162,002
Income tax payable	15,729	6,047
	<u>271,141</u>	<u>322,231</u>
Net current assets	<u>1,089,157</u>	<u>1,053,157</u>
Total assets less current liabilities	<u>1,227,537</u>	<u>1,177,690</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

	As at March 31, 2008 RMB'000 (Unaudited)	As at December 31, 2007 RMB'000 (Audited)
Non-current liabilities		
Deferred revenue	24,638	29,726
Deferred tax liabilities	<u>18,433</u>	<u>14,307</u>
	<u>43,071</u>	<u>44,033</u>
Net assets	<u><u>1,184,466</u></u>	<u><u>1,133,657</u></u>
Represented by:		
Equity attributable to equity holders of the parent		
Issued capital	4,329	4,322
Share premium	736,865	735,510
Ordinary shares subscribed	1,013	319
Statutory reserves	57,570	57,570
Employee share-based capital reserve	161,145	144,741
Foreign currency translation reserve	(53,125)	(28,918)
Retained earnings	159,004	101,953
Proposed dividend	<u>95,710</u>	<u>95,710</u>
	<u>1,162,511</u>	<u>1,111,207</u>
Minority interests	<u>21,955</u>	<u>22,450</u>
Total equity	<u><u>1,184,466</u></u>	<u><u>1,133,657</u></u>

Notes

1. Basis of preparation and accounting policies

Basis of preparation

The unaudited condensed consolidated quarterly 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 for the year ended December 31, 2007.

Significant accounting policies

The accounting policies adopted in the preparation of the unaudited condensed consolidated quarterly 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 policy on "Financial assets at fair value through profit or loss" 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".

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.

2. Post balance sheet events

On April 15, 2008, the Group entered into a framework agreement with Lianking Studio (煉金工作室 or "Lianking"), an online game research and development studio in the PRC to form a new company (the "New Associate"), which aims to develop new online games. The Group will invest RMB10 million in the New Associate for an initial shareholding of 40%. The Group will also secure a right to sublicense and operate all online games produced by the New Associate during the first five years of its operation. Meanwhile, Lianking will hold 60% interest in the New Associate. Pursuant to the cooperative agreement, the Group is required to transfer up to 15% of its equity interest in the New Associate at no consideration to Lianking should the revenue of the first online game developed by the New Associate achieve certain pre-determined revenue targets in the coming years, or upon the happening of specified events. Another 10% equity interest of the New Associate will be required to transfer to Lianking should the revenue of online games developed by the New associate for some year ended December 31 achieve certain predetermined revenue targets during the first five years. In addition, if the revenue of the first online game developed by the New Associate is below certain pre-determined revenue targets and the first online game of the New Associate 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 the New Associate from Lianking at no consideration.

Pursuant to the Share Subscription and Purchase Agreement dated on July 21, 2006 (the "Agreement"), the purchase price for 3,571,429 shares issued on August 18, 2006 to certain investors ("Pre-IPO Investors") is adjusted from US\$4.0 per share to US\$5.6 per share less the portion of IPO expenses to be paid by the Pre-IPO Investors on April 29, 2008. As a result, Pre-IPO Investors shall pay HKD 40.7 million to the Company in 2008 as additional contribution to the Company.

On May 8, 2008, Kingsoft entered into a commercial property pre-sale contract and supplemental agreement with Beijing Yinbei Shidai Real Estate Development Company Limited ("Beijing Yinbei"), pursuant to which Beijing Yinbei agreed to sell, and Kingsoft agreed to purchase the property at a total cash consideration of RMB175 million.

On May 27, 2008, the Group entered into an agreement, pursuant to which the Group agreed to acquire 29.4% equity interest in Dalian Kingsoft Interactive Entertainment Co., Ltd. ("Kingsoft Dalian") from Dalian Shang Shang Wang Digital Technology & Co., Ltd. ("Dalian SSW") for a total cash consideration of RMB30.3 million. Upon successful acquisition of the 29.4% equity interest of Kingsoft Dalian from Dalian SSW, Kingsoft Dalian will become a 80.4% owned subsidiary of the Group. As Dalian SSW is a connected party of the Group under Chapter 14A of the Listing Rules, the transaction under the agreement constituted a connected transaction of the Group. For more details, please refer to our announcement-Acquisition of 29.4% Equity Interest in Dalian Kingsoft Interactive Entertainment Co., Ltd. made on May 27, 2008.

On May 30, 2008, the board approved an acquisition of the business of Shenzhen Zhangshangzhuoer 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. Meanwhile, the Group will grant a number of restricted shares of the Company, equal to a total of RMB5.9 million as valued at the date of grant, to the key management of the acquired business under the Share Award Scheme adopted by the Board on March 31, 2008. A portion of the restricted shares are subject to performance conditions.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2008

Revenue

Our revenue increased by 5% quarter-over-quarter and increased by 68% year-over-year to RMB175.0 million. Revenue from our entertainment and applications software businesses represented 69% and 31%, respectively, of our total revenue.

Revenue from our entertainment software business increased by 3% quarter-over-quarter and increased by 56% year-over-year to RMB120.3 million.

Daily average peak concurrent users, a measure we use to monitor the popularity of our massively multi-player online role playing games (“MMORPGs”), increased by 5% quarter-over-quarter and increased by 25% year-over-year to 0.63 million. Our number of monthly average paying users increased by 9% quarter-over-quarter and decreased by 9% year-over-year to 1.1 million. This quarter-over-quarter increase in monthly paying users and daily average peak concurrent users resulted from the continuous improvement in the operations of our existing games and the commercialization of JX2 in March by Vinagame in Vietnam.

The monthly average revenue per paying user (“monthly ARPU”) for our MMORPGs decreased by 3% quarter-over-quarter and increased by 64% year-over-year to RMB36.

Revenue from our applications software business increased by 11% quarter-over-quarter and increased by 110% year-over-year to RMB53.9 million primarily due to an increase in the number of subscribers for online services of Kingsoft Internet Security to 8.3 million daily average paying users. This increase in users represents a 10% quarter-over-quarter increase and a 109% year-over-year increase in daily average paying users, respectively.

Monthly ARPU for online services of Kingsoft Internet Security business decreased by RMB0.1 quarter-over-quarter and decreased by RMB0.1 year-over-year. This decrease resulted primarily from our seasonal promotion of certain subscriptions for Kingsoft Internet Security.

Gross Profit and Cost of Revenue

Our gross profit increased by 10% quarter-over-quarter and increased by 72% year-over-year to RMB150.6 million. Our gross profit margin increased by four percentage points quarter-over-quarter and increased by two percentage points year-over-year to 86%. The quarter-over-quarter 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 decreased by 18% quarter-over-quarter as a result of the above mentioned capacity optimization and increased by 48% year-over-year to RMB24.4 million primarily due to increased 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 22% quarter-over-quarter and increased by 81% year-over-year to RMB24.0 million primarily due to (i) a company-wide raise in salaries and benefits and (ii) an overall increase in research and development headcount.

Selling and Distribution Costs

Our selling and distribution expenses decreased by 43% to RMB23.9 million quarter-over-quarter primarily due to that there was no new game launch in this quarter. It increased by 74% year-over-year.

Administrative Expenses

Our administrative expenses decreased by 28% quarter-over-quarter to RMB21.7 as a result of a decrease in professional fees. It increased by 113% year-over-year primarily due to increased professional fees, a general raise in employee salary costs and benefits, increased depreciation and amortization charges and increased administrative office expenses, which were mainly rental costs and utilities expenses.

Share-based Compensation Costs

Our share-based compensation costs decreased by 38% quarter-over-quarter and decreased by 21% year-over-year to RMB16.7 million primarily due to that our Pre-IPO Share Option Schemes were terminated after IPO and there were no new grants of share-based awards to employees under the Share Award Scheme as disclosed in our audited financial statements for the year ended December 31, 2007.

Operating Profit

Our operating profit increased by 263% quarter-over-quarter and 120% year-over-year to RMB64.3 million. The operating profit margin improved by twenty-six percentage points quarter-over-quarter and nine percentage points year-over-year to 37%.

Income Tax Credit/Expense

Our income tax expenses increased to RMB19.2 million versus an income tax credit of RMB24.7 million for the fourth quarter 2007 and increased by 428% year-over-year. Since the PRC Corporate Income Tax Law became effective on January 1, 2008, Chinese authorities also issued detailed rules on qualifications, application procedures and assessment processes for new technology enterprises which are applicable to a favorable corporate income tax (“CIT”) rate of 15%. Due to various uncertainties involved, we accounted for the CITs of our local operating entities at the CIT rate of about 25%, same estimate in line with that we made in our audited financial statements for the year ended December 31, 2007.

Profit attributable to equity holders of the Company

For the reasons described above, our profit attributable to equity holders of the Company decreased by 12% quarter-over-quarter and increased by 74% year-over-year to RMB57.1 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 International Financial Reporting Standards (“IFRS”).

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

Our profit attributable to equity holders of the Company before share-based compensation costs decreased by 20% quarter-over-quarter primarily due to increased CIT charges and it increased by 38% year-over-year to RMB73.7 million. The net profit margin excluding the effect of share-based compensation costs was 42%, 55% and 52% for the three months ended March 31, 2008, December 31, 2007 and March 31, 2007, respectively.

Certain Balance Sheet and Cash Flow Items

Deferred Revenue

Deferred revenue (including current and non-current portion) decreased by 11% quarter-over-quarter primarily resulted from that prepaid cards sales related to games and Kingsoft Internet Security experienced seasonal sluggish in Chinese New Year. It increased by 15% year-over-year to RMB171.1 million as at March 31, 2008.

Net Cash Generated from Operating Activities

Cash and cash equivalent decreased by 16% quarter-over-quarter and increased by 171% year-over-year to RMB1,049.8 million as at March 31, 2008.

Cash generated by our operating activities reflects our profit for the three months periods, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalized software costs, and share-based compensation costs, as well as the effect of changes in certain balance sheet items, such as deferred revenue and accrued expenses and other payables. Our net cash generated by operating activities was RMB29.7 million, RMB131.2 million and RMB51.7 million for the three months ended March 31, 2008, December 31, 2007 and March 31, 2007, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of fixed assets and intangible assets such as software. Cash used for capital expenditures was RMB20.0 million, RMB12.5 million and RMB3.2 million for the three months ended March 31, 2008, December 31, 2007 and March 31, 2007, respectively. For the three months ended March 31, 2008, we incurred more capital expenditures related to the purchase of additional servers for beginning operation of First Myth II and JX World and construction of the Zhuhai Research Centre during the period.

Management Comments

Pak Kwan Kau, the Chairman and CEO of Kingsoft is pleased to report another good quarter, as our revenue and operating profit grew by 68% and 120% respectively over the same period last year. Without launching any new game in the first quarter, our existing games expanded smoothly. This was evidenced by healthy sequential growth of 5% and 9% for Daily Average Peak Concurrent Users and Monthly Average Paying Users, respectively. First Myth II, the second episode of First Myth reached a strong PCU of 133 thousands in the close beta testing and starts its open beta testing on May 30, 2008. We are now anticipating that JX World, a new member of the JX franchise will debut in the coming month and add up our number of MMORPGs to eight in operation.

Growth of our online services for internet security still continues with a strong momentum. In addition to the online security services joint with Baidu last year, we have also partnered with Google and launched “Google-Kingsoft Ciba”. The partnership starts a new chapter for Kingsoft Ciba as it transforms into a web-based service.

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

The PRC, May 30, 2008

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