



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 30 September 2007

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 30 September 2007. 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* change %	QoQ* change %
	30 September 2006 RMB'000 (Unaudited)	30 June 2007 RMB'000 (Unaudited)	30 September 2007 RMB'000 (Unaudited)		
Revenue	66,194	139,516	146,951	122	5
Profit attributable to equity holders of the Company**	5,149	37,335	29,974	482	(20)
	<i>RMB cent</i>	<i>RMB cent</i>	<i>RMB cent</i>		
Basic earnings per share	0.64	4.33	3.48	443	(20)

* YoY change % represents a comparison between the current reporting period and the same period in 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 RMB6.7 million, RMB64.7 million and RMB58.0 million for the three months ended at 30 September 2006, 30 June 2007 and 30 September 2007, respectively. This represents a YoY increase of 763% and a QoQ decrease of 10%.

OPERATIONAL HIGHLIGHTS

For the three months ended

	30 September 2006	30 June 2007	30 September 2007	YoY change %	QoQ change %
Online Games					
Daily Average Peak Concurrent Users	458,398	491,757	529,794	16	8
Monthly Average Paying Users	1,086,633	1,136,197	1,035,371	(5)	(9)
Monthly Average Revenue per Paying User in RMB	13	28	31	138	11
Online Services of Internet securities					
Monthly Average Paying Users	1,914,048	5,324,747	6,505,150	240	22
Monthly Average Revenue per Paying User in RMB	1.9	1.5	1.4	(25)	(7)

The Board announces the unaudited result of the Group for the three months ended 30 September 2007.

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

CONSOLIDATED INCOME STATEMENT

	For the three months ended		
	30 September 2006	30 June 2007	30 September 2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue			
Entertainment software	43,142	101,660	101,183
Applications software	22,855	36,510	45,607
Others	197	1,346	167
	<u>66,194</u>	<u>139,516</u>	<u>146,957</u>
Cost of revenue	<u>(10,370)</u>	<u>(25,116)</u>	<u>(24,150)</u>
Gross profit	55,824	114,400	122,807
Research and development costs, net of government grants	(14,745)	(15,180)	(20,335)
Selling and distribution costs	(13,928)	(21,397)	(31,627)
Administrative expenses	(9,686)	(12,326)	(13,301)
Share-based compensation costs	(1,570)	(27,464)	(28,115)
Other operating costs	(37)	92	(146)
Other income and gains	(82)	66	(10)
Impairment of an available-for-sale investment/an associate	(6,000)	—	—
Finance income	843	2,167	2,642
Finance costs	(5,921)	—	—
Share of loss of an associate	(189)	(397)	(937)
Profit before tax	4,509	39,961	30,978
Income tax expense	<u>(398)</u>	<u>(4,818)</u>	<u>(3,621)</u>
Profit for the period	<u>4,111</u>	<u>35,143</u>	<u>27,357</u>
Attributable to:			
Equity holders of the Company	5,149	37,335	29,974
Minority interests	<u>(1,038)</u>	<u>(2,192)</u>	<u>(2,617)</u>
	<u>4,111</u>	<u>35,143</u>	<u>27,357</u>
Dividend	<u>—</u>	<u>—</u>	<u>—</u>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Earnings per share attributable to equity holders of the Company			
Basic	0.0064	0.0433	0.0348
Diluted	0.0061	0.0422	0.0333

CONSOLIDATED BALANCE SHEET

	As at	
	31 December 2006	30 September 2007
	<i>RMB'000</i> (Audited)	<i>RMB'000</i> (Unaudited)
Non-current assets		
Property, plant and equipment	32,790	40,120
Intangible assets	7,178	14,354
Lease prepayment	601	7,345
Deposit for construction projects	—	2,580
Interest in an associate	3,473	1,702
Loan receivables	1,403	1,855
Deferred tax assets	19,477	25,907
Deferred cost	2,087	2,181
	<u>67,009</u>	<u>96,044</u>
Current assets		
Inventories	1,726	2,343
Trade receivables	52,326	54,507
Prepayments and other receivables	55,050	61,015
Income tax receivable	2,988	513
Deferred cost	6,484	8,291
Due from related parties	1,618	—
Cash and cash equivalents	333,508	498,651
	<u>453,700</u>	<u>625,320</u>
Current liabilities		
Trade payables	5,450	4,964
Accrued expenses and other payables	91,110	88,818
Government loans	2,000	—
Due to related parties	5,297	—
Deferred revenue	117,286	139,347
Income tax payable	690	662
	<u>221,833</u>	<u>233,791</u>
Net current assets	<u>231,867</u>	<u>391,529</u>
Total assets less current liabilities	<u>298,876</u>	<u>487,573</u>

CONSOLIDATED BALANCE SHEET (Continued)

	As at	
	31 December 2006	30 September 2007
	<i>RMB'000</i> (Audited)	<i>RMB'000</i> (Unaudited)
Non-current liabilities		
Deferred revenue	22,040	28,073
Deferred tax liabilities	9,009	15,647
	<u>31,049</u>	<u>43,720</u>
Net assets	<u><u>267,827</u></u>	<u><u>443,853</u></u>
Represented by:		
Equity attributable to equity holders of the Company		
Issued capital	3,564	3,565
Share premium	110,539	110,632
Statutory reserves	52,140	52,140
Employee share-based capital reserve	40,160	117,439
Foreign currency translation reserve	(1,657)	(3,408)
Retained earnings	38,415	138,438
	<u>243,161</u>	<u>418,806</u>
Minority interests	<u>24,666</u>	<u>25,047</u>
Total equity	<u><u>267,827</u></u>	<u><u>443,853</u></u>

Notes

1. Basis of preparation and accounting policies

Basis of preparation

The unaudited consolidated quarterly financial statements do not include all the information and disclosures required in the annual financial statements or the interim financial statements and should be read in conjunction with the Group's audited financial statements as at 31 December 2006 and 31 March 2007 set out in appendix I to the prospectus of the Company dated 24 September 2007.

Significant accounting policies

The accounting policies adopted in the preparation of the unaudited consolidated quarterly financial statements are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 31 December 2006 and for the three months ended 31 March 2007.

2. Post balance sheet events

The Company's shares have been listed on the Stock Exchange since 9 October 2007. The net proceeds from the initial public offering were approximately HK\$626 million and were fully received on 9 October 2007.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2007

Revenue

Our revenue increased by 5% quarter-over-quarter and increased by 122% year-over-year to RMB147.0 million. Revenue from our entertainment and applications software businesses represented 69% and 31%, respectively, of our total revenue.

Revenue from our entertainment software business remained consistent quarter-over-quarter and increased by 135% year-over-year to RMB101.2 million. Our newly launched MMORPG, CQ has reached 80,480 in Daily Average Peak Concurrent Users since open beta testing commenced on September 20, 2007. However, the beta launch of CQ in late September resulted in minimal impact on our quarterly revenue as sales of CQ game points were mostly recognised as deferred revenue during this period.

Daily average peak concurrent users, a measure we use to monitor the popularity of our MMORPGs, increased by 8% quarter-over-quarter and increased by 16% year-over-year to 0.53 million. Our number of monthly average paying users decreased by 9% quarter-over-quarter and decreased by 5% year-over-year to 1.0 million. This slight quarter-over-quarter decrease in paying users resulted from the gradual transition of our user base to the item-billing revenue model.

The monthly average revenue per paying user ("monthly ARPU") for our MMORPGs increased by 11% quarter-over-quarter and increased by 138% year-over-year to RMB31. We expect the trend of improvements in monthly ARPU will continue as an increasing percentage of our paying MMORPGs users are becoming item-billing users.

Revenue from our applications software business increased by 25% quarter-over-quarter and increased by 100% year-over-year to RMB45.6 million primarily due to a significant increase in the number of subscribers for online services of Kingsoft Internet Security to 6.5 million daily average paying users. This increase in users represents a 22% quarter-over-quarter increase and a 240% 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 RMB0.5 year-over-year. This decrease resulted from an increased proportion of OEM subscribers as a percentage of the total subscribers as we expanded our user base. The average monthly ARPU of entry-level OEM subscribers was significantly less than that of other higher-end subscribers who pay through mobile phone SMS or physical prepaid service cards.

Gross Profit and Cost of Revenue

Our gross profit increased by 7% quarter-over-quarter and increased by 120% year-over-year to RMB122.8 million. Our gross profit margin increased by two percentage points quarter-over-quarter and remained consistent year-over-year at 84%. The increase quarter-over-quarter resulted from the increased proportion of revenue from our application software of which gross profit margin is relatively higher.

Our cost of revenue decreased by 4% quarter-over-quarter and increased by 133% year-over-year to RMB24.2 million primarily due to increased revenue from MMORPGs and online services of Kingsoft Internet Security compared to the prior year. Our server hosting related expenses increased year-over-year as a result of increased server rental costs, depreciation, custody fees and bandwidth rental fees as we increased the number of our servers for MMORPGs and online services of Kingsoft Internet Security.

Research and Development Costs

Our research and development expenses, net of government grants increased by 34% quarter-over-quarter and increased by 38% year-over-year to RMB20.3 million primarily due to (i) the increase in salaries and benefits paying to our research and development personnel and (ii) an overall increase in research and development headcount.

Selling and Distribution Costs

Our selling and distribution expenses increased by 48% quarter-over-quarter primarily due to the marketing expenses of approximately RMB11.8 million related to the beta launch of CQ and increased by 127% year-over-year to RMB31.6 million primarily due to an increase in online advertisement expenses related to promoting our MMORPGs and online services of Kingsoft Internet Security.

Administrative Expenses

Our administrative expenses increased by 8% quarter-over-quarter and increased by 37% year-over-year to RMB13.3 million primarily due to an increase in professional fees, employee salary costs and benefits, increased depreciation and amortisation charges and increased administrative office expenses, which were mainly rental costs and utilities expenses.

Share-based Compensation Costs

Our share-based compensation costs increased by 2% quarter-over-quarter. It increased significantly by 1,691% year-over-year to RMB28.1 million primarily due to the issue and grant of approximately 110.4 million share options to our employees under the 2007 Pre-IPO Share Option Scheme in the first quarter of 2007.

Income Tax Expense

Our income tax expenses decreased by 25% quarter-over-quarter and increased by 810% year-over-year to RMB3.6 million.

The effective tax rate (using profit attributable to equity holders of the Company before stock compensation costs as denominator) was 6%, 7% and 7% for the three months ended 30 September 2007, 30 June 2007 and 30 September 2006, respectively.

Profit attributable to equity holders of the Company

For the reasons described above, our profit attributable to equity holders of the Company decreased by 20% quarter-over-quarter and increased by 482% year-over-year to RMB30.0 million.

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

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

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

Our profit attributable to equity holders of the Company before stock compensation costs decreased by 10% quarter-over-quarter primarily due to the marketing expenses of approximately RMB11.8 million related to the beta launch of CQ and increased by 763% year-over-year to RMB58.0 million. The profit margin excluding the effect of stock compensation costs was 39%, 46% and 10% for the three months ended 30 September 2007, 30 June 2007 and 30 September 2006, respectively.

Certain Balance Sheet and Cash Flow Items

Deferred Revenue

Deferred revenue (including current and non-current portion) increased by 7% quarter-over-quarter and increased by 63% year-over-year to RMB167.4 million as at 30 September 2007. The increases in deferred revenue were consistent with our increased sales of prepaying games cards and online points for our online games and prepayments for online subscription for our application software products.

Net Cash Generated from Operating Activities

Cash generated by our operating activities reflects our profit for the three months periods, as the case may be, as adjusted for non-cash items, such as depreciation, amortisation of capitalized software costs, and share-based compensation costs, as well as the effect of changes in certain balance sheet items, such as deferred revenue and accrued expenses and other payables. Our net cash generated by operating activities was RMB76.0 million, RMB87.2 million and RMB29.7 million for the three months ended 30 September 2007, 30 June 2007 and 30 September 2006, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of fixed assets and intangible assets such as software. Cash used for capital expenditures was RMB11.4 million, RMB23.8 million and RMB9.3 million for the three months ended 30 September 2007, 30 June 2007 and 30 September 2006, respectively. In the three months ended 30 June 2007, we incurred more capital expenditures due to the following factors: (1) As we began the operation of CQ, we purchased additional servers during the period. (2) We paid US\$1 million for 3D game engine software.

Management Comments

Jun Lei, CEO of Kingsoft is pleased to report another good quarter, as our revenue and profit attributable to equity holders of the Company before stock compensation costs grew by 122% and 763% respectively over the same period last year. On 20 September, we launched CQ, our first self-developed cartoon style MMORPG. By targeting female and younger players, CQ will enhance our current game portfolio. Donghui Wang, CFO of Kingsoft commented that our profit attributable to equity holders of the Company before stock compensation costs decreased by 10% quarter-over-quarter, which was largely due to the one-time nature of the promotion expenses related to the launching of CQ. In addition, as CQ's impact on revenue in the 3rd quarter was minimal due to our

game revenue recognition policy and CQ's limited operating period during the quarter, we recorded a sequential revenue growth of 5%. The monthly ARPU of our MMORPGs also achieved a notable year-over-year growth of 138% and quarter-over-quarter growth of 11%. Kingsoft Internet Security made the fourth consecutive quarter of growth with a net quarterly increment of over one million paying subscribers.

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

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

The PRC, 29 November 2007