



# 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 June 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 June 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 June 2006 RMB'000 (Unaudited)	31 March 2007 RMB'000 (Audited)	30 June 2007 RMB'000 (Unaudited)		
Revenue	75,387	103,939	139,516	85	34
Profit attributable to equity holders of the Company**	31,397	32,714	37,335	19	14
	RMB cent	RMB cent	RMB cent		
Basic earnings per share	4.10	3.80	4.33	6	14

\* 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 costs is RMB33.26 million, RMB53.55 million and RMB64.74 million respectively for the three months ended at 30 June 2006, 31 March 2007 and 30 June 2007.

## OPERATIONAL HIGHLIGHTS

	For the three months ended			YoY change %	QoQ change %
	30 June 2006	31 March 2007	30 June 2007		
<b>Online Games</b>					
Daily Average Peak Concurrent Users	397,547	508,188	491,757	24	(3)
Monthly Average Paid Users	1,114,497	1,196,656	1,136,197	2	(5)
Monthly Average Revenue per Paid Users in RMB	14	22	28	100	27
<b>Online Services of Internet securities</b>					
Monthly Average Paid Users	1,141,613	3,965,540	5,324,747	366	34
Monthly Average Revenue per Paid Users in RMB	2.1	1.5	1.5	(29)	—

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

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

## CONSOLIDATED INCOME STATEMENT

	<b>For the three months ended</b>		
	<b>30 June 2006</b> <i>RMB'000</i> <i>(Unaudited)</i>	<b>31 March 2007</b> <i>RMB'000</i> <i>(Audited)</i>	<b>30 June 2007</b> <i>RMB'000</i> <i>(Unaudited)</i>
<b>Revenue</b>			
Entertainment software	48,967	77,134	101,660
Applications software	26,128	25,635	36,510
Others	292	1,170	1,346
	<u>75,387</u>	<u>103,939</u>	<u>139,516</u>
Cost of revenue	<u>(9,578)</u>	<u>(16,540)</u>	<u>(25,116)</u>
<b>Gross profit</b>	65,809	87,399	114,400
Research and development costs, net of government grants	(11,287)	(13,238)	(15,180)
Selling and distribution costs	(11,459)	(13,693)	(21,397)
Administrative expenses	(11,769)	(10,161)	(12,326)
Share-based compensation costs	(1,859)	(21,087)	(27,464)
Other operating costs	(837)	(605)	92
Other income and gains	4,346	4,471	66
Finance income	678	1,799	2,167
Finance costs	(186)	—	—
Share of loss of an associate	—	(437)	(397)
<b>Profit before tax</b>	33,436	34,448	39,961
Income tax expense	<u>(2,696)</u>	<u>(3,635)</u>	<u>(4,818)</u>
<b>Profit for the period</b>	<u>30,740</u>	<u>30,813</u>	<u>35,143</u>
Attributable to:			
Equity holders of the Company	31,397	32,714	37,335
Minority interests	(657)	(1,901)	(2,192)
	<u>30,740</u>	<u>30,813</u>	<u>35,143</u>
<b>Dividend</b>	<u>—</u>	<u>—</u>	<u>—</u>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Earnings per share attributable to equity holders of the Company</b>			
Basic	0.0410	0.0380	0.0433
Diluted	0.0386	0.0370	0.0422

# CONSOLIDATED BALANCE SHEETS

	As at	
	31 December 2006	30 June 2007
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Unaudited)</i>
<b>Non-current assets</b>		
Property, plant and equipment	32,790	34,840
Intangible assets	7,178	14,179
Lease prepayment	601	7,387
Interest in an associate	3,473	2,639
Loan receivables	1,403	1,667
Deferred tax assets	19,477	25,421
Deferred cost	2,087	2,179
	<u>67,009</u>	<u>88,312</u>
<b>Current assets</b>		
Inventories	1,726	1,923
Trade receivables	52,326	49,943
Prepayments and other receivables	55,050	60,080
Income tax receivable	2,988	2,127
Deferred cost	6,484	8,018
Due from related parties	1,618	1,651
Cash and cash equivalents	333,508	442,208
	<u>453,700</u>	<u>565,950</u>
<b>Current liabilities</b>		
Trade payables	5,450	5,198
Accrued expenses and other payables	91,110	87,942
Government loans	2,000	—
Due to related parties	5,297	197
Deferred revenue	117,286	128,998
Income tax payable	690	1,529
	<u>221,833</u>	<u>223,864</u>
<b>Net current assets</b>	<u>231,867</u>	<u>342,086</u>
<b>Total assets less current liabilities</b>	<u>298,876</u>	<u>430,398</u>

## CONSOLIDATED BALANCE SHEETS (Continued)

	As at	
	31 December 2006	30 June 2007
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Audited)</i>	<i>(Unaudited)</i>
<b>Non-current liabilities</b>		
Deferred revenue	22,040	26,867
Deferred tax liabilities	9,009	14,439
	<u>31,049</u>	<u>41,306</u>
<b>Net assets</b>	<u>267,827</u>	<u>389,092</u>
Represented by:		
<b>Equity attributable to equity holders of the Company</b>		
Issued capital	3,564	3,564
Share premium	110,539	110,561
Statutory reserves	52,140	52,140
Employee share-based capital reserve	40,160	89,092
Foreign currency translation reserve	(1,657)	(3,230)
Retained earnings	38,415	108,464
	<u>243,161</u>	<u>360,591</u>
<b>Minority interests</b>	<u>24,666</u>	<u>28,501</u>
<b>Total equity</b>	<u>267,827</u>	<u>389,092</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

- (a) On 31 July 2007, shareholders of Kingsoft Japan Inc. (“Kingsoft Japan”) passed a resolution to grant options with the maximum number of 710 in aggregate, at an exercise price of JPY70,000 per share. Pursuant to a resolution of the board of directors of Kingsoft Japan on the same day, a total number of 710 options were granted to the employees.
- (b) Subsequent to 30 June 2007, 8,500 new shares were issued by the Company to those who exercised share options. The numbers of ordinary shares or share options have been presented before the effect of share split in (d) below.
- (c) On 1 August 2007, 27,500 share options of the Company were granted to certain employees of the Group under 2007 Pre-IPO Share Option Scheme. Such share options are conditional on the Initial Public Offering occurring on or before 1 February 2008, and the exercise price per share is equal to the offering price HK\$3.6, determined in the Company’s Initial Public Offering. The numbers / per share data of share options have been presented before the effect of share split in (d) below.
- (d) Pursuant to a resolution passed on 3 September 2007, the Company undertook a share split whereby each of the then issued ordinary share was split into 20 ordinary shares. Accordingly, the total number of issued shares as of 30 June 2007 increased from 43,069,777 shares to 861,395,540 shares and the nominal value of each share was changed from US\$0.01 each to US\$0.0005 each. The authorised share capital of the Company of 70,000,000 shares of US\$0.01 each has been changed to 1,400,000,000 shares of US\$0.0005 each.

Following the share split, the authorised share capital of the Company is increased from US\$700,000 divided into 1,400,000,000 ordinary shares of US\$0.0005 each, to US\$1,200,000 divided into 2,400,000,000 ordinary shares of US\$0.0005 each.

- (e) 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 JUNE 2007

## Revenue

Our revenue increased by 34% quarter-over-quarter and increased by 85% year-over-year to RMB139.5 million. Revenue from our entertainment and applications software businesses represented 73% and 26%, respectively, of our total revenue.

Revenue from our entertainment software business increased by 32% quarter-over-quarter and increased by 108% year-over-year to RMB101.7 million, primarily due to: (i) the stable performance of our most popular MMORPGs, JX Online, JX Online II and Shui Hu Q Zhuan; (ii) the continued successful introduction of new server groups under the item-billing revenue model to our existing pay-to-play games; and (iii) robust performance of JX Online and First Myth in Vietnam.

Our total monthly average MMORPGs paid users decreased by 5% quarter-over-quarter and increased by 2% year-over-year to 1.1 million. This slight quarter-over-quarter decrease was mainly resulted from a decline in paid users of our licensed game, Shui Hu Q Zhuan.

Monthly average revenue per paid user (“monthly ARPU”) for MMORPGs increased by 27% quarter-over-quarter and increased by 100% year-over-year to RMB28. We expect the trend of improving in monthly ARPU will continue as an increasing percentage of our paid MMORPGs users are becoming item-billing based.

Revenue from our applications software business increased by 42% quarter-over-quarter and increased by 40% year-over-year to RMB36.5 million primarily due to a significant increase in the number of subscribers for online services of Kingsoft Internet Security to 5.3 million daily average paying users, representing 34% quarter-over-quarter increase and 366% year-over-year increase respectively.

Monthly ARPU for online services of Kingsoft Internet Security business stabilised at RMB1.5 quarter-over-quarter and decreased by RMB0.6 year-over-year. This year-over-year decrease resulted from an increased proportion of OEM subscribers as a percentage of the total subscribers. The average monthly ARPU of OEM subscribers was significantly less than that of other subscribers paying through mobile phone SMS or physical prepaid service cards.

## Gross Profit and Cost of Revenue

Our gross profit increased by 31% quarter-over-quarter and increased by 74% year-over-year to RMB114.4 million. Our gross profit margin decreased by two percentage points quarter-over-quarter and decreased by five percentage points year-over-year to 82%. This decrease resulted from the amortisation of an upfront license fee and the ongoing royalties to license Shui Hu Q Zhuan and increased expenses related to operating our MMORPGs and online services of Kingsoft Internet Security.

Cost of revenue increased by 52% quarter-over-quarter and increased by 162% year-over-year to RMB25.1 million primarily due to increased revenue from MMORPGs and online services of Kingsoft Internet Security. Our server hosting related expenses increased 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 15% quarter-over-quarter and increased by 34% year-over-year to RMB15.2 million primarily due to (i) the increase in salaries and benefits paid to our research and development personnel and (ii) an overall increase in headcount.

### **Selling and Distribution Costs**

Our selling and distribution expenses increased by 56% quarter-over-quarter and increased by 87% year-over-year to RMB21.4 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 21% quarter-over-quarter and increased by 5% year-over-year to RMB12.3 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 30% quarter-over-quarter and increased significantly by 1,377% year-over-year to RMB27.5 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 increased by 33% quarter-over-quarter and increased by 79% year-over-year to RMB4.8 million.

The effective tax rate (using profit attributable to equity holders of the Company before stock compensation costs as denominator) was 7%, 7% and 8% for the second quarter 2007, the first quarter 2007 and the second quarter 2006, respectively.

### **Profit attributable to equity holders of the Company**

For the reasons described above, our profit attributable to equity holders of the Company increased by 14% quarter-over-quarter and increased by 19% year-over-year to RMB37.3 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 increased by 21% quarter-over-quarter and increased by 95% year-over-year to RMB64.7 million. The profit margin excluding the effect of stock compensation costs was 46%, 52% and 44% for the second quarter 2007, the first quarter 2007 and the second quarter 2006, respectively.

## **Management Comments**

Jun LEI, CEO of Kingsoft is pleased to report a very solid growth during the second quarter of 2007. Our revenue and profit attributable to equity holders of the Company before stock compensation costs grew by 85% and 95% respectively over the same period last year. This growth was driven by leveraging existing game platforms to continuously improve ARPU, which doubled over the same period in 2006 and by the increase of online services of Kingsoft Internet Security, a net increment of over one million paying subscribers. As a leading software house in China, Kingsoft is committed to delivering quality MMORPGs through innovative designs, investment in advanced 3D game engine technology and diversification in game genres. The Internet Security market is a rapidly growing in China. Having successfully transitioned to an online service model, Kingsoft Internet Security will continue to provide innovative and responsive solutions to internet users to tackle various forms of security threats. In conclusion, the strong performance of the second quarter of 2007 demonstrates the viability of our dual-engine growth strategy.

## **Recent Business Developments**

CQ, a cartoon-style game developed by our Chengdu studio, commenced open beta testing on 20 September 2007. Since the inception, it recorded a peak concurrent users of 105,000.

On 22 October 2007, Kingsoft management officially kicked off our SAP ERP implementation project. We expect the first stage of the implementation to be completed in the second quarter of 2008.

**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, 7 November 2007