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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, 2009

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, 2009. 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, 2008	December 31, 2008	March 31, 2009		
	RMB’000 (unaudited)	RMB’000 (unaudited)	RMB’000 (Unaudited)	change %	change %
Revenue	175,037	257,182	236,228	35	(8)
Profit attributable to equity holders of the Company**	57,051	96,759	100,909	77	4
	RMB cents	RMB cents	RMB cents		
Basic earnings per share	5.36	9.15	9.55	78	4
Diluted earnings per share	5.17	8.84	9.20	78	4

* 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 RMB113.5 million, RMB106.3 million and RMB73.7 million for the three months ended at March 31, 2009, December 31, 2008 and March 31, 2008, respectively. This represents a YoY increase of 54% and QoQ increase of 7%.

OPERATIONAL HIGHLIGHTS

	For the three months ended			YoY change %	QoQ change %
	March 31, 2008	December 31, 2008	March 31, 2009		
Online Games					
Daily Average Peak Concurrent Users	633,487	1,029,611	951,685	50	(8)
Monthly Average Paying Users	1,093,789	1,531,993	1,489,797	36	(3)
Monthly Average Revenue per Paying User in RMB	36	38	36	—	(5)
Online Services of Internet securities					
Daily Average Paying Users	8,277,873	8,409,533	8,450,146	2	—
Monthly Average Revenue per Paying User in RMB	1.4	1.9	1.9	36	—

The Board announces the unaudited results of the Group for the three months ended March 31, 2009.

The unaudited condensed consolidated income statement, unaudited condensed consolidated statement of comprehensive income and unaudited condensed consolidated statement of financial position of the Group are listed below:

CONDENSED CONSOLIDATED INCOME STATEMENT

	For the three months ended		
	March 31, 2008 RMB'000 (Unaudited)	December 31, 2008 RMB'000 (Unaudited)	March 31, 2009 RMB'000 (Unaudited)
Revenue:			
Entertainment software	120,262	176,696	162,804
Applications software	53,913	80,404	72,030
Others	862	82	1,394
	<u>175,037</u>	<u>257,182</u>	<u>236,228</u>
Cost of revenue	<u>(24,418)</u>	<u>(32,760)</u>	<u>(29,318)</u>
Gross profit	150,619	224,422	206,910
Research and development costs, net of government grants	(24,009)	(42,153)	(43,130)
Selling and distribution costs	(23,888)	(39,015)	(28,958)
Administrative expenses	(21,663)	(32,194)	(21,891)
Share-based compensation costs	(16,747)	(9,647)	(12,567)
Other operating costs	(836)	(338)	(446)
Other income and gains	381	5,777	73
Operating profit	63,857	106,852	99,991
Finance income	8,377	10,351	6,997
Share of profit of an associate	2,083	9,580	8,939
Share of losses of jointly-controlled entities	—	(631)	(1,235)
Profit before tax	74,317	126,152	114,692
Income tax expense	(19,202)	(29,476)	(13,598)
Profit for the period	<u>55,115</u>	<u>96,676</u>	<u>101,094</u>
Attributable to:			
Equity holders of the Company	57,051	96,759	100,909
Minority interests	(1,936)	(83)	185
	<u>55,115</u>	<u>96,676</u>	<u>101,094</u>
	RMB	RMB	RMB
Earnings per share attributable to ordinary equity holders of the Company			
Basic	0.0536	0.0915	0.0955
Diluted	0.0517	0.0884	0.0920

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	March 31, 2008 RMB'000 (Unaudited)	December 31, 2008 RMB'000 (Unaudited)	March 31, 2009 RMB'000 (Unaudited)
Profit for the period	55,115	96,676	101,094
Exchange differences on translation of foreign operations	<u>(22,816)</u>	<u>3,980</u>	<u>(1,506)</u>
Other comprehensive income/(loss) for the period, net of tax	<u>(22,816)</u>	<u>3,980</u>	<u>(1,506)</u>
Total comprehensive income for the period, net of tax	<u><u>32,299</u></u>	<u><u>100,656</u></u>	<u><u>99,588</u></u>
Attributable to:			
Equity holders of the Company	32,844	99,714	100,139
Minority interests	<u>(545)</u>	<u>942</u>	<u>(551)</u>
	<u><u>32,299</u></u>	<u><u>100,656</u></u>	<u><u>99,588</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at March 31, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
Non-current assets		
Property, plant and equipment	383,358	345,626
Goodwill	2,377	2,377
Other intangible assets	36,513	39,071
Lease prepayment	7,096	7,138
Interest in an associate	36,016	27,077
Interests in jointly-controlled entities	40,337	4,722
Loan receivables	2,169	2,520
Deferred tax assets	27,975	29,262
Deferred cost	485	273
Long-term prepayments	42,034	11,620
	<u>578,360</u>	<u>469,686</u>
Current assets		
Inventories	4,504	4,686
Trade receivables	92,646	84,819
Prepayments and other receivables	54,624	55,138
Income tax receivable	182	182
Deferred cost	4,997	5,889
Credit-linked deposit	—	111,708
Cash and cash equivalents	1,095,827	1,007,115
	<u>1,252,780</u>	<u>1,269,537</u>
Current liabilities		
Trade payables	5,979	7,649
Dividend payable	123	134
Accrued expenses and other payables	146,550	160,972
Deferred revenue	169,854	183,445
Income tax payable	22,165	19,616
	<u>344,671</u>	<u>371,816</u>
Net current assets	<u>908,109</u>	<u>897,721</u>
Total assets less current liabilities	<u>1,486,469</u>	<u>1,367,407</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at March 31, 2009 RMB'000 (Unaudited)	As at December 31, 2008 RMB'000 (Audited)
Total assets less current liabilities	<u>1,486,469</u>	<u>1,367,407</u>
Non-current liabilities		
Deferred revenue	32,261	31,179
Deferred tax liabilities	<u>11,979</u>	<u>7,863</u>
	<u>44,240</u>	<u>39,042</u>
Net assets	<u><u>1,442,229</u></u>	<u><u>1,328,365</u></u>
Equity attributable to equity holders of the Company		
Issued capital	4,367	4,362
Share premium	640,926	639,034
Shares held for share award scheme	(40,171)	(40,050)
Statutory reserves	81,481	81,481
Employee share-based capital reserve	207,133	194,648
Foreign currency translation reserve	(66,898)	(66,128)
Retained earnings	463,356	362,447
Proposed final dividend	<u>139,723</u>	<u>139,723</u>
	1,429,917	1,315,517
Minority interests	<u>12,312</u>	<u>12,848</u>
Total equity	<u><u>1,442,229</u></u>	<u><u>1,328,365</u></u>

Notes

1. Basis of preparation and significant 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, 2008.

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, 2008, except for the adoption of new Standards and Interpretations applicable to the Group as of January 1, 2009, noted below:

Amendments to IFRS 2 Share-based Payment — Vesting Conditions and Cancellations

The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group.

IAS 1 Revised Presentation of Financial Statements

The Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Improvement to IFRSs

In May 2008, the International Accounting Standards Board ("IASB") issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments, which are applicable to the Group, resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

IAS 16 Property, Plant and Equipment

Replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED MARCH 31, 2009

Revenue

Revenue decreased by 8% quarter-over-quarter and increased by 35% year-over-year to RMB236.2 million. Revenue from the entertainment and applications software businesses represented 69% and 30%, respectively, of the Group's total revenue.

Revenue from the entertainment software business decreased by 8% quarter-over-quarter and increased by 35% year-over-year to RMB162.8 million. This quarter-over-quarter decrease was primarily due to an adverse seasonality and decline of game user base.

Daily average peak concurrent users, a measure we use to monitor the popularity of the Group's massively multi-player online role playing games ("MMORPGs"), decreased by 8% quarter-over-quarter and increased by 50% year-over-year to 0.95 million. Monthly average paying users decreased by 3% quarter-over-quarter and increased by 36% year-over-year to 1.5 million.

The monthly average revenue per paying user ("monthly ARPU") for the Group's MMORPGs decreased by 5% quarter-over-quarter and held flat year-over-year to RMB36.

Revenue from the applications software business decreased by 10% quarter-over-quarter and increased by 34% year-over-year to RMB72.0 million. The quarter-over-quarter decrease was primarily due to the seasonality of enterprise sales.

The number of subscribers for online services of Kingsoft Internet Security recorded 8.5 million daily average paying users, which held flat quarter-over-quarter and got an increase of 2% year-over-year. Monthly ARPU for online services of Kingsoft Internet Security business held flat quarter-over-quarter and increased by RMB0.5 year-over-year to RMB1.9. This increase resulted primarily from the increased portion of SMS and bank card subscribers with higher monthly ARPU.

Gross Profit and Cost of Revenue

Gross profit decreased by 8% quarter-over-quarter and increased by 37% year-over-year to RMB206.9 million. Gross profit margin increased by one percentage point quarter-over-quarter and increased by two percentage points year-over-year to 88%.

Cost of revenue decreased by 11% quarter-over-quarter and increased by 20% year-over-year to RMB29.3 million.

Research and Development ("R&D") Costs

R&D costs, net of government grants increased by 2% quarter-over-quarter and increased by 80% year-over-year to RMB43.1 million. The quarter-over-quarter increase primarily due to the decrease of capitalised software costs amounted to RMB3.5 million during the reporting period. The year-over year increase mainly resulted from (i) a company-wide raise in salaries and benefits; and (ii) an overall increase in research and development headcount.

Selling and Distribution Costs

Selling and distribution expenses decreased by 26% to RMB29.0 million quarter-over-quarter primarily due to the reduced marketing and promotion of JX Online World and Kingsoft Internet Security in this quarter and increased by 21% year-over-year.

Administrative Expenses

Administrative expenses decreased by 32% quarter-over-quarter primarily due to the recognition of 2008 year-end discretionary bonuses in the last quarter and increased by 1% year-over-year to RMB21.9 million.

Share-based Compensation Costs

Share-based compensation costs increased by 30% quarter-over-quarter and decreased by 25% year-over-year to RMB12.6 million. The quarter-over-quarter increase was resulted from the recent grants under the Share Award Scheme.

Operating Profit Excluding Share-based Compensation Costs

Operating profit excluding share-based compensation costs decreased by 3% quarter-over-quarter and increased by 40% year-over-year to RMB112.6 million. This quarter-over-quarter downward resulted from the combination of above reasons and the reduced government grants recognised as other income and gains in this quarter. The margin of operating profit excluding share-based compensation costs improved by three percentage points quarter-over-quarter and improved by two percentage points year-over-year to 48%.

Share of Profit of an Associate

The Group's share of gain of an associate, which represented our share of profit of Kingsoft Guangzhou, decreased by 7% quarter-over-quarter and increased by 329% year-over-year to RMB8.9 million. This quarter-over-quarter downward was due to the increased selling expenses incurred to launch the second game, Xiao Yao Chuan Shuo.

Income Tax Expense

Income tax expense decreased by 54% quarter-over-quarter and decreased by 29% year-over-year to RMB13.6 million. This quarter-over-quarter decrease was primarily due to the reversal of RMB16.1 million deferred tax assets in the last quarter. The year-over-year decrease was primarily due to that most of our subsidiaries in China received approvals for preferential tax rates under the new enterprise income tax law.

Profit Attributable to Equity Holders of the Company

For the reasons described above, the Group's profit attributable to equity holders of the Company increased by 4% quarter-over-quarter and increased by 77% year-over-year to RMB100.9 million.

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

Profit attributable to equity holders of the Company before share-based compensation costs, which is defined as profit attributable to equity holders of the Company 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 (“IFRSs”).

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

The Group’s profit attributable to equity holders of the Company before share-based compensation costs increased by 7% quarter-over-quarter and increased by 54% year-over-year to RMB113.5 million. The net profit margin excluding the effect of share-based compensation costs was 48%, 41% and 41% for the three months ended March 31, 2009, December 31, 2008 and March 31, 2008, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at March 31, 2009, the Group had major financial resources in the forms of cash and cash equivalent and time deposits with initial term of over three months amounting to RMB601.1 million, RMB494.7 million, respectively, which totally represented 60% of the Group’s total assets.

As at March 31, 2009, the Group’s gearing ratio, which represents total liabilities divided by total assets, was 21%, decreased three percentage points from 24% as at December 31, 2008. As at March 31, 2009, the Group did not have any borrowings from banks or other institutions.

Foreign Currency Risk Management

Certain expenses of the Group were denominated in currencies other than the RMB. The Group generated foreign currency revenue from license sales made in other Asia 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 March 31, 2009, RMB273.5 million of the Group’s financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, 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) decreased by 6% quarter-over-quarter due to the promotion of sales of prepaid cards of online game in the preceding quarter and increased by 18% year-over-year to RMB202.1 million as at March 31, 2009.

Net Cash Generated from Operating Activities

Cash and cash equivalent and credit-linked deposits decreased by 2% quarter-over-quarter to RMB1,095.8 million as a combined result of net cash inflows from operating activities, payments for the decoration of the new office in Beijing and Zhuhai Research Center, payment for the acquisition of shares of Sky Profit Limited and lease prepayment for land-use right in Zhuhai.

Cash generated from 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 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. The Group's net cash generated by operating activities was RMB88.1 million, RMB148.8 million and RMB29.6 million for the three months ended March 31, 2009, December 31, 2008 and March 31, 2008, 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 RMB73.0 million, RMB70.9 million and RMB20.0 million for the three months ended March 31, 2009, December 31, 2008 and March 31, 2008, respectively. For the three months ended March 31, 2009, we incurred more capital expenditures related to the decoration of the new office property in Beijing, the decoration and construction of the Zhuhai Research Center and the acquisition of land-use right with an area of over 96.0 thousand square meters in Zhuhai.

Management Comments

Commenting on the first Quarter, Pak Kwan Kau, the Chairman and CEO of the Company said, "Our net profit increased by 83% year-over-year and 5% sequentially. Our revenue recorded a sequential decline of 8% due to adverse seasonality and reduced traffic of our online gamers. Looking ahead, we are confident that the upcoming JX3, our most anticipated 3D game will continue to expand JX and leverage the growth of online game market in China."

Kingsoft continued to expand game portfolio recently. Following Thailand and Taiwan, our 3D FPS game, MAT was launched domestically in March. JX Online II's new expansion pack, The Legend of JX II was successfully released in April. To expand Kingsoft's game content franchise, we entered a joint-operation program of JX Online World and The Legend of JX II with Shanda in January. We also made progresses toward transforming our application software to SaaS by adding online storage to WPS Office and partnering with PICC Property and Casualty Company Limited to offer computer insurance version of Kingsoft Internet Security. Through this insurance version, users could lodge an insurance claim if software system collapses caused by an invasion of virus or hacker. This is one of the first products in China with both computer security and computer insurance functions.

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

The PRC, May 27, 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, Wai Ming WONG and Wing Chung Anders CHEUNG; the Independent Non-Executive Directors are Messrs. Shun Tak WONG, Guangming George LU and Mingming HUANG.