

Analyst: Kelvin Li

## Main Board Listing – Research

### Kingsoft Corporation Limited [Stock Code: 3888] 金山軟件有限公司

**Joint Global Coordinators, Joint Bookrunners, Joint Sponsors and Joint Lead Managers** : Deutsche Bank Lehman Brothers

**Sector** : Software & Services

**Business** : Software development and distribution

**Total share offer:** 213,337,000 shares  
 (Including 198,823,800 new shares and  
 14,513,200 existing shares)  
 (20.1% of the enlarged share capital)

**Public Offer:** 21,33,400 shares (10%)

**Placing:** 192,003,000 shares (90%)

**Greenshoe:** 32,001,000 shares

**Price:** HK\$2.90 – HK\$3.60 per share

**Market Cap:** HK\$3.075 billion–HK\$3.817 billion

**Pro forma FY2007E PER:** 28.9x to 35.9x

**Adjusted NTA per share:** HK\$0.742 - HK\$0.874

**Staffing:** 1,328 (as of 31<sup>st</sup> December 2006)

**HK Public Offer period:**

24<sup>th</sup> September 2007 – 28<sup>th</sup> September 2007

**Receiving bank:** ICBC (Asia),  
 Standard Chartered Bank

**Share registrar:** Computershare Hong Kong  
 Investor Services Limited

**Listing date:** 9<sup>th</sup> October, 2007

**Business of Kingsoft**

Kingsoft is a leading software developer, distributor and service provider in Mainland China. The Group offers a wide range of innovative entertainment and applications software, leveraging on its software research and development team of nearly 1,000 I.T. professionals.

The Mainland market is the Group's most prominent market. Besides, it also distributes entertainment software products in Vietnam, Taiwan, Malaysia and Singapore and applications software in Japan, Hong Kong, Taiwan, Macau and Vietnam. Revenue from overseas markets accounted for less than 15% of the total in 2006.

The Group launched its first domestically produced PC games in 1996 and the first online game in 2003. Since its establishment, the Group received warm reception from the users and won awards for both its entertainment and applications software products.

**Shareholders after Listing** (Assuming the over-allotment option is not exercised)

Pak Kwan Kau, the Group Chairman, and Jun Lei, the CEO and Chief Technology Officer	35.6%
Tetrad Ventures Pte Ltd.	16.8%
Super Faith International Limited*	10.4%
Lenovo <sup>^</sup>	8.2%
Intel	3.4%
New Horizon	3.4%
Individual investors – a group of 91 current and past employees	2.1%
Public Investors	20.1%
	100.0%

Remark: (\*) Super Faith is owned by Shuen Lung Cheung, Nien Shian Chu, Siu Lung Cheung, Tung Ping Lau Siu Ha Cheung and Ka Yeung Yip. Siu Lung Cheung served as a Directors of Kingsoft and resigned in August 2006. (^) Lenovo has a representative on the board of Kingsoft.

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$556.3 million (Assuming an offer price of HK\$3.25, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

	HK\$ million
For expansion of research and development capabilities for both the entertainment and the applications software businesses by recruiting fresh graduates and experienced research personnel. The Group expects its R&D team headcount to double over the next two years	170.1
For expansion in overseas market, including set-up costs for joint ventures or equity investment in overseas operators and business development costs	76.0
To upgrade IT infrastructure, including the purchase of additional servers for online games, the purchase of additional hardware and software to enhance billing systems and further utilize the Internet for product distribution.	94.1
For strategic acquisitions and joint ventures	115.8
To construct research and development facilities in Zhuhai	72.4
For working capital	27.9

**Financial Highlights**

	Year ended 31 <sup>st</sup> Dec			3 months ended	
	2004	2005	2006	31 <sup>st</sup> Mar 2006	31 <sup>st</sup> Mar 2007
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	112,007	215,201	316,431	79,243	103,939
Gross profit	96,613	181,930	271,760	70,595	87,399
Operating profit	4,926	28,691	111,744	50,543	33,086
<b>Profit attributable to shareholders</b>	<b>3,782</b>	<b>35,667</b>	<b>99,525</b>	<b>44,490</b>	<b>32,714</b>
Gross profit margin	86.26%	84.54%	85.88%	89.09%	84.09%
Operating profit margin	4.40%	13.33%	35.31%	63.78%	31.83%
Net profit margin	3.38%	16.57%	31.45%	56.14%	31.47%
	<b>31/12/2004</b>	<b>31/12/2005</b>	<b>31/12/2006</b>	<b>31/3/2006</b>	<b>31/3/2007</b>
Net debt/(cash) to Equity	N/A	(315.33%)	(136.33%)	N/A	(130.13%)

**Strengths/Opportunities**

- ✓ Playing online game has become popular in the Mainland, thanks to rising broadband usage and improving affordability in game purchase amid a booming Chinese economy. According to IDC, the online-gamers penetration (the number of online game user as a percentage of the total broadband users) in the Mainland was 25.4% as at the end of 2006, which was one of the lowest in the region, providing enormous growth potential for the Group.
- ✓ The number of broadband users of China Telecom and China Netcom grew 13.7% and 18.7% h-o-h, respectively, during 1H2007. Riding on the fast-growing Internet population, the Group should see strong revenue growth and better market acceptance of online games in the next couple of years.

**Weaknesses/Threats**

- × The design of some the Group's online games was based on famous Chinese novels, like Shui Hu (水滸), San Guo (三國) and the First Myth series (封神榜). The initial launch of related online games had drawn strong market response, but rollout of the second or higher editions of the games may see diminishing interest from game players.
- × The online games market in the Mainland is highly competitive. The Group would face severe rivalry from other software developers like Shanda Interactive, NetEase, The9 Limited, ZTgame.com, etc. Besides, the taste and habit of on-line game users may change from time to time, making the Group's revenue flow more volatile and unpredictable.

**Recommendation: Neutral**

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