

Hurray! Reports First Quarter 2007 Unaudited Financial Results

BEIJING, May 24, 2007 /Xinhua-PRNewswire/ -- Hurray! Holding Co., Ltd. (Nasdaq: [HRAY](#) - [News](#)), a leader in wireless music distribution and other wireless value-added services, artist development and music production in China, today announced its unaudited financial results for the first quarter ended March 31, 2007.

FINANCIAL HIGHLIGHTS:

Highlights for First Quarter 2007

- Total revenues: \$16.6 million, a decline of 2.2% quarter-over-quarter and 0.9% year-over-year, exceeding previous guidance of \$15.0-16.0 million
- Wireless value-added services revenues: \$14.9 million, a decline of 1.1% quarter-over-quarter and growth of 3.3% year-over-year
- Recorded music revenues, which are from our record label businesses: \$1.5 million, a decline of 15.9% quarter-over-quarter and growth of 0.7% year-over-year
- Software and system integration services revenues: \$0.2 million, growth of 79.4% quarter-over-quarter and a decline of 78.2% year-over-year
- Net income: \$1.0 million, a decline of 38.9% quarter-over-quarter and growth of 3.8% year-over-year
- Adjusted EBITDA (a non-GAAP measure which is defined as earnings before interest, tax, depreciation, amortization and stock-based compensation): \$1.63 million, growth of 13.1% quarter-over-quarter and growth of 1.4% year-over-year
- Diluted earnings per ADS: \$0.04

Commenting on the first quarter results, QD Wang, Chairman and CEO of Hurray! stated: "We are pleased to report a solid quarter which exceeded our previous estimate despite a challenging operating environment. Going forward, we will further our strategy of developing proprietary contents and diversifying distribution channels, while continuing our transformation into a leading entertainment content production and distribution house in China."

BUSINESS RESULTS

Total revenues for the first quarter ended March 31, 2007 were \$16.6 million, representing a 2.2% decrease from \$17.0 million for the preceding quarter, and a 0.9% decrease from \$16.8 million for the first quarter in 2006.

Total wireless value-added services revenues were \$14.9 million for the first quarter of 2007, a decline of 1.1% as compared with \$15.1 million in the previous quarter and growth of 3.3% as compared with \$14.5 million in the first quarter of 2006.

Recorded music revenues, which represent revenues of our controlled music companies Hurray! Freeland and Huayi Brothers Music, were \$1.5 million, a decline of 15.9% as

compared with \$1.8 million in the previous quarter and growth of 0.7% as compared with \$1.5 million in the first quarter of 2006.

Software and system integration services revenues were \$0.2 million for the first quarter of 2007, representing growth of 79.4% as compared with \$0.1 million for the previous quarter and a decrease of 78.2% as compared with \$0.8 million for the first quarter of 2006.

Total gross margin was 32.8% for the first quarter of 2007 as compared with 31.2% for the previous quarter and 36.2% for the first quarter of 2006.

Gross margin for wireless value-added services was 30.8% for the first quarter of 2007, as compared with 31.9% in the previous quarter and 34.6% for the first quarter of 2006.

Recorded music gross margin was 51.0% for the first quarter of 2007 as compared to 33.6% in the previous quarter and 48.6% for the first quarter of 2006.

Software and system integration services gross margin was 30.4% for the first quarter of 2007, as compared to -109.9% for the previous quarter and 40.3% for the first quarter of 2006.

Total gross profit was \$5.4 million for the first quarter of 2007, representing growth of 2.6% as compared with \$5.3 million for the previous quarter and a decline of 10.2% as compared with \$6.1 million for the first quarter of 2006.

Total operating expenses were \$4.7 million for the first quarter of 2007, representing a decline of 0.8% as compared to \$4.7 million for the previous quarter and a decline of 10.7% as compared to \$5.3 million for the first quarter of 2006.

Interest income for the first quarter of 2007 was \$0.6 million, the same as the previous quarter. Income tax was \$0.3 million in the first quarter 2007, the same as the first quarter of 2006, but an increase compared to a credit of \$0.6 million in the previous quarter.

Net income was \$1.0 million for the first quarter of 2007, representing a decrease of 38.9% as compared to \$1.6 million for the previous quarter, and growth of 3.8% as compared to \$0.9 million for the first quarter of 2006. Net margin was 5.8% for the first quarter of 2007 as compared to 9.2% for the previous quarter and 5.5% for the first quarter of 2006.

Adjusted earnings before interest, tax, depreciation, amortization and stock-based compensation (adjusted EBITDA), was \$1.63 million for the quarter, growth of 13.1% as compared with \$1.4 million in the previous quarter and growth of 1.4% as compared with \$1.61 million in the first quarter of 2006. Reconciliations of net income under U.S. generally accepted accounting principles (GAAP) and adjusted EBITDA are included at the end of this release.

Fully diluted earnings per ADS were \$0.04 based on a weighted average of 21.8 million diluted ADSs for the first quarter of 2007. This figure compares to \$0.07 based on a weighted average of 21.7 million diluted ADSs for the previous quarter and \$0.04 based on a weighted average of 22.5 million diluted ADSs for the first quarter of 2006.

As of March 31, 2007, the company had outstanding 21.7 million basic ADSs and 21.8 million fully diluted ADSs, excluding share options granted above the average market value of Hurray! stock for the quarter as their effect would have been anti-dilutive.

As of March 31, 2007, the company had \$70.6 million in cash and cash equivalents.

BUSINESS HIGHLIGHTS

Hurray! continued to successfully execute its strategy of developing proprietary content and diversifying distribution channels, with the following highlights:

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- Hurray! released a series of new songs and 14 new game titles on China Mobile's music and game portals.
- Hurray! launched successful marketing programs to promote the new releases simultaneously over Internet and wireless platforms. Consequently, "Autumn Never Comes Back" and "Hard to Be Friends" became popular hits in the first quarter and ranked in the top 10 for several consecutive weeks in the second quarter on both China Mobile's music portal and Baidu's music search platform.
- Music and game related revenues, representing revenues from our recorded music and our wireless value-added services with music and game content, were about 36.0% or \$6.0 million of total revenues for the quarter.
- Wireless value-added services revenues generated from operator-independent marketing, promotion and distribution such as direct media advertising, interactive media programs, Internet marketing alliances, and handset vendor partnerships reached approximately 40%, or \$6 million, of total wireless value-added services revenues. This compares to 29.0% or \$4.2 million in the year ago quarter.

"Despite the challenging wireless services operating environment, we are committed to our transformation strategies and confident about our long term prospects" commented Mr. Wang.

Business Outlook

For second quarter 2007, Hurray! expects its total consolidated revenues to be between \$15.0 and \$16.0 million, reflecting the continued impact of tightened enforcement of policy and regulation changes previously announced by MII and mobile operators.

Fin 48 Compliance

In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 requires recognition of tax benefits that satisfy a greater than 50% probability threshold. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for the Company beginning January 1, 2007. There was no cumulative adjustment on the adoption of FIN 48.

Note to the Financial Information

The financial information in this press release has been extracted from the financial information prepared using the recognition and the measurement basis of accounting principles generally accepted in the United States of America.

Conference Call

The company will host a conference call to discuss the third quarter results at

Time: 9:30 pm Eastern Standard Time on May 24, 2007
or 9:30 am Beijing/Hong Kong Time on May 25, 2007

The dial-in number: +1-866-272-9941 (US)
+1-617-213-8895 (international)
Password: 19600241

A replay of the call will be available from May 24, 2007 until May 31, 2007 as follows:

+1-888-286-8010 (US)
+1-617-801-6888 (international)
PIN number: 37323648

Additionally, a live and archived web cast of this call will be available at:
<http://phx.corporate-ir.net/playerlink.zhtml?c=187793&s=wm&e=1544711>
or <http://www.hurray.com/english/home.htm>

About Hurray! Holding Co., Ltd.

Hurray! is a leading provider of music and music-related products such as ringtones, ringbacktones, and truetones to mobile users in China through SMS, IVR, RBT, WAP, MMS and Java wireless value-added services platforms over mobile networks and through the Internet. The company also provides a wide range of other wireless value-added services to mobile users in China, including games, pictures and animation, community, and other media and entertainment services.

In addition, Hurray! is a leader in artist development, music production and offline and online distribution in China through its majority-controlled record labels Huayi Brothers Music and Hurray! Freeland.

Hurray! also designs, develops, sells and supports a service provisioning and management software for mobile operators in China to manage wireless value-added services.

Forward-looking Statements

This press release contains statements of a forward-looking nature. These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as "will," "expects," "believes" and similar statements. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including risks related to: continued competitive pressures in China's wireless value-added services market; changes in technology and consumer demand in this market; the risk that Hurray! may not be able to control its expenses in future periods; Hurray!'s ability to succeed in the music development, production and distribution business, with which it has only limited experience; changes in the policies of the mobile operators in China or the laws governing wireless value-added services; the state of Hurray!'s relationships with China's mobile operators and the risk that Hurray! may be subject to further sanctions and penalties from them in future periods; and other risks outlined in Hurray!'s filings with the Securities and Exchange Commission, including its registration statement on Form F-1, as amended. Hurray! does not undertake any obligation to update this forward-looking information, except as required under applicable law.

Hurray! Holding Co., Ltd.
Unaudited Condensed Consolidated Balance Sheets

	As of March 31, 2007	As of December 31, 2006⁽¹⁾
	(Unaudited)	
	(in thousands of U.S. dollars)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 70,580	\$ 74,597
Accounts receivable	15,828	13,178
Note receivable	-	272
Prepaid expenses and other current assets	3,331	2,701
Amount due from related parties	315	167
Current deferred tax assets	142	82
Inventories	198	178
Total current assets	90,394	91,175
Deposits and other non-current assets	649	632
Prepaid acquisition cost	4,631	-
Property and equipment, net	1,955	1,954
Acquired intangible assets, net	5,769	6,023
Goodwill	39,932	39,622
Non-current deferred tax assets	309	371
Total assets	\$ 143,639	\$ 139,777
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 5,280	\$ 3,681
Acquisition payable	5,877	5,832
Accrued expenses and other current liabilities	2,579	2,613
Amount due to a related party	65	-
Income tax payable	462	489
Current deferred tax liabilities	413	132
Total current liabilities	14,676	12,747
Non-current deferred tax liabilities	826	851
Total liabilities	15,502	13,598
Minority interests	3,474	3,359
Shareholders' equity:		
Ordinary shares	109	108
Additional paid-in capital	73,789	73,608

Retained earnings	46,661	45,705
Accumulated other comprehensive income	4,104	3,399
Total shareholders' equity	124,663	122,820
Total liabilities and shareholders' equity	\$ 143,639	\$ 139,777

⁽¹⁾December 31, 2006 balances were extracted from audited financial statements.

Hurray! Holding Co., Ltd.
Unaudited Condensed Consolidated Statements of Operations
For the three months ended

	March 31, 2007	December 31, 2006	March 31, 2006
(in thousands of U.S. dollars, except share and per share data)			
Revenues:			
Wireless value-added services	\$ 14,935	\$ 15,106	\$ 14,461
Recorded music	1,518	1,805	1,507
Software and system integration services	177	98	810
Total revenues	16,630	17,009	16,778
Cost of revenues:			
Wireless value-added services	10,313	10,292	9,451
Recorded music	744	1,199	775
Software and system integration services	123	206	484
Total cost of revenues	11,180	11,697	10,710
Gross profit	5,450	5,312	6,068
Operating expenses:			
Product development	653	698	739
Selling and marketing	2,657	2,751	2,832
General and administrative	1,389	1,286	1,689
Total operating expenses	4,699	4,735	5,260
Income from operations	751	577	808
Interest expense	(45)	(45)	-
Interest income	628	587	619
Income tax expense	(263)	564	(323)
Minority interests	(115)	(117)	(182)
Net income	\$ 956	\$ 1,566	\$ 922
Earnings per share, basic	\$0.0004	\$0.0007	\$0.0004
Earnings per ADS, basic	\$0.04	\$0.07	\$0.04
Earnings per share, diluted	\$0.0004	\$0.0007	\$0.0004
Earnings per ADS, diluted	\$0.04	\$0.07	\$0.04
Shares used in calculating basic	2,167,890,217	2,152,282,170	2,229,854,010

earnings per share			
ADSs used in calculating basic earnings per ADS	21,678,902	21,522,822	22,298,540
Shares used in calculating diluted earnings per share	2,177,185,265	2,171,571,924	2,245,876,853
ADSs used in calculating diluted earnings per ADS	21,771,853	21,715,719	22,458,769

The use of non-GAAP financial measures:

To supplement its consolidated financial statements presented in accordance with generally accepted accounting principles (“GAAP”) in the United States, Hurray! uses non-GAAP measures of operating results and net income, including in this press release earnings before interest, taxes, depreciation and amortization, and before stock-based compensation expense (“adjusted EBITDA”), which are adjusted from results based on GAAP to exclude certain expenses. Hurray!’s management believes the use of these non-GAAP financial measures provide useful information to both management and investors by excluding certain expenses that are not related to the Company’s operations. These non-GAAP financial measures also facilitate management's internal comparisons to Hurray!’s historical performance and our competitors' operating results. Hurray! believes these non-GAAP financial measures are useful to investors in allowing for greater transparency with respect to supplemental information used by management in its financial and operational decision making. The presentation of this additional financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. Please see below financial table for a reconciliation of adjusted EBITDA.

Reconciliation of net income under GAAP to adjusted EBITDA for the following periods:
For the three months ended

	March 31, 2007	December 31, 2006	March 31, 2006
	(in thousands of U.S. dollars, except share and per share data)		
Net income	\$ 956	\$ 1,566	\$ 922
Add:			
Interest expense	45	45	-
Income tax expense	263	(564)	323
Depreciation and amortization	829	825	892
Non-cash stock compensation expense	167	158	91
Less:			
Interest income	628	587	619
Adjusted EBITDA	<u>\$ 1,632</u>	<u>\$ 1,443</u>	<u>\$1,609</u>

For more information, please contact:
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Source: Hurray! Holding Co., Ltd.