



(continued into the Cayman Islands with limited liability)
Stock Code: 03888

KINGSOFT CORPORATION LIMITED

2022 ANNUAL REPORT



剑侠情缘网络版叁



剑侠情缘手游

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CORPORATE INFORMATION

Legal Name of the Company

Kingsoft Corporation Limited

Stock Code

03888

Date of Listing

9 October 2007

Principal Place of Business in Beijing

Building D

Xiaomi Campus

No. 33 Xierqi Middle Road

Haidian District

Beijing 100085

PRC

Principal Place of Business in Hong Kong

Suite 3208, 32/F, Tower 5

The Gateway, Harbour City

Tsim Sha Tsui, Kowloon

Hong Kong

Registered Office

P.O. Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

Executive Director

Mr. Tao ZOU

Non-executive Directors

Mr. Jun LEI (Chairman)

Mr. Pak Kwan KAU

Mr. Leiwen YAO

Independent Non-executive Directors

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Audit Committee

Ms. Wenjie WU (Chairman)

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Remuneration Committee

Mr. Shun Tak WONG (Chairman)

Mr. Jun LEI

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Nomination Committee

Mr. Shun Tak WONG (Chairman)

Mr. Leiwen YAO

Ms. Wenjie WU

Environmental, Social and Governance Committee

Mr. David Yuen Kwan TANG (Chairman)

Mr. Tao ZOU

Mr. Shun Tak WONG

Ms. Wenjie WU

CORPORATE INFORMATION (continued)

Board Secretary/Company Secretary

Ms. Hongyu LV

Authorised Representatives

Mr. Tao ZOU

Ms. Hongyu LV

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited

P.O. Box 1093

Boundary Hall

Cricket Square

Grand Cayman, KY1-1102

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17/F. Hopewell Centre

183 Queen's Road East

Hong Kong

Auditor

Ernst & Young, Registered Public Interest Entity Auditor

Certified Public Accountants

27/F, One Taikoo Place

979 King's Road

Quarry Bay

Hong Kong

Legal Advisor on Hong Kong Law

Baker & McKenzie

14th Floor, One Taikoo Place

979 King's Road

Quarry Bay

Hong Kong

Principal Bankers

China CITIC Bank Co., Ltd.

China Merchants Bank Co., Ltd.

Bank of Beijing Co., Ltd.

Bank of Communications Co., Ltd.

Industrial and Commercial Bank of China (Asia) Limited

Investor and Media Relations

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FINANCIAL HIGHLIGHTS

Consolidated Statement of Profit or Loss (Restated)

	Year ended 31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
Continuing Operations					
Revenue					
Office software and services	1,101,054	1,574,778	2,257,177	3,264,794	3,890,588
Online games and others	2,587,626	2,796,309	3,337,066	3,106,612	3,746,155
	3,688,680	4,371,087	5,594,243	6,371,406	7,636,743
Cost of revenue	(672,663)	(810,147)	(917,281)	(1,157,117)	(1,459,742)
Gross profit	3,016,017	3,560,940	4,676,962	5,214,289	6,177,001
Research and development costs	(1,453,001)	(1,538,529)	(1,656,067)	(2,328,009)	(2,552,754)
Selling and distribution expenses	(545,289)	(708,992)	(838,482)	(1,064,954)	(1,242,518)
Administrative expenses	(343,252)	(376,897)	(453,809)	(570,016)	(618,956)
Share-based compensation costs	(144,312)	(148,712)	(179,372)	(219,151)	(260,794)
Other income	271,806	239,396	310,789	391,203	395,156
Other expenses	(53,110)	(14,400)	(4,887)	(62,779)	(28,453)
Operating profit	748,859	1,012,806	1,855,134	1,360,583	1,868,682
Other gains/(losses), net	(55,917)	(1,236,554)	154,739	842,402	(6,499,855)
Finance income	209,656	220,532	437,997	416,250	449,005
Finance costs	(27,159)	(19,672)	(107,514)	(142,789)	(157,438)
Share of profits and losses of:					
Joint ventures	49,898	17,524	(25,929)	(31,673)	(19,634)
Associates	374,037	(409,874)	(245,067)	(1,301,645)	(1,362,103)
Profit/(loss) before tax from continuing operations	1,299,374	(415,238)	2,069,360	1,143,128	(5,721,343)
Income tax credit/(expense)	(128,155)	(152,537)	(270,924)	(190,285)	380,355
Profit/(loss) for the year from continuing operations	1,171,219	(567,775)	1,798,436	952,843	(5,340,988)
Discontinued Operation					
Profit/(loss) for the year from a discontinued operation	(1,336,461)	(1,514,924)	8,446,504	—	—
Profit/(loss) for the year	(165,242)	(2,082,699)	10,244,940	952,843	(5,340,988)
Attributable to:					
Owners of the parent	389,214	(1,546,385)	10,045,043	395,332	(6,048,194)
Non-controlling interests	(554,456)	(536,314)	199,897	557,511	707,206
	(165,242)	(2,082,699)	10,244,940	952,843	(5,340,988)
Proposed final dividends	—	122,413	230,269	134,069	157,766
	RMB	RMB	RMB	RMB	RMB
Earnings/(loss) per share attributable to ordinary equity holders of the parent					
Basic	0.29	(1.13)	7.35	0.29	(4.43)
Dilute	0.27	(1.15)	7.32	0.28	(4.45)

CHAIRMAN'S STATEMENT

BUSINESS REVIEW AND OUTLOOK

2022 was full of challenges and uncertainties, in which we actively embraced changes, maintained strategic focus, and further strengthened our core competitiveness. Kingsoft Office Group was committed to empowering the digital transformation of institutional customers and enhancing the cloud office user experience for individual users. Our business performance showed resilience, with the strategy of “multi-screen, cloud, content, AI and collaboration”. Online games business focused on the development of premium games, and our flagship and new launched titles gained popularity. All these achievements have given us confidence to keep advancing our strategy in the enterprise services and online games sectors.

The Group's businesses continued to make robust progress in 2022, with total revenue reaching RMB7,636.7 million, increasing by 20% year-on-year. In 2022, the office software and services business maintained solid growth with revenue of RMB3,890.6 million, up 19% year-on-year. Notably, individual and institutional subscription businesses grew robustly. The online games and others business experienced solid growth, with annual revenue reaching a new record high of RMB3,746.2 million, up 21% year-on-year, as the result of outstanding performance of JX World III mobile game. Operating profit of the Group was RMB1,868.7 million in 2022, increasing significantly by 37% year-on-year. These results reflected the resilience of our business model, efficiency of our business execution, as well as years of investment in R&D of our Group's core products.

Despite the sluggish shipments of global PC and smartphone markets, the number of monthly active devices of Kingsoft Office Group's main products continued to grow against the trend in 2022. We constantly optimized the user experience of our products in cross-platform scenarios such as cloud and collaboration to encourage users to use cloud document services continuously. By the end of 2022, the number of documents uploaded to the public cloud platform has exceeded 175.2 billion, up 35% year-on-year. We continued to add membership privileges of WPS and Docer to attract users to become paying subscribers, enhance user loyalty, achieve stable growth in the number of paying subscribers, increase the proportion of long-term members, and optimize the membership structure.

Kingsoft Office Group deeply served the digital transformation of domestic government and enterprises, catered for their needs of efficiency improvement, data management, information security and industry scenario applications, and continued to promote their end-to-cloud integration and collaboration process. In response to the government's demand for standardized, efficient, and long-term electronic document management, we launched an electronic document resource library product. Making full use of cloud computing, big data, AI and other technologies, we assisted party and government agencies in building electronic document resource library platforms and supported the full lifecycle management of electronic documents in digital government construction. For premium enterprise customers, we provided modular digital office empowerment services, continuously advancing the enterprise cloud integration process, addressing core pain points of enterprises, such as “improving efficiency, enhancing data security, and controlling costs”, and assisting enterprises in achieving cost reduction and efficiency improvement. For the public cloud service, our full range of digital office platform products with tiered versions were utilized to encourage customers to use cloud and collaboration applications in high frequency, which enhanced user engagement and payment retention.

Kingsoft Office Group has closely monitored the localization industry policy changes and customer demand, and taken the initiative to tap local government and industry localization markets in advance. Starting from the replacement needs of industries such as finance, operators and energy, we promoted the adoption of the Windows/Linux dual-version annual venue mode and deepened their cloud and collaboration office process.

Looking forward, following the strategy of “multi-screen, cloud, content, AI and collaboration”, Kingsoft Office Group will focus on AI to achieve more breakthroughs in technology applications, and continue to explore innovative business models and optimize user experience. At the same time, we will continuously improve service quality, empower government and enterprises with high-quality products and technological services, and assist them in achieving digital transformation more effectively.

CHAIRMAN'S STATEMENT (continued)

Online games business continuously cultivated key IP franchises more deeply and broadly, and further enhanced the value of core IPs. Flagship JX Online III marched into its thirteenth year and remained steady, and we put our focus on driving players' engagement. We launched two expansion packs and conducted multiple in-game events and campaigns to improve player activeness in 2022. In October, the number of daily active accounts achieved a recent high with the successful release of the anniversary expansion pack for JX Online III, Heng Dao Duan Lang (橫刀斷浪). To further enrich our game content, we actively incorporated traditional cultural elements and launched a series of IP crossover campaigns in this game.

JX World III mobile game, one of the classic JX IP, performed strongly in 2022. In order to bring more immersive and authentic wuxia world experience to players, we continued to introduce distinctive gameplay and content to keep players engaged and entertained. We launched three expansion packs in 2022 on the basis of weekly updates. In August, we released the open beta across all platforms in Chinese mainland.

Looking ahead, we will proactively make progress in new game genres and overseas markets. Our new anime games, Snowbreak: Containment Zone (塵白禁區) and The Other Shore (彼界), have received the approval of gaming licenses and are expected to be released in China and aboard from the second half of 2023. We will focus on long-term operation of existing titles. The upgrade version of JX Online III PC game is expected to be launched by the end of 2023, laying the foundation for JX3 Ultimate (劍網3 全平台旗艦版) and ensuring high-quality game iteration.

In 2022, we achieved steady growth. In 2023, we will continue to seek progress while maintaining stability, and drive business growth with technology and service innovation. For office software and services business, we will continue to empower enterprises' digital transformation, focus on AI to achieve more breakthroughs in technology applications, reconstruct and optimize the membership system, further promote the transformation of subscriptions. For online games business, we will continue to extend the longevity of premium games based on original IPs, actively expand new game genres, and pursue opportunities in overseas markets. Amid increasingly fierce industry competition, we believe that by relying on technology innovation, products and services enhancements and operations optimization, we will achieve further high-quality development.

Jun LEI

Chairman

Hong Kong, 21 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL HIGHLIGHTS

	In December 2022	In December 2021	In September 2022	Year-on-year Change %	Quarter-on-quarter Change %
Office Software					
Monthly Active Devices of the key products* (Million)	573	544	578	5	(1)
			As at 31 December 2022	As at 31 December 2021	Year-on-year Change %
Accumulated paying subscribers** (Million)			29.97	25.37	18

* Monthly Active Devices of the key products are defined as the aggregate Monthly Active Devices of both WPS Office and Kingsoft Powerword across all platforms, excluding WPS Docs and other products.

** Accumulated paying subscribers are defined as paying individual subscribers in the past twelve months (excluding onetime purchase) in Chinese mainland.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

For the Year Ended 31 December 2022

The following table sets forth the comparative numbers for the years ended 31 December 2022 and 2021, respectively.

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Revenue		
Office software and services	3,890,588	3,264,794
Online games and others	3,746,155	3,106,612
	7,636,743	6,371,406
Cost of revenue	(1,459,742)	(1,157,117)
Gross profit	6,177,001	5,214,289
Research and development costs	(2,552,754)	(2,328,009)
Selling and distribution expenses	(1,242,518)	(1,064,954)
Administrative expenses	(618,956)	(570,016)
Share-based compensation costs	(260,794)	(219,151)
Other income	395,156	391,203
Other expenses	(28,453)	(62,779)
Operating profit	1,868,682	1,360,583
Other gains/(losses), net	(6,499,855)	842,402
Finance income	449,005	416,250
Finance costs	(157,438)	(142,789)
Share of profits and losses of:		
Joint ventures	(19,634)	(31,673)
Associates	(1,362,103)	(1,301,645)
Profit/(loss) before tax	(5,721,343)	1,143,128
Income tax credit/(expense)	380,355	(190,285)
Profit/(loss) for the year	(5,340,988)	952,843
Attributable to:		
Owners of the parent	(6,048,194)	395,332
Non-controlling interests	707,206	557,511
	(5,340,988)	952,843
	RMB	RMB
Earnings/(loss) per share attributable to ordinary equity holders of the parent		
Basic	(4.43)	0.29
Diluted	(4.45)	0.28

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Revenue

Revenue for the year of 2022 increased 20% year-on-year to RMB7,636.7 million. Revenue from the office software and services, and online games and others represented 51% and 49% of the Group's total revenue for the year of 2022, respectively.

Revenue from the office software and services business for the year of 2022 increased 19% year-on-year to RMB3,890.6 million. The increase was mainly due to the sustainable growth of individual subscription business and fast growth of institutional subscription business, partially offset by the decreases in institutional licensing and internet advertising businesses of Kingsoft Office Group. The revenue growth of individual subscription business was primarily driven by the increases in the number of accumulated paying subscribers and the proportion of long-term paying subscribers. The rapid growth of institutional subscription business was mainly attributable to the revenue growth of Kingsoft Digital Office Platform, driven by the increasing demand for digital transformation from domestic government and enterprise customers. The mild decrease in institutional licensing business was mainly due to the reduction in purchase orders on localization solutions, partially offset by increasing demand for domestic office software from government and enterprises. The decrease in internet advertising business was the result of strategic contraction for better user experience.

Revenue from the online games and others business for the year of 2022 increased 21% year-on-year to RMB3,746.2 million. The year-on-year increase was mainly due to the successful launch of several mobile games, which broadened our games portfolio in the fourth quarter of 2021, such as JX World III and JX I: Gui Lai, partially offset by decreased revenue from existing games.

Cost of Revenue and Gross Profit

Cost of revenue for the year of 2022 increased 26% year-on-year to RMB1,459.7 million. The year-on-year increase was primarily due to: i) greater server and bandwidth costs, and purchasing costs of products and services along with the business growth of Kingsoft Office Group; and ii) greater channel costs associated with the increased revenue of online games.

Gross profit for the year of 2022 increased 18% year-on-year to RMB6,177.0 million. The Group's gross profit margin decreased by one percentage point year-on-year to 81%.

R&D Costs

R&D costs for the year of 2022 increased 10% year-on-year to RMB2,552.8 million. The increase was mainly due to increased headcount as well as personnel-related expenses of Kingsoft Office Group, driven by enhanced investments in cloud and collaboration.

Selling and Distribution Expenses

Selling and distribution expenses for the year of 2022 increased 17% year-on-year to RMB1,242.5 million. The increase mainly reflected that Kingsoft Office Group continued to expand its reach into domestic enterprise and government market, and online games business expanded scale of promotion for new mobile games.

Administrative Expenses

Administrative expenses for the year of 2022 increased 9% year-on-year to RMB619.0 million. The increase was mainly due to increased personnel-related expenses.

Share-based Compensation Costs

Share-based compensation costs for the year of 2022 increased 19% year-on-year to RMB260.8 million. The increase was primarily due to the grants of awarded shares to the selected employees of certain subsidiaries of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the year of 2022 increased 35% year-on-year to RMB2,129.5 million.

Other Gains/(Losses), net

Net other losses for 2022 were RMB6,499.9 million, compared with gains of RMB842.4 million for the last year. The losses in 2022 primarily resulted from the provision for impairment on the investment in Kingsoft Cloud. The gains in 2021 were mainly due to that we recognized a gain on deemed disposal of Kingsoft Cloud as a result of the dilution impact of issue of new shares of it.

Share of Profits and Losses of Associates

Share of losses of associates for 2022 were RMB1,362.1 million, compared with losses of RMB1,301.6 million for the last year.

Income Tax Credit/(Expense)

Income tax credit for the year of 2022 was RMB380.4 million, compared with income tax expense of RMB190.3 million for the last year. The income tax credit for the year of 2022 was mainly attributable to the deferred tax effect of the impairment provision recognized for Kingsoft Cloud.

Profit/(Loss) Attributable to Owners of the Parent

For the reasons described above, loss attributable to owners of the parent was RMB6,048.2 million for the year of 2022, compared with profit of RMB395.3 million for the last year.

Profit/(Loss) Attributable to Owners of the Parent before Share-based Compensation Costs

Profit/(loss) attributable to owners of the parent before share-based compensation costs, which is defined as profit/(loss) attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent, is a measure supplementary to the consolidated financial statements presented in accordance with IFRSs.

We believe that the profit/(loss) attributable to owners of the parent 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/(loss) or any other operating performance measure that is calculated in accordance with IFRSs. In addition, our profit/(loss) attributable to owners of the parent before share-based compensation costs may not be comparable to similarly titled measures utilized by other companies.

Loss attributable to owners of the parent before share-based compensation costs was RMB5,878.5 million for the year of 2022, compared with profit of RMB530.2 million for the last year.

The net profit/(loss) margin excluding the effect of share-based compensation costs was (77%) and 8% for the year 2022 and 2021, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of 2022. As at 31 December 2022, the Group had major financial resources in the forms of cash and bank deposits and restricted cash amounting to RMB18,201.4 million and RMB2.5 million, respectively, which together represented 57% of the Group's total assets.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

As at 31 December 2022, the Group's gearing ratio, representing total liabilities divided by total assets, was 24%, compared with 21% as at 31 December 2021.

Note:

The cash resources which the Group considered in cash management including but not limited to cash and cash equivalents, bank deposits, restricted cash and financial assets at fair value through profit or loss. As at 31 December 2022, the aggregate amount of cash resources of the Group was RMB21,310.4 million.

Foreign Currency Risk Management

As at 31 December 2022, RMB3,062.9 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 fluctuation in connection with our deposits and investments.

Net Cash Generated from Operating Activities

Net cash generated from the operating activities reflects the Group's profit/(loss) for the year, as the case may be, as adjusted for non-cash items such as depreciation, amortization of intangible assets and share-based compensation costs, as well as the effect of changes in certain items of statement of financial position such as contract liabilities, other payables and accruals.

Net cash generated from operating activities was RMB2,573.5 million and RMB2,220.1 million for the years ended 31 December 2022 and 31 December 2021, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fixed assets and intangible assets. Cash used for capital expenditures was RMB508.7 million and RMB363.8 million for the years ended 31 December 2022 and 31 December 2021, respectively.

Material Investments

Following completion of the spin-off and separate listing on 8 May 2020, Kingsoft Cloud ceased to be a subsidiary and has been accounted as an associate of the Company. We hold the investment in Kingsoft Cloud to continue the implementation of the cloud strategy, one of our core strategies.

As at 31 December 2022, we held 1,423,246,584 shares of Kingsoft Cloud and the fair value of the equity interest of Kingsoft Cloud held by the Group was approximately RMB2,531.0 million (31 December 2021: RMB9,527.9 million) which was estimated based on the market price of Kingsoft Cloud in NASDAQ, accounted for 8% of the Group's total assets.

Adjusted net loss from Kingsoft Cloud for the year of 2022 was RMB3,031.6 million (2021: RMB2,112.8 million).

Particulars of the Groups' material investment are set out in note 21 to the financial statement. Except for investment in Kingsoft Cloud, there was no other individual investment with a carrying value of 5% or more of the Group's total assets as at 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Future Plans for Material Investments or Capital Assets

As at 31 December 2022, we planned to invest approximately RMB1,900.0 million in the construction of Wuhan Campus to better attract R&D talents and enhance the R&D and innovation capabilities with respect to our products and services.

The construction of Wuhan Campus is expected to be completed and put into use in 2025. Going forward, the Group will continue to look for new business opportunities to complement and enhance its existing business and explore new markets.

Save as disclosed above, there were no other plans for material investments or capital assets as at 31 December 2022.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the year of 2022, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

DIRECTORS AND SENIOR MANAGEMENT

Executive Director

Tao ZOU, aged 47, is currently an executive Director, the chief executive officer (“**CEO**”) and a member of the Environmental, Social and Governance Committee of the Company. Mr. ZOU is a director of Season Holdings, a director of Cheetah Mobile (NYSE: CMCM), Chairman of Kingsoft Office (SSE STAR Market: 688111) and the vice chairman of the board of directors, and the acting CEO of Kingsoft Cloud (Stock Code: 03896 and NASDAQ: KC). Mr. ZOU also serves as a director of Xunlei Limited (NASDAQ: XNET) from 1 December 2016 to 2 April 2020 and a director of 21Vianet Group, Inc. (NASDAQ: VNET) from 1 December 2016 to 14 December 2020. Mr. ZOU graduated from Nankai University in 1997. Mr. ZOU joined us in 1998 and was responsible for the development of our Kingsoft Powerword. Mr. ZOU has been responsible for our entertainment software business since 2004 and served as the CEO of Season Holdings until January 2018. Mr. ZOU has served as acting CEO of Kingsoft Cloud since 2022.

Mr. ZOU became a senior vice president of the Company in December 2007 and has been an executive Director of the Company since August 2009 and the CEO of the Company since December 2016.

Mr. ZOU is also a director of certain subsidiaries of the Company.

Non-executive Directors

Jun LEI, aged 53, is a non-executive Director, the Chairman of the Board, a member of the Remuneration Committee and the co-founder of the Company. Mr. LEI has been employed by us since 1992 and has played a key role in developing the operation of our Group and expanding our business operations. He had been our CEO since 1998, and under his leadership, we further expanded application software businesses into utilities software, internet security software and online games. He also played a major role in transforming our Group from a traditional software company into an on demand software company which extensively utilizes the internet. In December 2007, Mr. LEI relinquished his position as CEO, chief technology officer and president of the Company. In August 2008, Mr. LEI was re-designated from an executive Director to a non-executive Director. Mr. LEI was appointed as the Chairman of the Board of our Company on 5 July 2011. Mr. LEI is also a director of certain subsidiaries of the Company.

Mr. LEI co-founded Xiaomi Corporation (a company listed on the Stock Exchange in July 2018, Stock Code: 1810) with other partners in 2010, and currently is an executive director, the chairman, the CEO and a member of the Remuneration Committee. Since December 2011, Mr. LEI has served as a director of Kingsoft Office (SSE STAR Market: 688111). Since April 2015, Mr. LEI has been the chairman of the board of Kingsoft Cloud (NASDAQ: KC).

Mr. LEI graduated from Wuhan University in 1991 with a bachelor’s degree in Computer Science. He has been a member of the board of Wuhan University since 2003.

Mr. LEI was elected as one of the top 10 economic personages of China in 2017 and one of 100 outstanding private entrepreneurs on the 40th anniversary of the China’s reform and opening-up. In 2020, Mr. LEI was honored with title of “National Advanced Individual of Private Economy Fighting against COVID-19”, title of “Beijing Model Worker” and title of “Outstanding Entrepreneur in the 30th Anniversary of Capital Market”. In 2021, Mr. LEI was awarded the 11th “China Charity Award” by the Ministry of Civil Affairs of the People’s Republic of China, ranked first in Forbes “2021 China’s Best CEO List” and was selected as one of the “Top 10 News Figures of China’s Private Economy in 2021”. In November 2022, Mr. LEI ranked third in the “HENGCHANG SHAOFANG-Hurun China Philanthropy List 2022” with a total donation of RMB14.5 billion.

Mr. LEI is also a famous angel investor in China.

Pak Kwan KAU, aged 58, was re-designated from an executive Director to a non-executive Director of our Company with effect from 24 October 2011. Mr. KAU has been employed by us since 1988. He graduated from National Defense University of Science and Technology in China in 1984 with a bachelor’s degree in Information Management Systems. Between 1984 and 1987, Mr. KAU worked at various Chinese companies as a software developer.

Mr. KAU started Kingsoft Software in 1988, and he was primarily responsible for the development of WPS 1.0 in 1988. Mr. KAU was named as one of the Top Ten Business Persons of the Year in 2000, one of the China Top Financial Figures of the Year in 2001 by CCTV, one of the Ten Most Influential Leaders in China’s Games Industry at the inaugural China Game Industry Annual Conference in January 2005, and one of the Most Outstanding Entrepreneurs at 2009 China Game Industry Annual Conference held in December 2009. Mr. KAU has never held directorship in any other listed public companies. Mr. KAU was appointed as an acting CEO of the Company in December 2007. He was the CEO of the Company from May 2008 to 24 October 2011 when he resigned from the post. Mr. KAU was the Chairman of the board of our Company until 5 July 2011.

Mr KAU is also a director of certain subsidiaries of the Company.

DIRECTORS AND SENIOR MANAGEMENT (continued)

Leiwen YAO, aged 40, is a non-executive Director and a member of the Nomination Committee of the Company. He is also a Vice General Manager of the Investment Department in Tencent Holdings Limited ("**Tencent**", a company listed on the Stock Exchange, Stock Code: 700).

Mr. YAO joined Tencent in 2011 as a senior investment manager, and was promoted to the Vice General Manager of the Investment Department in Tencent in 2018, responsible for managing the investment, merger and acquisition activities in the high-tech and enterprise services sectors. Prior to joining Tencent, he was an investment director at Mindray, a global medical instrumentation developer, manufacturer and marketer, in charge of merger and acquisition activities in the healthcare sector. Prior to that, he worked at Deutsche Bank as an investment associate.

Mr. YAO received his bachelor's degree in Economic Information Management and a master's degree in Finance from the University of International Business and Economics, and his master's degree in Business Administration from Institut Européen D' administration des Affaires (INSEAD).

Independent Non-executive Directors

Shun Tak WONG, aged 62, is an independent non-executive Director of our Company. He is also a member of the Audit Committee and the Environmental, Social and Governance Committee, the chairman of the Nomination Committee and the chairman of the Remuneration Committee of the Company. Mr. WONG was a co-founder and acting as CFO of Rokid Corporation Ltd., an artificial intelligence devices design and development company. From June 2018, Mr. WONG is an independent non-executive director and chairman of audit committee of Xiaomi Corporation (a company listed on the Stock Exchange in July 2018, Stock Code: 1810). He served as an executive Director and CFO of the Company from October 2011 to July 2012, and also acted as an independent non-executive Director, chairman of the Audit Committee and member of the Remuneration Committee of the Company from April 2007 to September 2011.

Mr. WONG was vice president for finance and corporate controller of Alibaba Group from August 2007 to September 2011, an enterprise which engages in internet-based businesses that includes business-to-business international trade, retail and payment platforms and data-centric cloud computing services. During his service with Alibaba Group, he also acted as chairman of Group Financial Control Committee of Alibaba Group.

Mr. WONG served as the CFO of Goodbaby Children Products Group ("**Goodbaby**") from August 2003 to August 2007, a leading juvenile product manufacturer in China. Before joining Goodbaby, Mr. WONG worked as the vice president for finance in IDT International Limited, a company listed on the Stock Exchange, between September 2001 and July 2003.

In the past, Mr. WONG held key financial executive positions in various multi-nationals companies, including as the financial controller of AMF Bowling, Inc. From November 1996 to March 1998 and International Distillers China Ltd. From December 1993 to October 1996. Mr. WONG has extensive experience in financial control, operations, strategic planning and implementation, private equity investments and exit strategies.

Mr. WONG has a master's degree in Finance from the University of Lancaster in the United Kingdom and a master's degree in Accounting from Charles Stuart University in Australia. Mr. WONG is also a fellow CPA member of the Hong Kong Institute of Certified Public Accountants and a fellow CPA member of Australian Society of CPAs.

David Yuen Kwan TANG, aged 68, is an independent non-executive Director of our Company. He is also a member of the Audit Committee, a member of the Remuneration Committee and the chairman of the Environmental, Social and Governance Committee of the Company. Mr. TANG holds a master's degree in Business Administration at the California State University, Fullerton and a bachelor's degree in Computer Science and Engineering at the California State University, Long Beach.

Mr. TANG has extensive IT industry experience in the global market and in the China market in the areas of sales, marketing, business development, research and development and manufacturing. Mr. TANG is a well-known business leader in China and has held various positions such as the vice president of the European Union Chamber of Commerce in China, the vice chairman of the China Association of Enterprises with Foreign Investment and the vice president of the Beijing Chamber of International Commerce. Over the years, Mr. TANG has been widely recognized in the industry and was awarded the title of "Best Professional Manager of the Decade ("十年最佳職業經理人")" by China's CEO & CIO magazine. Mr. TANG has been responsible for the management of businesses up to an annual sales turnover of RMB70 billion. Mr. TANG also worked as adviser at UCWeb and Ganji.

Mr. TANG is currently the independent non-executive director of JOYY, Inc. (NASDAQ: YY) and Standard Chartered PLC (Stock Code: 2888). He is also the partner and chief value officer of Kaiyun Motors, which is an electric vehicle company. Prior to joining Kaiyun Motors, from 2013 to 2021, Mr. TANG was the managing director of Nokia Growth Partner

DIRECTORS AND SENIOR MANAGEMENT (continued)

("NGP") which is a venture capital firm, and was responsible for investments in businesses in China. From 2011 to 2013, Mr. TANG was the corporate senior vice president and the president of Greater China of AMD (Greater China is the largest region of AMD with sales, marketing, research and development and manufacturing operations). During 2004 to 2010, Mr. TANG held a number of positions in Nokia, including the global vice president, the vice chairman and the vice president of sales in Greater China. Mr. TANG was also appointed as the chairman of Nokia Telecommunications Limited, which is a joint venture established by Nokia in China. In addition, Mr. TANG held senior positions at Apple, Inc, 3Com, DEC and AST.

Wenjie WU, aged 48, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee, the Nomination Committee and the Environmental, Social and Governance Committee of the Company. Ms. WU is currently an independent Director of Xunlei Limited (NASDAQ: XNET). Ms. WU served as an independent Director of BlueCity Holdings Ltd. From July 2020 to August 2022. Ms. WU served as the Chief Investment Officer of New Hope Group from November 2018 to February 2020. Ms. WU served as managing partner of Baidu Capital from November 2016 to November 2018. Ms. WU successively served as deputy CFO, CFO and CSO of Ctrip.com (NASDAQ: CTRP) from December 2011 to November 2016. Ms. WU was an equity research analyst covering China Internet and Media industries in Morgan Stanley Asia Limited and in Citigroup Global Markets Asia Limited from 2005 to 2011. Prior to that, Ms. WU worked for China Merchants Holdings (International) Company Limited (Stock Code: 0144), a company listed on the Stock Exchange for three years.

Ms. WU has a Ph.D. degree in Finance from the University of Hong Kong, a master's degree in Finance from the Hong Kong University of Science and Technology, and both a master's degree and a bachelor's degree in Economics from Nan Kai University, China. Ms. WU has been a Chartered Financial Analyst (CFA) since 2004.

Senior Management

For the biography details of Mr. Tao ZOU, please refer the paragraph headed "Executive Directors" above in this section.

KWOK Wai Wai Kris, aged 42, is currently a senior vice president of the Company and the chief executive officer in Seasun Holdings Limited ("**Seasun**"). He joined the JX3 Online ("**JX3**") development team in Seasun in the year 2004, and currently serves as JX3 producer. Mr. KWOK is familiar with the business and development strategy of Seasun with rich experience in business operation and management.

Mr. KWOK graduated from Saint John's University.

Yi LI, aged 44, is currently the acting Chief Financial Officer, a vice president and the finance director of the Company. She joined the finance department of the Company in 2007 and since then has been responsible for the Company's financial affairs. Prior to joining the Company, Ms. LI engaged in consulting and auditing work in accounting firms. Ms. LI possesses extensive management experience in comprehensive financial management, investment and financing management and financial organization capability building.

Ms. LI holds a master's degree and is a member of the Association of Chartered Certified Accountants.

Daojun GONG, aged 42, is currently a vice president of our Company. In 2004, Mr. GONG joined Kingsoft and served successively as office director of Kingsoft Online Game Division, vice president and company secretary of Seasun. He has served as a vice president of the Company since April 2022.

Mr. GONG graduated from Hunan University with a bachelor of engineering in computer science and technology in 2004, and later graduated with a master of arts in communication from Hong Kong Baptist University (UIC) major in artificial intelligence and digital media; in 2022, he started to study for a doctorate in electronic information at the Institute of Flexible Electronics, Northwestern Polytechnical University.

Bo PENG, aged 43, is currently an assistant president and the legal director of the Company. Ms. PENG joined legal department of the Company in 2004 and since then has been fully responsible for the Company's legal affairs; in September 2013, she served as the assistant president of the Company. At present, Ms. PENG is mainly responsible for legal compliance, intellectual property, human resources, supply chain, administrative management of the Company and she has extensive experience in these areas. At the same time, Ms. PENG serves as a supervisor of Kingsoft Office and the secretary-general of Beijing Kingsoft Foundation.

Ms. PENG graduated from the University of Science and Technology Beijing with a bachelor of law degree in 2001.

Company Secretary

Hongyu LV, aged 41, is currently company secretary and Board secretary of the Company. Ms. LV joined the Company in October 2013, responsible for company secretarial and compliance matters. Before joining the Company, Ms. LV worked in another company listed on the Main Board of the Stock Exchange for many years, responsible for legal compliance, asset reorganization, investment and financing and company secretarial matters. She also worked in law firms. Ms. LV is a Fellow of both The Chartered Governance Institute and The Hong Kong Chartered Governance Institute, holding Chartered Secretary and Chartered Governance Professional dual designations. Ms. LV also holds the Chinese legal professional qualification certificate and the board secretary qualification granted by the Shanghai Stock Exchange.

Ms. LV holds a bachelor's degree in law and a master's degree in economic law.

CORPORATE GOVERNANCE REPORT

OVERVIEW OF CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in Corporate Governance Code and Corporate Governance Report (the “Code”) contained in Appendix 14 to the Listing Rules, except for the code provisions C.1.6 and D.1.2 of the Code.

The code provision C.1.6 of the Code is regarding the non-executive directors’ attendance to general meetings. Non-executive Director, Mr. Chi Ping LAU, did not attend the annual general meeting of the Company held on 25 May 2022 due to pre-arranged engagements. Non-executive Director, Mr. Leiwen YAO, did not attend the annual general meeting of the Company held on 25 May 2022 due to not in the position at that time. The code provision D.1.2 of the Code requires management to provide all members of the board with monthly updates on the issuer’s business. The management of the Company currently reports to the Board quarterly on the Group’s performance, position and prospects. The Board believes that with the executive Directors overseeing the daily operation of the Group and the effective communication between the executive Directors, the management and the non-executive Directors (including the independent non-executive Directors) on the Group’s affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

The following is a summary of work performed by the Board in determining the policy for the corporate governance of the Company during the year ended 31 December 2022:

- (1) Developed and reviewed the Company’s policies and practices on corporate governance;
- (2) Reviewed and monitored the training and continuous professional development of Directors and senior management;
- (3) Reviewed and monitored the Company’s policies and practices on compliance with legal and regulatory requirements;
- (4) Developed, reviewed and monitored the code of conduct and compliance manual applicable to employees and Directors; and
- (5) Reviewed the Company’s compliance with the Code and disclosure in the corporate governance report.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Code.

BUSINESS MODEL AND STRATEGY

The Group always endeavors to enhance its enterprise value, ensure the Company’s long-term and stable development and benefit its shareholders and other stakeholders. The Group emphasizes on long-term business growth instead of short-term reward by focusing on innovation and R&D to continue improving products and services. The discussion and analysis of the Group’s performance for the year ended 31 December 2022 are set out under the section of Management Discussion and Analysis of this annual report.

The Company has formulated an anti-corruption and whistle-blowing policy to regulate conduct and ensure compliance with anti-corruption policies and regulations. Employees are encouraged to report corruption, bribery, fraud and unethical behavior. The Company will also include publicity on anti-corruption and whistle-blowing policies in daily employee training.

CORPORATE GOVERNANCE REPORT (continued)

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Director of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**").

Specific enquiry has been made of all the Directors and each of the Directors has confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2022 and up to the date of this annual report. The designated senior management of the Company also has adopted the Model Code.

Details of security interests in the Company held by the Directors are set out in the paragraph headed "Directors' and Chief Executive's Interests in Securities" under the section of the Directors' Report of this annual report.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company (the "**Guidelines**").

No incident of non-compliance of the Guidelines by the employees of the Group was noted by the Company during the year ended 31 December 2022.

THE BOARD

Responsibilities of the Board

The Board is the core function of the Company's corporate governance structure. The principal responsibilities of the Board are to set an overall framework of corporate governance within which the management conducts business and to monitor the Group's operations. The Company's overall framework of corporate governance contains many internal guidelines, internal control policies and procedures that have been formed over the years. The Board has delegated the authority and responsibility for the Group's daily management and operation to senior management of the Group which is under the supervision of the CEO who reports to the Board.

The Board has formulated a clear written policy that stipulates the circumstances under which the management should report and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board regularly reviews our corporate governance practices and updates them as and when appropriate.

The Board oversees specific areas affecting the interests of all shareholders including the execution of resolutions, annual budget, formulation of major decisions for operations, financial proposals and policies, the Company's management system, recommendation/declaration of dividend or other distributions, notifiable and connected transactions under the Listing Rules, recommendation on appointment or reappointment of auditor and other significant operational and financial matters.

The Board is responsible for the preparation of financial statements, so that such financial statements meet the requirements of laws and regulations and applicable accounting standards, and truly and fairly reflect the financial position, the operating results and cash flows of the Group for each reporting period. The Directors also ensures the timely publication of the Group's financial statements. In preparing the financial statements for the year ended 31 December 2022, the Directors adopted appropriate accounting policies and made fair and reasonable judgments and estimates, and the Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue on a going concern basis. The external auditor's responsibilities to shareholders are set out in the Independent Auditor's Report of this annual report.

CORPORATE GOVERNANCE REPORT (continued)

Composition of the Board

As at the date of this annual report, the Board comprises seven Directors with one executive Director, three non-executive Directors and three independent non-executive Directors. The independent non-executive Directors constitute one-third of the Board members which complies with rule 3.10A of the Listing Rules and are possessing appropriate professional qualifications or accounting or related financial management expertise. All of the independent non-executive Directors act in diligent manner to uphold the interests of the Company and its shareholders by maintaining the independence of their opinions and providing professional advice on the long-term development of the Company.

The Company has received, from each of the independent non-executive Directors, a written annual confirmation of his/her independence to the Company pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

A list of Directors, their respective biographies and their relationship with others, if any, are set out in the section headed Directors and Senior Management in this annual report. Save for the disclosure in this annual report, there is no other relationship among the Board members to the best knowledge of the Board as at the date of this annual report.

During the year ended 31 December 2022, the Board comprises the following Directors:

Executive Directors:

Mr. Tao ZOU

Mr. Yuk Keung NG (retired on 25 May 2022)

Non-executive Directors:

Mr. Jun LEI

Mr. Pak Kwan KAU

Mr. Chi Ping LAU (resigned on 23 August 2022)

Mr. Leiwen YAO (appointed on 23 August 2022)

Independent Non-executive Directors:

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Supply of and Access to Information and Resource

All the Directors have direct access to the legal counsels. Written procedures are also in place for Directors to seek, at the Company's expenses, independent professional advice in performing their duties. The Company has arranged appropriate insurance to cover the liabilities of the Directors arising from corporate activities. The insurance coverage is reviewed on an annual basis. The management provides the Board and its committees with adequate, complete and reliable information in a timely manner to enable them to make informed decisions.

CORPORATE GOVERNANCE REPORT (continued)

Continuing Development

Every newly appointed Director of the Company has received a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development are also available as necessary, to ensure that he/she has a proper understanding of the operations and business of the Company and that he/she is fully aware of his/her responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

Pursuant to the applicable code provisions as set out in the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2022, all Directors, namely, the executive Directors, Mr. Tao ZOU and Mr. Yuk Keung NG (retired on 25 May 2022); the non-executive Directors, Mr. Jun LEI, Mr. Pak Kwan KAU, Mr. Chi Ping LAU (resigned on 23 August 2022) and Mr. Leiwen YAO (appointed on 23 August 2022); and the independent non-executive Directors, Mr. Shun Tak WONG, Mr. David Yuen Kwan TANG and Ms. Wenjie WU have participated in continuous professional development by attending training course or external seminars to develop and refresh their knowledge and skills in relation to their contribution to the Board.

During the year ended 31 December 2022, the company secretary of the Company (the “**Company Secretary**”) has taken no less than 15 hours of relevant professional training in compliance with rule 3.29 of the Listing Rules.

Board Meetings

The Board meets at least four times a year at approximately quarterly intervals to review the financial performance of the Group, internal re-organisation plans, the overall group strategy and operations with active participation of the majority of Directors. Certain regular Board meetings held during the year ended 31 December 2022 were convened with at least 14 days’ notice, which is in compliance with code provision C.5.3 of the Code. The Company adopted a flexible approach in convening Board meetings and ensured that sufficient time and adequate information were given to Directors in advance.

A regular meeting does not include the practice of obtaining the consent of the Board through the circulation of written resolutions. For all other Board meetings, our Directors are given reasonable notices. Senior managements are invited to attend Board meetings from time to time to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for drafting meeting agenda and obtaining comments from all Directors and approval of meeting agenda by the Chairman, preparing and circulating meeting materials that contain analysis and background information to all meeting attendees at least 3 days in advance, drafting minutes of meetings of the Board and Board committees and obtaining comments from all Directors and approval of the meeting minutes by the Chairman. The approved meeting minutes are open for inspection by the Directors with reasonable advance notice.

The Articles of Association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with a physical board meeting rather than a written resolution. Independent non-executive Directors who, and whose close associates, have no material interest in the transaction should be present and vote at such Board meeting.

CORPORATE GOVERNANCE REPORT (continued)

Directors' Attendance Records

There were four Board meetings and one general meeting held during the year ended 31 December 2022. The attendance records of each Director at the Board meetings and general meeting during the year of 2022 are set out below:

Name of Directors	Attendance/ Number of Board meetings	Attendance/ Number of general meeting
<i>Executive Directors:</i>		
Mr. Tao ZOU	4/4	1/1
Mr. Yuk Keung NG (retired on 25 May 2022)	2/4	1/1
<i>Non-Executive Directors:</i>		
Mr. Jun LEI	4/4	1/1
Mr. Pak Kwan KAU	4/4	1/1
Mr. Chi Ping LAU (resigned on 23 August 2022)	2/4	0/1
Mr. Leiwen YAO (appointed on 23 August 2022)	2/4	0/1
<i>Independent Non-executive Directors:</i>		
Mr. Shun Tak WONG	4/4	1/1
Mr. David Yuen Kwan TANG	4/4	1/1
Ms. Wenjie WU	4/4	1/1

Chairman and CEO

The Company fully supports the division of responsibility between the Chairman of the Board and the CEO to ensure a balance of power and authority. Their respective responsibilities are clearly defined and set out in writing. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. The CEO focuses on implementing objectives, policies and strategies approved and delegated by the Board. As at the date of this annual report, the posts of Chairman and CEO of the Company were held by Mr. Jun LEI and Mr. Tao ZOU, respectively, and there is a clear division of power and responsibility between them.

Appointment and Re-election

All the Directors including the non-executive Directors have either service contracts or formal letters of appointments setting out the major terms and conditions of their appointment. Their terms are fixed for three years.

The Company may from time to time elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at the meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting. According to the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every 3 years. A retiring Director shall be eligible for re-election at the general meeting of the Company, at which a Director who retires may fill the vacated office.

CORPORATE GOVERNANCE REPORT (continued)

BOARD DIVERSITY POLICY

During the year under review, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All appointments by the Board will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee has set measurable objectives based on four focus areas: gender, age, ethnicity and professional experience to implement the board diversity policy. The Nomination Committee will review the board diversity policy, as appropriate; the measurable objectives that the Board has set for implementing the board diversity policy; and the progress on achieving the objectives, to ensure its continued effectiveness from time to time. The Nomination Committee is of the view that the Board has realized a diversified and balanced combination and is suitable for the business of the Group. The proportion of female members on the Board of the Company is currently 14% and the proportion of female employees on the Group's entire workforce is 35%.

BOARD COMMITTEES

The Board has established Audit Committee (established on 3 September 2007), Remuneration Committee (established on 3 September 2007), Nomination Committee (established on 3 September 2007) and Environmental, Social and Governance Committee (established on 23 March 2021) to oversee key aspects of its affairs.

The written terms of reference of our Audit Committee, Remuneration Committee, Nomination Committee and Environmental, Social and Governance Committee which cover their respectively specific role, authority and functions are available on our website. The Audit Committee, Remuneration Committee and Nomination Committee mainly consist of the independent non-executive Directors and non-executive Directors.

In order to discharge their dedicated functions, each of our Board committees is provided with sufficient resources, including the provision of external advisors such as financial advisors and valuation firms, to provide professional advice as required at our cost.

The following lists out the membership, responsibilities and the summary of work that the Audit Committee, Remuneration Committee, Nomination Committee and Environmental, Social and Governance Committee performed on behalf of the Board during the financial year ended 31 December 2022:

Audit Committee

Membership and Responsibilities

During the year ended 31 December 2022, our Audit Committee comprised of three independent non-executive Directors, namely Ms. Wenjie WU (chairman of the Audit Committee), Mr. David Yuen Kwan TANG and Mr. Shun Tak WONG. In compliance with rule 3.21 of the Listing Rules, both Mr. Shun Tak WONG and Ms. Wenjie WU of the Audit Committee possess appropriate professional qualifications on accounting or related financial management expertise. None of the Audit Committee members is a member of the previous or existing auditor of the Company.

The terms of reference of our Audit Committee sets out its authority, responsibilities, membership and frequency of meetings. The primary duties of the Audit Committee include:

- making recommendations to the Board on the appointment, reappointment and removal of the external auditor;
- approving the remuneration and terms of engagement of the external auditor, and resignation or dismissal of the auditor;

CORPORATE GOVERNANCE REPORT (continued)

- reviewing and monitoring the external auditor's independence, the objectivity and the effectiveness of the audit process in accordance with applicable standard, and reviewing financial information of the Company;
- reviewing the effectiveness and adequacy of the Company's financial reporting system, risk management and internal control systems;
- assessing work performed by the Company's internal audit team, and the adequacy of resources, qualifications and experience of the accounting staff of the Company;
- assisting our Board in supervising the truthfulness and completeness of the Company's financial statements;
- reviewing the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response; and
- maintaining a whistle blower system to identify and prevent frauds against the Company.

Summary of principal work performed

Principal work performed by the Audit Committee during the year ended 31 December 2022 includes reviewing and/ or approving:

- our Company's unaudited quarterly results, interim consolidated financial statements and audited annual consolidated financial statements, with its recommendations to the Board;
- the accounting principles, policies and practices adopted by the Group;
- annual internal audit plan of the Group and quarterly review of internal audit and business control;
- annual audit plan of the Group and review of quarterly external audit progress report;
- the effectiveness of the internal control systems adopted by the Company;
- the independence, authorities and resource of the internal and external auditor; and
- the terms of engagement and fees of the Company's external auditor.

Meetings attendance

The Audit Committee held four meetings during the year ended 31 December 2022. The attendance records of each member of the Audit Committee are set out below:

	Attendance/ Number of meetings held
Members	
Ms. Wenjie WU (chairman)	4/4
Mr. Shun Tak WONG	4/4
Mr. David Yuen Kwan TANG	4/4

CORPORATE GOVERNANCE REPORT (continued)

Remuneration Committee

Membership and Responsibilities

The Remuneration Committee currently consists of four Directors with three of them being independent non-executive Directors, namely, Mr. Shun Tak WONG, Mr. David Yuen Kwan TANG, Ms. Wenjie WU and one non-executive Director, Mr. Jun LEI.

The primary duties of the Remuneration Committee mainly include assisting the Board to formulate overall remuneration policy and structure for the Directors and senior management of the Company personnel and establish formal and transparent procedures for developing such remuneration policy; review and determination of the terms of remuneration packages, bonuses and other compensation payable to our Directors and other senior management. The remuneration policy is set to attract, motivate and retain highly performing individuals who are essential to the success of the Company. The emolument package for the executive Directors, the senior managers and key personnel includes basic salary, benefits in kind, pension rights, performance bonus and incentive stock options. The non-executive Directors and independent non-executive Directors receive director's fees.

The basic salary and director's fees depend on individual's experience, responsibilities and relevant market rate. The bonus depends on actual performance of the Company's targets and individual performance. Details for the stock option scheme and the share award scheme can be found under the subtitle of "Share Option Schemes" and "Share Award Scheme" in the Directors' Report. The awarded shares are offered to qualified employees to reward them for their high level of performance and foster loyalty with the Group. The information regarding the remuneration of the Directors during the year ended 31 December 2022 is set out in note 10 to the financial statements. When a meeting is convened to discuss certain Directors' remuneration, the Directors in discussion cannot determine his/her own remuneration.

Summary of principal work performed

The following is a summary of work performed by the Remuneration Committee during the year ended 31 December 2022:

- Reviewed and approved the service contracts and remuneration packages (including year-end bonuses, awarded shares and share options) of our executive Directors and senior management;
- Reviewed and recommended director's fee for non-executive Directors and independent non-executive Directors to the Board; and
- Reviewed and recommended performance bonus scheme of the Company to the Board.

Meetings attendance

The Remuneration Committee held 1 meeting during the year ended 31 December 2022. The attendance records of each member of the Remuneration Committee are set out below:

Members	Attendance/ Number of meetings held
Mr. Shun Tak WONG (chairman)	1/1
Ms. Wenjie WU	1/1
Mr. David Yuen Kwan TANG	1/1
Mr. Jun LEI	1/1

CORPORATE GOVERNANCE REPORT (continued)

Nomination Committee

Membership and Responsibilities

The Nomination Committee comprises two independent non-executive Directors, namely Mr. Shun Tak WONG and Ms. Wenjie WU, and one non-executive Director, Mr. Leiwen YAO.

The Nomination Committee is accountable to the Board and regularly reports its work to the Board. The primary duties of the Nomination Committee are mainly to lead the process for board appointments, review the structure and composition of the Board regularly, identify and nominate suitable candidates for appointment to our Board, assess the independence of our independent non-executive Directors, and make recommendations to the Board on matters relating to succession planning for Directors, particularly for the Chairman and the CEO.

The Nomination Committee has also established the basic principles of the board diversity policy of the Company, including: open gender; for the cultural and academic background or professional experience, a director shall, in general, possess an advanced level of education, and his/her expertise and experience shall be considered according to its relevance with the business of the Company or the management of listed companies.

Summary of principal work performed

The following is a summary of work performed by the Nomination Committee during the year ended 31 December 2022:

- Recommended candidates for the position of independent non-executive Director;
- Reviewed the structure, size and composition of the Board, reviewed the Company's policies on nomination of Directors and its committees and made recommendations regarding any proposed changes; and
- Reviewed and assessed each independent non-executive Director's annual confirmation of independence pursuant to rule 3.13 of the Listing Rules.

Meetings attendance

The Nomination Committee held 1 meeting during the year ended 31 December 2022. The attendance records of each member of the Nomination Committee are set out below:

Members	Attendance/ Number of meetings held
Mr. Shun Tak WONG (chairman)	1/1
Ms. Wenjie WU	1/1
Mr. Leiwen YAO (appointed on 23 August 2022)	0/1

Environmental, Social and Governance Committee

Membership and Responsibilities

The Environmental, Social and Governance Committee currently consists of four Directors with three of them being independent non-executive Directors, namely, David Yuen Kwan TANG, Mr. Shun Tak WONG, Ms. Wenjie WU and one executive Director, Mr. Tao ZOU.

CORPORATE GOVERNANCE REPORT (continued)

The primary duties of the Environmental, Social and Governance Committee are mainly to recommend and review the group's ESG management policies, vision, strategies and goals, and submit to the Board for approval; to identify ESG-related matters that are significant to the operation of the Group and/or the interests of other stakeholders, and evaluate and determine the Group's ESG-related risks and opportunities, such as determining the criteria of selecting material ESG factors, identifying and continuously reviewing the list of material ESG factors, and determine the risks and opportunities that material ESG factors will bring to the Group; to approve and review ESG-related policies and to review and evaluate the adequacy and effectiveness of ESG risk management and internal control systems; and to review the Group's performance periodically against ESG-related goals and targets and its progress.

Summary of principal work performed

The following is a summary of work performed by the Environmental, Social and Governance Committee during the year ended 31 December 2022:

- Reviewed the Company's policies and practices on ESG;
- Reviewed and monitored the adequacy and effectiveness of all risk management related to ESG and the internal control systems;
- Set ESG-related goals and targets; and
- Reviewed disclosures in the Group's ESG report and recommended it to the Board for approval.

Meetings attendance

The Environmental, Social and Governance Committee held 1 meeting during the year ended 31 December 2022. The attendance records of each member of the Environmental, Social and Governance Committee are set out below:

Members	Attendance/ Number of meetings held
Mr. David Yuen Kwan TANG (chairman)	1/1
Mr. Tao ZOU	1/1
Mr. Shun Tak WONG	1/1
Ms. Wenjie WU	1/1

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

Ernst & Young, Hong Kong, Certified Public Accountants, were engaged as the Company's external auditor for the year ended 31 December 2022. External auditor may provide certain non-audit services to the Group as long as these services do not involve any management or decision making functions for and on behalf of the Group, performing of self-assessments or action as an advocacy role for the Group. Before any engagement with external auditor for non-audit services, external auditor must comply with the independence requirements under Code of Ethics for Professional Accountants issued by Hong Kong Institute of Certified Public Accountants. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report of this annual report.

CORPORATE GOVERNANCE REPORT (continued)

During the year ended 31 December 2022, the remunerations paid or payable to Ernst & Young regarding the audit and non-audit services (together with the comparative figures for 2021) are set out as follows:

	2022 RMB Million	2021 RMB Million
Audit services	6.90	7.00
Non-audit services*	3.38	2.87
Total	10.28	9.87

* Non-audit services included review services of the Group's interim financial statements, tax services and other compliance services.

DIVIDEND POLICY

The Company has adopted a dividend policy. Subject to the Companies Act (as revised) of the Cayman Islands and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board.

The Board may from time to time pay to the shareholders of the Company such interim dividends subject to the Companies Act (as revised) of the Cayman Islands and the Articles of Association. The Board may also pay half-yearly or at other suitable intervals to be settled by it any dividend which may be payable at a fixed rate, or from time to time declare and pay special dividends subject to the Companies Act (as revised) of the Cayman Islands and the Articles of Association.

In proposing any dividend payment, the Board shall take into account the following criteria, including:

- the Group's actual and expected results of operations and cash flow and financial position;
- general business conditions and the Group's business strategies;
- distributable profit, retained earnings and/or distributable reserves of the Company and the members of the Group;
- the Group's expected working capital requirements and future expansion plans;
- the Group's indebtedness level and liquidity position;
- legal, regulatory and other contractual restrictions on the Group's declaration and payment of dividends; and
- other factors that the Board deems appropriate.

INTERNAL CONTROL AND RISK MANAGEMENT

Our internal control system and risk management are designed to provide reasonable assurance in safeguarding our shareholders' investment and assets, improving corporate governance and risk management, preventing and detecting frauds and irregularities, providing reliable financial information, and ensuring compliance with applicable laws and regulations. The Board acknowledges its responsibility to ensure the Company to maintain a solid, complete and effective internal control system and to monitor the effective implementation of such system. The Company has established an integrated framework of internal controls which is consistent with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework.

CORPORATE GOVERNANCE REPORT (continued)

The Company's internal control framework covers the setting of objectives, budgets and targets; the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets; the delegation of authority; and the establishment of clear lines of accountability. Well defined policies and procedures that are properly documented and communicated to employees are essential to the internal control system. Over the past few years, within its internal control framework, the Company has formulated manuals, implemented systems and adopted rules in relation to internal control, which are available on the Company's intranet. The Company's employees receive training of its code of conduct on a regular basis. The Company's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve our business objectives, and aims at providing a reasonable, as opposed to an absolute, assurance in this respect.

While the management is responsible for the design, implementation and maintenance of internal control system, the Board and the Audit Committee oversee the actions of the management and monitor the effectiveness of the established controls. To assist the Audit Committee in its oversight and monitoring activities, the Company has set up an independent internal audit team (the "IA") that reports to the Audit Committee directly. The IA provides independent assessment as to the existence and effectiveness of the Company's internal control system, conducts independent investigations regarding allegations of fraud and violations of our business code of conduct, and advices on managing and controlling of risks. To enable the fulfillment of its mission, the IA has unrestricted access to all corporate operations, records, data files, computer programs, property and personnel. Under the COSO framework, the IA undertakes a periodical risk assessment of the Company's overall activities and prepares its audit plan focusing on areas of the Company's operations with the greatest perceived risks. In selecting auditing projects to perform each year, the IA uses information collected throughout the year from process owners, the risk assessment team, senior executives, external auditor and the board of directors. The Audit Committee reviews audit plan and receives at least quarterly updates on the progress. The IA also conducts subjective auditing projects in the operational areas which are material to the business or identified by the Audit Committee and/or senior management, results of which will be reported to the Audit Committee and senior management's concerned. The IA will follow up with the implementation of audit recommendations. Any major internal control weaknesses and findings will be firstly reported to the Audit Committee whenever necessary. In addition, the IA maintains regular communications with our external auditor so that both parties are aware of the significant factors that may affect their respective scopes of work.

The board secretary office reviews the continuing connected transactions periodically to ensure they are in accordance with the pricing policies or mechanisms under the framework agreements, including the pricing range, the process for estimating the selling prices for the goods or services, and the procedures for obtaining quotations or tenders, as appropriate. The Board considers the internal control procedures are adequate and effective to ensure the transactions are so conducted.

The Board has the responsibility to oversee the risks undertaken by the Group, and to actively consider, analyze and formulate strategies to control the risks the Group is exposed to, and determine the level of risk the Company wishes to and is able to take. The Board realizes that risk management is incorporated as part of the Group's annual strategic planning process across all major functions of the Company rather than being a separate and standalone process. Therefore, all business functions are required to identify, assess and evaluate material risks that may impact their strategy objectives, including the following aspects of the risk: business continuity, financial impact, reputational risk, safety and health, external regulations and social responsibility. Each business function monitors and reviews the risks and reports to the senior management team periodically. The senior management team monitors these risks and develops effective systems and mechanisms to mitigate the risks to an acceptable level as determined by the Board. At least annually, the senior management team coordinates the risk identification and assessment process and reports to the Board and whenever necessary on the identified risks and the actions taken to mitigate them.

The Board reviews the risk management and internal control systems annually. The Board believes that all the internal control and risk management policies and procedures have been properly designed and would enable the Company to strengthen the compliance of the overall monitoring system and thereby reduce its operational risk. Continuous monitoring and improvement of management procedures will be carried out to ensure effective internal control system to be in line with the growth of the Company's business. The Company has not suffered any material liability during the year under review resulting from the deficiencies in our internal control system.

CORPORATE GOVERNANCE REPORT (continued)

During the year ended 31 December 2022, the Board has reviewed the effectiveness of the system of internal control and risk management of the Group and considers the internal control and risk management systems effective and adequate. Such review also took into consideration the adequacy of resources, qualification and experience of staff of the Company's accounting and financial reporting function, as well as their training programs and budget.

INSIDE INFORMATION

In accordance with the SFO, the Company has established a framework for handling and the disclosure of inside information. The framework sets out the procedures and internal controls for publishing the inside information announcements. The Company has communicated with all relevant staff regarding the implementation of the framework and relevant trainings are also provided.

COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Company's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make informed investment decisions.

To promote effective communication, the Company maintains the website at www.kingsoft.com where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Latest information on the Group including annual and interim reports, announcements and press releases are updated on the Company's website in a timely fashion.

The Board endeavours to maintain an on-going dialogue with our shareholders, uses annual general meetings or other general meetings to communicate with our shareholders in particular and encourages them to participate in these meetings. All annual general meeting materials including but not limited to circular, notice and proxy form will be sent to shareholders in time which contain all adequate information according to the Listing Rules.

During the period under review, the Company reviewed the shareholders' communication policy, and was satisfied with the implementation and effectiveness of its shareholders' communication policy.

INVESTOR RELATIONS

Kingsoft establishes an investor relations team to promote open, ongoing and effective communications with shareholders, investors and equity analysts. We are committed to proactively providing the investment community with all necessary information in a timely manner so that participants in the investment community can make fair investment decisions.

During the year ended 31 December 2022, the Company's senior management presented its results in both physical and virtual conference meetings. Through various activities such as global analyst briefings, virtual press conferences, conference calls, and investor non-deal road shows, our senior management presented and answered the key issues about which investors were mainly concerned. In addition to regular one-on-one investor meetings, our senior management participated in a number of investor conferences held by major international investment banks in order to maintain active communications with global institutional investors. The investor relations section of the Company's website, www.kingsoft.com, provides information of the Company such as financial results, announcements, press releases and other latest information in a timely manner and is updated regularly.

CORPORATE GOVERNANCE REPORT (continued)

SHAREHOLDERS' RIGHT

Procedures for shareholders to convene an Extraordinary General Meeting

Pursuant to Article 64 of the Articles of Association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Such a requisition must be signed by the shareholders.

Procedures for putting forward proposals at general meetings

Shareholders are welcomed to put forward proposals relating to the operations, strategy and/or management of the Group to be discussed at general meetings. Proposal shall be sent to the Board or the Company Secretary by written requisition at the Company's principal place of business in Hong Kong at Suite 3208, 32/F, Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong or at the Company's principal place of business in Beijing at Building D, Xiaomi Campus, No. 33 Xierqi Middle Road, Haidian District, Beijing 100085, the PRC.

Shareholders' enquiries

If the shareholders of the Company are in any doubt about their shareholdings, the shareholders shall inquire the Company's share registrar directly. Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publicly available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong at Suite 3208, 32/F, Tower 5, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong or at the Company's principal place of business in Beijing at Building D, Xiaomi Campus, No. 33 Xierqi Middle Road, Haidian District, Beijing 100085, the PRC.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year ended 31 December 2022.

On behalf of the Board

Jun LEI
Chairman

Hong Kong, 21 March 2023

DIRECTORS' REPORT

The Board of the Company submits its report together with the audited financial statements of the Group for the year ended 31 December 2022.

Principal Business

The Group is principally involved in the following principal activities:

- design, research and development and sales and marketing of the office software products and services of WPS Office; and
- research and development of games, and provision of PC games and mobile games services.

Results and Appropriations

The results of the Group for the year ended 31 December 2022 are set out in the consolidated income statement of comprehensive income of this annual report.

The state of affairs of the Group as at 31 December 2022 is set out in the consolidated statement of financial position of this annual report.

The consolidated statement of cash flows of the Group for the year ended 31 December 2022 is set out in this annual report.

The Directors recommend the payment of a final dividend of HK\$0.13 per ordinary share (2021: HK\$0.12 per ordinary share) totalling approximately HK\$176.6 million (2021: HK\$164.0 million), which excluded the dividend related to the shares held under the Share Award Scheme, based on issued shares capital as at 31 December 2022 to shareholders whose names appear on the register of members of the Company on Friday, 9 June 2023. Such proposed dividends will be subject to approval of the shareholders at the forthcoming annual general meeting ("**AGM**") to be held on Wednesday, 24 May 2023. Such proposed dividends will be payable on Wednesday, 21 June 2023. This recommendation has been incorporated in note 13 to the financial statements.

For the year ended 31 December 2022, the Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 19 May 2023 to Wednesday, 24 May 2023 and Tuesday, 6 June 2023 to Friday, 9 June 2023, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the forthcoming AGM and the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 18 May 2023 and Monday, 5 June 2023, respectively.

Reserves

For the year ended 31 December 2022, the loss attributable to owners of the parent company amounted to RMB6,048.2 million. The Company's reserves available for distribution comprise share premium and retained earnings. Under the Companies Law of the Cayman Islands, the Company's share premium account may be applied by the Company in paying distributions or dividend to shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

DIRECTORS' REPORT (continued)

As at 31 December 2022, the Company had distributable reserves amounting to RMB4,707.7 million, calculated in accordance with any statutory provisions applicable in the Cayman Islands. Details of movements in the reserves of the Group and the Company during the year ended 31 December 2022 are set out in the consolidated statement of changes in equity of this annual report, and in note 47 to the financial statements, respectively.

Donations

During the year ended 31 December 2022, the Group made charitable and other donations totalling RMB1.4 million (2021: RMB10.0 million).

Pension Schemes

We participate in government and other mandatory pension schemes for our employees in China and overseas. Particulars of these schemes are set out in note 2.4 to the financial statements.

Employee and Remuneration Policy

As at 31 December 2022, the Group employed approximately 7,116 full-time employees (2021: 7,054) inclusive of all its staff in China and overseas offices, most of whom are based at the Company's offices in Beijing, Zhuhai and Wuhan.

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

The remuneration policy and package of the Group's employees are periodically reviewed. The principle of the Group's remuneration policy is fairness, motivating, performance-oriented and market-competitive. Apart from salaries, medical insurance, discretionary bonuses and state managed retirement benefit scheme, the Group has also adopted share option schemes and share award schemes for its employees, providing incentives and rewards to eligible participants with reference to their contributions.

The staff costs of the Group including Directors' and senior management's emoluments in 2022 and 2021 were approximately RMB3,486.7 million and RMB3,003.7 million, respectively.

Please refer to note 35 to the financial statements for the share options and awarded shares granted to certain Directors and employees of the Group, note 10 to the financial statements for Directors' and senior executives' remuneration, and note 7 to the financial statements for the employee benefit expenses.

Subsidiaries

Details of the Company's principal subsidiaries as at 31 December 2022 are set out in note 1 to the financial statements.

DIRECTORS' REPORT (continued)

Financial Summary

A summary of the published results, assets, and liabilities of the Group for the last five financial years as extracted from the consolidated financial statements for the year ended 31 December 2018, 2019, 2020, 2021 and 2022, is set out as below. The summary does not form part of the audited financial statements.

	YEAR ENDED 31 DECEMBER				RMB'000
	2018	2019	2020	2021	2022
Profit/(loss) for the year	(165,242)	(2,082,699)	10,244,940	952,843	(5,340,988)

	AS AT 31 DECEMBER				
	2018	2019	2020	2021	2022
Total assets	20,049,812	24,401,623	35,044,195	36,535,112	31,888,049
Total liabilities	7,128,213	8,792,242	6,816,285	7,742,922	7,733,059

Contract of Significance

Save as disclosed in this annual report, none of Directors was materially interested, directly or indirectly, in any contracts of significance to the Group subsisting during or at the end of the year 2022.

Bank Borrowings

As at 31 December 2022, the Group did not have outstanding bank borrowings.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2022 are set out in note 15 to the financial statements. No assets of the Group are charged during the year ended 31 December 2022.

Principal Properties

During the year ended 31 December 2022, the Group has not held any properties for development and/or sale or for investment purposes of which the percentage ratios exceeds 5%.

Management Contract

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2022.

Key Relationships with Employees, Customers and Suppliers

Details of the key relationships between the Group and its employees, customers and suppliers are set out in the paragraph headed "Employee and Remuneration Policy" and "Major Customers and Suppliers" in this annual report, respectively.

Share Capital

Details of the movements in share capital of the Company for the year ended 31 December 2022 are set out in note 34 to the financial statements.

Share Option Schemes

2011 Share Option Scheme

On 9 December 2011, the Company adopted the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participant which expired on 8 December 2021.

2021 Share Option Scheme

On 9 December 2021, the Company adopted the 2021 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants, recruiting and retaining high-calibre employees and attract human resources that are valuable to the Group and any invested entity, in the anticipation of the expiration of the 2011 Share Option Scheme.

Seasun Holdings Share Option Scheme

On 27 June 2013, the shareholders of the Company and Seasun Holdings, approved and adopted the Seasun Holdings Share Option Scheme. On 26 December 2016 and 24 May 2017, the Seasun Holdings Share Option Scheme was amended and refreshed.

Details of the movements in share options of the Group for the year ended 31 December 2022 are set out in note 35 to the financial statements.

Summary of the Share Option Schemes

Detail	2011 Share Option Scheme	2021 Share Option Scheme	Seasun Holdings Share Option Scheme
1 Purposes	To provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest.	To provide incentives or rewards to Participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any invested entity.	To provide incentives or rewards to participants thereunder for their contribution to Westhouse Group and/or to enable the Westhouse Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Westhouse Group and any invested entity.
2 Qualified participants	(a) Employee(s) (whether full time or part time employee(s), including any executive director but not any non-executive director); and (b) Any non-executive director (including independent non-executive directors) of the Group or any Invested Entity.	(a) Employee(s) (whether full time or part time employee(s), including any executive director but not any non-executive director); and (b) Any non-executive director (including independent non-executive directors) of the Group or any Invested Entity.	Employee(s) (whether full time or part time employee(s)) of Seasun Holdings, its subsidiaries or any invested entities.

DIRECTORS' REPORT (continued)

Detail	2011 Share Option Scheme	2021 Share Option Scheme	Season Holdings Share Option Scheme
3 Maximum number of shares	The maximum number of shares which may be issued upon exercise of all share options to be granted under the 2011 Share Option Scheme and other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 9 December 2011. As the 2011 Share Option Scheme was expired on 8 December 2021, no further options will be offered thereunder, but the provisions thereof shall remain in full force and effect to the extent necessary to effectuate the exercise of any outstanding options in accordance with the terms of 2011 Share Option Scheme.	The maximum number of Shares which may be issued upon exercise of all Options to be granted under the 2021 Share Option Scheme (when aggregated with Shares to be issued upon exercise of options to be granted under other share option scheme) may not in aggregate exceed 10% of the Shares in issue as at 9 December 2021, which is 137,020,371. The total number of shares available for issue under the 2021 Share Option Scheme are 131,520,371, representing approximately 9.65% of the issued Shares as at the date of this annual report.	The total number of shares which may be issued upon exercise of all options to be granted shall not in aggregate exceed 40,000,000 ordinary shares of Season Holdings unless otherwise approved by the shareholders of the Company and Season Holdings in general meeting.
4 Maximum entitlement of each participant	The maximum number of shares issuable under share options to each eligible participant in the 2011 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.	The maximum number of shares issuable under share options to each eligible participant in the 2021 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.	The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the total number of shares in issue, unless separately approved by the shareholders of the Company and Season Holdings in general meeting with such participant and his associates abstaining from voting. Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) (where the shares are listed on the Stock Exchange,) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by the shareholders of the Company and Season Holdings.
5 Option period	The period set out in the relevant offer letter to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme and that the board may at its discretion determine the minimum period for which the option has to be held before the exercise of the subscription right attaching thereto.	The period set out in the relevant offer letter to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme and that the board may at its discretion determine the minimum period for which the option has to be held before the exercise of the subscription right attaching thereto.	Such period as the board of Season Holdings may in its absolute discretion determine and notify to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the scheme.

DIRECTORS' REPORT (continued)

Detail	2011 Share Option Scheme	2021 Share Option Scheme	Seasun Holdings Share Option Scheme
6 Acceptance of offer	The offer of grant of share options must be accepted within a period of 28 days from the date of offer, upon payment of a consideration of HK\$1.00 on acceptance of each grant of share options.	The offer of grant of share options must be accepted within a period of 28 days from the date of offer, upon payment of a consideration of HK\$1.00 on acceptance of each grant of share options.	An offer of grant of an option may be accepted by a participant within a period of 28 days from the offer date provided that no offer shall be open for acceptance after the expiry of the scheme or after the scheme has been terminated.
7 Subscription price	The exercise price shall be determined by the board, and shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.	The exercise price shall be determined by the board, and shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.	The subscription price shall be such price as determined by the board of Seasun Holdings but in any case the subscription price of options granted after Seasun Holdings or the Company has resolved to seek a separate initial public offering and up to date of Seasun Holdings' initial public offering must not be lower than the new issue price (if any) in the Seasun Holdings' initial public offering. In particular, any options granted during the period commencing six months before the lodgment of Form A1 (or its equivalent) up to the date of Seasun Holdings' initial public offering are subject to this requirement. The subscription price of options granted during such period shall be subject to adjustment to a price not lower than the new issue price in Seasun Holdings' initial public offering.
8 Remaining life of the Scheme	It expired on 8 December 2021, the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.	It will expire on the tenth anniversary of the date on which the scheme is deemed to take effect.

2011 Share Option Scheme

The following share options were outstanding under the 2011 Share Option Scheme as at 31 December 2022:

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS					DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK\$ PER SHARE
	AT 1 JAN 2022	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	CANCELLED DURING THE YEAR	AT 31 DEC 2022		
Executive Directors							
Tao ZOU	2,529,800	—	—	—	2,529,800	21 April 2017	20.25
Yuk Keung NG*	600,000	—	—	—	600,000	23 November 2017	22.75
	3,129,800	—	—	—	3,129,800		

* Mr. Yuk Keung NG retired as an executive Director on 25 May 2022.

2021 Share Option Scheme

The following share options were outstanding under the 2021 Share Option Scheme as at 31 December 2022:

NAME OR CATEGORY OF PARTICIPANT	NUMBER OF SHARE OPTIONS					DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK\$ PER SHARE
	AT 1 JAN 2022	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	CANCELLED DURING THE YEAR	AT 31 DEC 2022		
Executive Director							
Tao ZOU	—	5,500,000	—	—	5,500,000	4 July 2022	31.69

DIRECTORS' REPORT (continued)

Share Award Schemes

Share Award Scheme

The Share Award Scheme was adopted by the Board on 31 March 2008. On 5 July 2021, the Board resolved to amend certain provisions of the Share Award Scheme to, among others, (i) allow the Company to allot and issue new Shares as the awarded Shares, and (ii) extend the termination date of the Share Award Scheme to 30 March 2027. For details of the amendments to the Share Award Scheme, please refer to the announcement of the Company dated 5 July 2021.

The purpose of the Share Award Scheme is to recognise the contributions by certain employees (including without limitation to employees who are also directors) of the Group and to give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

Pursuant to the terms of the Share Award Scheme, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time) select an employee for participation in the Share Award Scheme and determine the number of shares to be awarded. The Board shall not grant any award of shares which would result in the total number of shares which are the subject of awards granted by the Board under the Share Award Scheme (but not counting any which have lapsed or have been cancelled) representing in aggregate over 10% of the issued shares of the Company as at the date of such grant. As at 27 March 2023, being the latest date of grant under the scheme, the number of Shares available for future grant under the Share Award Scheme was 86,990,807 Shares, representing approximately 6.38% of total issued Shares.

No award of Shares shall be granted to any grantee which would result in the maximum number of awarded Shares which are the subject of the awards of Shares granted to such grantee (including any which have lapsed or have been forfeited) under the Share Award Scheme in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the issued share capital of the Company as at the date of such grant. Such Shares will be acquired at the cost of the Company and the grantee is not required to pay any amount for accepting the restricted share award granted.

The changes in the outstanding awarded shares under the Share Award Scheme in 2022 are summarized as follows:

CHANGES IN THE NUMBER OF AWARDED SHARES IN 2022								
GRANTEE/PARTICIPANT	DATE OF GRANT	VESTING PERIOD	OUTSTANDING	GRANTED	VESTED	LAPSED	CANCELLED	OUTSTANDING
			AS AT 1 JAN 2022					AS AT 31 DEC 2022
Executive directors								
Tao ZOU	5 July 2021	5 July 2023	600	—	—	—	—	600
	1 July 2022	1 July 2023~ 1 July 2027	—	2,200,000	—	—	—	2,200,000
Yuk Keung NG*	23 November 2017	23 November 2018~ 23 November 2022	120,000	—	(120,000)	—	—	—
	5 July 2021	5 July 2023	600	—	—	(600)	—	—
Subtotal for directors			121,200	2,200,000	(120,000)	(600)	—	2,200,600
Other employees	1 January 2017	1 January 2018~ 1 January 2022	270,000	—	(270,000)	—	—	—
Other employees	22 April 2017	22 April 2018~ 22 April 2022	5,600	—	(5,600)	—	—	—
Other employees	25 May 2017	25 May 2018~ 25 May 2022	80,000	—	(80,000)	—	—	—
Other employees	1 August 2017	1 August 2018~ 1 August 2022	10,000	—	(10,000)	—	—	—
Other employees	16 April 2018	16 April 2019~ 16 April 2023	180,000	—	(90,000)	(500)	—	89,500
Other employees	18 September 2019	18 September 2020~ 18 September 2024	120,000	—	(80,000)	(40,000)	—	—
Other employees	23 May 2020	23 May 2021~ 23 May 2025	13,440	—	(4,480)	(1,280)	—	7,680

DIRECTORS' REPORT (continued)

CHANGES IN THE NUMBER OF AWARDED SHARES IN 2022

GRANTEE/PARTICIPANT	DATE OF GRANT	VESTING PERIOD	OUTSTANDING	GRANTED	VESTED	LAPSED	CANCELLED	OUTSTANDING
			AS AT 1 JAN 2022					AS AT 31 DEC 2022
Other employees	30 August 2020	30 August 2021~ 30 August 2025	450,000	—	(150,000)	—	—	300,000
Other employees	24 April 2020	24 April 2021~ 24 April 2025	17,920	—	(4,480)	(3,360)	—	10,080
Other employees	5 July 2021	5 July 2023	3,786,600	—	—	(820,800)	—	2,965,800
Other employees	25 March 2022	25 March 2023~ 25 March 2027	—	26,000	—	—	—	26,000
Other employees	19 July 2022	19 July 2023~ 19 July 2027	—	400,000	—	—	—	400,000
Subtotal for other employees			4,933,560	426,000	(694,560)	(865,940)	—	3,799,060
Total			5,054,760	2,626,000	(814,560)	(866,540)	—	5,999,660
Five highest paid employees	1 January 2017	1 January 2018~ 1 January 2022	150,000	—	(150,000)	—	—	—
Five highest paid employees	1 July 2022	1 July 2023~ 1 July 2027	—	2,200,000	—	—	—	2,200,000
Five highest paid employees	5 July 2021	5 July 2023	3,000	—	—	—	—	3,000
Five highest paid employees	19 July 2022	19 July 2023~ 19 July 2027	—	250,000	—	—	—	250,000
Total (Five highest paid employees)			153,000	2,450,000	(150,000)	—	—	2,453,000

* Mr. Yuk Keung NG retired as an executive Director on 25 May 2022.

During the year ended 31 December 2022, the aggregated fair value of the awarded shares granted on 1 July 2022, 25 March 2022 and 19 July 2022 under the Share Award Scheme was RMB67,303,000. The estimated value of the awarded shares granted on such dates to Mr. Tao ZOU, other employees, other employees and the five highest paid employees was RMB57,363,000, RMB522,000, RMB9,418,000 and RMB63,249,000, respectively.

GRANTEE/PARTICIPANT	DATE OF GRANT	TOTAL NUMBER GRANTED	FAIR VALUE OF AWARDED SHARES GRANTED
			RMB'000
Tao ZOU	1 July 2022	2,200,000	57,363
Other employees	25 March 2022	26,000	522
Other employees	19 July 2022	400,000	9,418
Total		2,626,000	67,303
Five highest paid employees	1 July 2022	2,200,000	57,363
Five highest paid employees	19 July 2022	250,000	5,886
Total (Five highest paid employees)		2,450,000	63,249

More details regarding the Share Award Scheme are set out in note 35 to the financial statements.

DIRECTORS' REPORT (continued)

Seasun Holdings Share Award Scheme

On 21 March 2017, the shareholders and directors of Seasun Holdings approved and adopted the General Share Award Scheme, the Special Share Award Scheme (A) and the Special Share Award Scheme (B) in which selected employees of Seasun Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of Seasun Holdings, the Seasun Holdings Share Award Schemes are valid and effective for a term of ten years commencing from 21 March 2017. The directors of Seasun Holdings are authorised to issue up to 50,832,211 shares, among which the total number of shares pursuant to the Special Share Award Scheme (A) shall be no greater than 3,138,889 and the total number of shares pursuant to the General Share Award Scheme and the Special Share Award Scheme (B) shall be no greater than 47,693,322, as at the date of such grant.

More details regarding the Seasun Holdings Share Award Schemes are set out in note 35 to the financial statements.

Kingsoft Office Share Award Schemes

On 28 April 2022, the shareholders of Kingsoft Office approved and adopted the 2022 Kingsoft Office Share Award Scheme, and on 2 June 2021, the shareholders of Kingsoft Office approved and adopted the 2021 Kingsoft Office Share Award Scheme, for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Office Group are entitled to participate. The Kingsoft Office Share Award Schemes are valid and effective from the grant date of the share awards to the date when all the granted share awards are vested or lapsed, which should be no longer than 60 months. The directors of Kingsoft Office are authorised to issue up to 870,000 shares pursuant to the 2021 Kingsoft Office Share Award Scheme, representing 0.19% of total issued shares of Kingsoft Office as at 31 December 2022. The directors of Kingsoft Office are authorised to issue up to 1,000,000 shares pursuant to the 2022 Kingsoft Office Share Award Scheme, representing 0.22% of total issued shares of Kingsoft Office as at 31 December 2022.

The number of shares awards granted to any grantee through all the share award schemes of Kingsoft Office within the validity period shall not exceed 1% of the total issued shares of Kingsoft Office as at the date that the share award scheme is submitted to the shareholders' meeting of Kingsoft Office for consideration.

The changes in the outstanding restricted shares under the 2021 Kingsoft Office Share Award Scheme in 2022 are summarized as follows:

CHANGES IN THE NUMBER OF RESTRICTED SHARES IN 2022								
GRANTEE/PARTICIPANT	DATE OF GRANT	VESTING PERIOD	OUTSTANDING	GRANTED	VESTED	LAPSED	CANCELLED	OUTSTANDING
			AS AT 1 JAN 2022					AS AT 31 DEC 2022
Other employees	2 June 2021	2 June 2022– 3 June 2025	691,100	—	(221,529)	(45,796)	—	423,775
Other employees	28 December 2021	28 December 2022– 29 December 2025	138,300	—	—	(6,600)	—	131,700
Total			829,400	—	(221,529)	(52,396)	—	555,475

During the year ended 31 December 2022, there is no restricted shares granted under the 2021 Kingsoft Office Share Award Scheme.

DIRECTORS' REPORT (continued)

The changes in the outstanding restricted shares under the 2022 Kingsoft Office Share Award Scheme in 2022 are summarized as follows:

CHANGES IN THE NUMBER OF RESTRICTED SHARES IN 2022								
GRANTEE/PARTICIPANT	DATE OF GRANT	VESTING PERIOD	OUTSTANDING AS AT 1 JAN 2022				OUTSTANDING AS AT 31 DEC 2022	
			GRANTED	VESTED	LAPSED	CANCELLED		
Other employees	29 April 2022	29 April 2023– 29 October 2026	—	800,000	—	(22,700)	—	777,300
Other employees	28 December 2022	28 December 2023– 28 December 2026	—	200,000	—	—	—	200,000
Total			—	1,000,000	—	(22,700)	—	977,300

During the year ended 31 December 2022, the aggregated fair value of the restricted shares granted on 29 April 2022 and 28 December 2022 under the 2022 Kingsoft Office Share Award Scheme was RMB159,205,000.

GRANTEE/PARTICIPANT	DATE OF GRANT	TOTAL NUMBER GRANTED	FAIR VALUE OF RESTRICTED SHARES GRANTED
			RMB'000
Other employees	29 April 2022	800,000	115,945
Other employees	28 December 2022	200,000	43,260
Total		1,000,000	159,205

More details regarding the share award schemes are set out in note 35 to the financial statements.

Kingsoft Shiyou Holdings Share Award Scheme

On 13 April 2022, the shareholders and directors of Kingsoft Shiyou Holdings approved and adopted the General Share Award Scheme and the Special Share Award Scheme in which selected employees of Kingsoft Shiyou Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of Kingsoft Shiyou Holdings, the Kingsoft Shiyou Holdings Share Award Scheme is valid and effective for a term of ten years commencing from 13 April 2022. The directors of Kingsoft Shiyou Holdings are authorised to issue up to 50,000,000 shares pursuant to the General Share Award Scheme and the Special Share Award Scheme as at the date of such grant.

More details regarding the share award scheme is set out in note 35 to the financial statements.

DIRECTORS' REPORT (continued)

Directors

The Board up to the date of this report comprised 7 Directors, of which 1 was executive Director, 3 were non-executive Directors and 3 were independent non-executive Directors, whose names are as follows:

	APPOINTMENT DATE	RESIGNATION/ RETIREMENT DATE	RE-DESIGNATION DATE
EXECUTIVE DIRECTORS			
Mr. Tao ZOU (鄒濤)	25 August 2009	N/A	N/A
Mr. Yuk Keung NG (吳育強)	1 March 2013	25 May 2022	N/A
NON-EXECUTIVE DIRECTORS			
Mr. Jun LEI (雷軍)	27 July 1998	N/A	28 August 2008
Mr. Pak Kwan KAU (求伯君)	27 July 1998	N/A	24 October 2011
Mr. Chi Ping LAU (劉熾平)	28 July 2011	23 August 2022	N/A
Mr. Leiwen YAO (姚磊文)	23 August 2022	N/A	N/A
INDEPENDENT NON-EXECUTIVE DIRECTORS			
Mr. Shun Tak WONG (王舜德)	15 July 2014	N/A	N/A
Mr. David Yuen Kwan TANG (鄧元鑿)	6 May 2013	N/A	N/A
Ms. Wenjie WU (武文潔)	1 March 2013	N/A	N/A

In accordance with Article 108 of the Articles of Association, Mr. Jun LEI, Mr. Shun Tak WONG and Ms. Wenjie WU, will retire at the forthcoming AGM of the Company and, being eligible, will offer themselves for re-election.

The Company has received from each independent non-executive Director an annual confirmation of his/her independence pursuant to rule 3.13 of the Listing Rules and we consider them to be independent.

Directors' and Senior Management's Biographies

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 13 to 15 of this annual report.

Directors' Service Contracts

Each of the executive Directors has entered into a service agreement with the Company. Each agreement is for a period of three years and shall continue thereafter until being terminated by either party giving not less than three months' prior written notice.

The emoluments of the Directors of the Company are determined by the Remuneration Committee after considering the Company's operating results, market rate and individual performance. No Director is allowed to take part in deciding his own remuneration. Details of the remuneration policy for the Directors and senior management of the Group are set out in Corporate Governance Report under the heading of "Remuneration Committee".

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT (continued)

Interests of the Directors in Contracts

Save as disclosed in the section of "Related Party Transactions and Connected Transactions" in the Directors' Report, no Directors had any direct or indirect material interests in any contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party at the end of the year or at any time during the year ended 31 December 2022.

Directors' and Chief Executive's Interests in Securities

As at 31 December 2022, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

Interests in the ordinary shares of the Company

Name of Directors	Capacity	No. of shares interested	% of the total number of issued shares (Note 1)	Nature of Shares held
Jun LEI	Interest of controlled corporation	210,116,248	15.42	Long position
	Other	100,000,000	7.34	Long position
	Total	310,116,248 (Note 2)	22.76	Long position
Pak Kwan KAU	Interest of controlled corporation	100,000,000 (Note 3)	7.34	Long position
Tao ZOU	Beneficial owner	12,111,707	0.89	Long position
Yuk Keung NG*	Beneficial owner	828,600	0.06	Long position

* Mr. Yuk Keung NG retired as an executive Director on 25 May 2022.

Notes:

1. % of the total number of issued shares was calculated on basis of the total number of issued shares of the Company as at 31 December 2022, which was 1,362,295,717.
2. As at 31 December 2022, among these 310,116,248 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a British Virgin Islands company owned as to 100% by Mr. Jun LEI; (ii) 35,298,057 shares are held by a wholly-owned subsidiary of Xiaomi, a company controlled by Mr. Jun LEI under the SFO; and (iii) 100,000,000 shares are deemed to be interested by Mr. Jun LEI under the SFO because under a voting consent agreement entered into by Mr. Jun LEI and Mr. Pak Kwan KAU, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI votes with these shares.
3. These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Mr. Pak Kwan KAU. In addition, Mr. Jun LEI is also deemed to be interested in these shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI and Mr. Pak Kwan KAU, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares.

DIRECTORS' REPORT (continued)

Interests in shares and underlying shares of associated corporations of the Company

Season Holdings (Note 1)

Name of Director	Capacity	No. of shares interested	% of issued share capital in class (Note 2)	Nature of Shares interested
Tao ZOU	Beneficial owner	18,123,462	1.97	Long position

Notes:

1. Season Holdings is a non-wholly owned subsidiary of the Company.
2. % of issued share capital in class was calculated on basis of the issued ordinary shares of Season Holdings as at 31 December 2022, which was 920,289,438.

Cheetah Mobile (Note 1)

Name of Directors	Capacity	No. of shares interested	% of issued share capital in class (Note 2)	Nature of Shares interested
Jun LEI (Note 3)	Interest of controlled corporation	14,285,714	2.97	Long position
Yuk Keung NG*	Beneficial owner	1,200	0.00	Long position

* Mr. Yuk Keung NG retired as an executive Director on 25 May 2022.

Notes:

1. The Company held 46.5% ownership interest and 25.98% voting power of Cheetah Mobile as at 31 December 2022, which is listed on the NYSE.
2. % of issued share capital in class was calculated on basis of the issued Class A Cheetah Shares as at 31 December 2022, which was 480,604,900.
3. These shares are held by Xiaomi, a company owned as to more than 30% voting power by Mr. Jun LEI under the SFO.

Save as disclosed above, none of the Directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at 31 December 2022.

DIRECTORS' REPORT (continued)

Substantial Shareholders

As at 31 December 2022, as far as the Directors are aware of, the following, other than the Directors and chief executive of the Company, had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued capital of the Company:

Interest in the shares and underlying shares of the Company

Name of substantial shareholders	Capacity	Number of shares interested	% of issued share capital (Note 1)	Nature of Shares held
Color Link Management Limited (Note 2)	Beneficial owner	174,818,191	12.83	Long position
Topclick Holdings Limited (Note 3)	Beneficial owner	100,000,000	7.34	Long position
Tencent Holdings Limited (Note 4)	Interest of controlled corporation	106,784,515	7.84	Long position
Brown Brothers Harriman & Co.	Approved lending agent	85,718,759	6.29	Long position
	Approved lending agent	85,718,759	6.29	Lending pool

Notes:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 31 December 2022, which was 1,362,295,717.
2. Mr. Jun LEI is deemed to be interested in Color Link Management Limited's interest in the Company pursuant to Part XV of the SFO because Color Link Management Limited is wholly owned by Mr. Jun LEI.
3. These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Mr. Pak Kwan KAU. In addition, Mr. Jun LEI is also deemed to be interested in these shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI and Mr. Pak Kwan KAU, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares.
4. These shares are held by TCH Saffron Limited, a wholly-owned subsidiary of Tencent Holdings Limited. As such, Tencent Holdings Limited, MIH TC Holdings Limited and Naspers Limited, its beneficial owners, are deemed to be interested in TCH Saffron Limited's interests in the Company pursuant to Part XV of the SFO.

Save as disclosed above, the Directors are not aware of any other person who has beneficial interests or short positions in any of the shares or underlying shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of the Shares carrying the right to vote in all circumstances at general meetings of the Company.

Public Float

As at the date of this report, the Company has maintained the prescribed public float of at least 25% under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Purchase, Sale or Redemption of the Company's Listed Securities

In March 2022, the Company repurchased 2,030,000 of its own ordinary shares on the Stock Exchange at a price range from HK\$23.8 to HK\$24.8. In April 2022, the Company repurchased 1,258,200 of its ordinary shares on the Stock Exchange at a price range from HK\$22.25 to HK\$23.25. In August 2022, the Company repurchased 770,600 of its ordinary shares on the Stock Exchange at a price range from HK\$21.6 to HK\$23. In September 2022, the Company repurchased 585,800 of its ordinary shares on the Stock Exchange at a price range from HK\$20.85 to HK\$21.8. In October 2022, the Company repurchased 2,989,000 of its ordinary shares on the Stock Exchange at a price range from HK\$17.44 to HK\$20.05. During the year ended 31 December 2022, the Company repurchased a total of 7,633,600 of its own ordinary shares on the Stock Exchange at a total cost of approximately HK\$163.39 million. The Company considered that it is in the best interest of the shareholders to return some surplus funds to them which will in turn enhance shareholders' value.

DIRECTORS' REPORT (continued)

Convertible Bonds and Adjustment to the Conversion Price

The Company completed the issue of the 2020 Convertible Bonds in the principal amount of HK\$3,100,000,000 on 29 April 2020. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each 2020 Convertible Bonds at 105.85% of its principal amount together with accrued and unpaid interest thereon on 29 April 2025. The net proceeds from the subscription of the 2020 Convertible Bonds, after deduction of commissions and other related expenses, were approximately HK\$3,033.94 million. Assuming full conversion of the 2020 Convertible Bonds at the initial conversion price of HK\$35.7637 per share and no further issue of shares, the 2020 Convertible Bonds will be convertible into approximately 86,680,069 shares of the Company. The net proceeds of approximately HK\$3,033.94 million represents a net issue price of approximately HK\$35.0016 per conversion share based on the initial conversion price of HK\$35.7637 per conversion share.

The initial conversion price for each conversion share was HK\$35.7637, which represented (i) a premium of approximately 27.5% over the last closing price of HK\$28.05 per share as quoted on the Stock Exchange on 23 April 2020, being the trading day on which the subscription agreement was signed; (ii) a premium of approximately 30.2% over the average closing price of approximately HK\$27.46 per share as quoted on the Stock Exchange for the five consecutive trading days up to and including 23 April 2020; and (iii) a premium of approximately 36.6% over the average closing price of approximately HK\$26.19 per share as quoted on the Stock Exchange for the ten consecutive trading days up to and including 23 April 2020. The 2020 Convertible Bonds were offered and sold to no less than six independent placees (who were independent individual, corporate and/or institutional investors). The 2020 Convertible Bonds have been listed on the Stock Exchange since 4 May 2020. The interest is 0.625% per annum of the principal amount of the 2020 Convertible Bonds, payable semi-annually in arrear in equal instalments of HK\$3,125 per calculation amount (i.e. interest in respect of any 2020 Convertible Bond shall be calculated per HK\$1,000,000 in principal amount of the 2020 Convertible Bonds) on 29 April and 29 October in each year. The Company intended to use the net proceeds from the subscription primarily for general corporate purposes, for strategic investments and acquisitions, if appropriate, and to supplement working capital, which is in accordance with the proposed uses as disclosed in the announcement of the Company dated 24 April 2020. The Directors are of the view that the issue of the 2020 Convertible Bonds can provide the Company with additional funds at lower funding cost for the said purposes.

In accordance with the terms and conditions of the 2020 Convertible Bonds, the aggregate payment of the special dividend in relation to the spin-off and separate listing of Kingsoft Cloud Holdings Limited, the 2019 final dividend and the 2020 final dividend resulted in an adjustment (the "**Adjustment**") to the conversion price of the 2020 Convertible Bonds. The Adjustment became effective on 8 June 2021, being the day after the record date in respect of the 2020 final dividend. Following the Adjustment, the conversion price of the 2020 Convertible Bonds was adjusted to HK\$35.32 per share. Assuming full conversion of the 2020 Convertible Bonds at the adjusted conversion price of HK\$35.32 per share and no further issue of shares, the 2020 Convertible Bonds will be convertible into approximately 87,768,969 shares of the Company. The net proceeds of approximately HK\$3,033.94 million represents a net issue price of approximately HK\$34.5673 per conversion share based on the adjusted conversion price of HK\$35.32 per conversion share.

The actual use of the net proceeds raised from the issue of the 2020 Convertible Bonds as at 31 December 2022 and the expected timeline for use of unutilized proceeds is set out as follows:

PROPOSED USE OF PROCEEDS	ACTUAL USE OF PROCEEDS AS AT 31 DECEMBER 2022 (HK\$ MILLION)	UNUTILIZED PROCEEDS (HK\$ MILLION)	EXPECTED TIMELINE FOR USE OF UNUTILIZED PROCEEDS
Strategic investments and acquisitions	154.81	2,245.18	By 2023
General corporate purposes	535.56	98.39	By 2025

DIRECTORS' REPORT (continued)

As at 31 December 2022, no 2020 Convertible Bonds had been converted into new shares of the Company, and the outstanding 2020 Convertible Bonds at an aggregate principal amount of HK\$3,100,000,000 are convertible into 87,768,969 shares upon full conversion. The following table summarizes the potential effects on the shareholding structure of the Company as a result of the full conversion of the 2020 Convertible Bonds, on the assumptions that there will be no other change to the share capital of the Company from 31 December 2022 to the date of full conversion of the 2020 Convertible Bonds, save for the conversion of the 2020 Convertible Bonds:

Name of Shareholders	As at 31 December 2022		Assuming the 2020 Convertible Bonds are fully converted at the initial conversion price of HK\$35.32 per share	
	Number of Shares	% of total issued Shares	Number of Shares	% of the enlarged issued Shares
Mr. Jun LEI (Note 1)	210,116,248	15.42	210,116,248	14.49
Mr. Pak Kwan KAU (Note 2)	100,000,000	7.34	100,000,000	6.90
Mr. Tao ZOU (Note 3)	12,111,707	0.89	12,111,707	0.84
Tencent Holdings Limited (Note 4)	106,784,515	7.84	106,784,515	7.36
Holders of the 2020 Convertible Bonds (Note 5)	0	0.00	87,768,969	6.05
Other public shareholders	933,283,247	68.51	933,283,247	64.36
Total Issued Shares (Note 6)	1,362,295,717	100.00	1,450,064,686	100.00

- As at 31 December 2022, among these 210,116,248 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a British Virgin Islands company owned as to 100% by Mr. Jun LEI; and (ii) 35,298,057 shares are held by a wholly-owned subsidiary of Xiaomi, a company controlled by Mr. Jun LEI under the SFO. In addition, pursuant to Part XV of the SFO, Mr. Jun LEI is deemed to be interested in Mr. Pak Kwan KAU's interest of 100,000,000 shares (see Note 2 below) pursuant to a voting consent agreement and its supplemental agreement entered into between Mr. Jun LEI and Mr. Pak Kwan KAU whereby Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares.
- These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Mr. Pak Kwan KAU. In addition, Mr. Jun LEI is also deemed to be interested in these 100,000,000 shares under the SFO because under a voting consent agreement and its supplemental agreement entered into by Mr. Jun LEI and Mr. Pak Kwan KAU, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares.
- Mr. Tao ZOU is a Director of the Company.
- These shares are held by TCH Saffron Limited, a wholly-owned subsidiary of Tencent Holdings Limited. As such, Tencent Holdings Limited is deemed to be interested in TCH Saffron Limited's interests in the Company pursuant to Part XV of the SFO.
- Assuming that the holders of the 2020 Convertible Bonds do not hold any shares of the Company as at 31 December 2022.
- Any discrepancies between total and sum of percentage listed therein are due to rounding.

The Group had a strong cash position towards the end of reporting period. As at 31 December 2022, the Group had major financial resources in the forms of cash and bank deposits and restricted cash amounting to RMB18,201.4 million and RMB2.5 million, respectively, which totally represented 57% of the Group's total assets. As at 31 December 2022, the Group's gearing ratio, which represents total liabilities divided by total assets, was 24%, compared to 21% as at 31 December 2021. As the reasons discussed above, even though the holders hold the 2020 Convertible Bonds to maturity, the Company is fully capable of redeeming in cash.

References are made to the announcements of the Company dated 24 April 2020 and 29 April 2020 for principal terms of the 2020 Convertible Bonds. For details of the adjustment to the conversion price of the 2020 Convertible Bonds, please refer to the announcement of the Company dated 26 May 2021.

Details of dilutive effect on the basic earnings per share as at 31 December 2022 are set out in note 14 to the financial statements.

DIRECTORS' REPORT (continued)

Major Customers and Suppliers

For the year ended 31 December 2022, the 5 largest customers of the Group accounted for less than 30% of the total revenue. For the year ended 31 December 2022, the 5 largest suppliers of the Group accounted for 52% of the total purchases, while the largest supplier accounted for 19% of the total purchases.

The major customers of the Group are mainly mobile games distributors and operators of software products and services. The Group paid attention to strengthening and sustaining the relationship with its major customers as they are important to the business of the Group. However, the Group does not materially rely on such major customers to generate revenue. The Group's end customers vary for different categories of business of the Group, which include game users, purchasers of office software products and services as well as other internet services, and etc. The Group will continue to strengthen its customer service to provide superior quality service to the users, and strive to achieve the fastest response times and highest customer satisfaction levels in the industry. The major suppliers of the Group mainly provide channel distribution, game development and bandwidth services to the Group. The Group has established long-term relationships with the major suppliers of the Group to ensure the stable and sustainable supplies for the businesses of the Group.

None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers and suppliers.

Environmental Policies and Performance

As a group providing internet services, the day-to-day business of the Group generally does not involve many environment issues. However, the Group acknowledges the great importance of environment protection. To minimise the impact on the environment and natural resources generated from the operation of the Group, the Group has broadly implemented resource-recycling and energy-saving practices in its offices and branch premises, including its offices and premises in Beijing, Zhuhai, Wuhan, Chengdu and etc. Specifically, the Group (i) encouraged double-sided printing and multi-pages-per-sheet printing for office documents; (ii) encouraged its employees to collect waste paper and used batteries for recycling purpose; and (iii) encourage its employees to turn off lights and computers before leaving the office.

Details of the Company's environmental policies and performances will be set out in a separate Environmental, Social and Governance Report.

Compliance with Relevant Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements. During the year ended 31 December 2022, the Group has complied, to the best of our knowledge, with Telecommunications Regulations, The Administrative Measures for Telecommunications Business Operating Licenses and other laws and regulations in relation to foreign investment, copy rights and etc., as well as Listing Rules and other applicable laws and regulations. The Group has been allocating system and staff resources to ensure ongoing compliance with laws, regulations and rules. The Legal Department and Compliance Department of the Group are mainly responsible for monitoring the operation of the Group to be in compliance with relevant laws and regulations.

Permitted Indemnity Provision

As at 31 December 2022, all Directors of the Company were covered under the liability insurance purchased by the Company for its Directors.

Related Party Transactions and Connected Transactions

1. Structure Contracts

According to the Administrative Rules for Foreign Investments in Telecommunications Enterprises, which were issued on 11 December 2001 by the State Council and became effective on 1 January 2002, a foreign investor is currently prohibited from owning more than 50% of the equity interest in a Chinese entity that provides value-added telecommunications services. Internet content provision (“**ICP**”) services are classified as value-added telecommunications businesses, and a commercial operator of such services must obtain an ICP license from the appropriate telecommunications authorities in order to carry on any commercial Internet content provision operations in China. In July 2006, the Ministry of Information and Industry of China issued a notice which prohibits ICP license holders from leasing, transferring or selling a telecommunications business operating license to any foreign investors in any form, or providing any resource, sites or facilities to any foreign investors for their illegal operation of telecommunications businesses in China. The notice also requires that ICP license holders and their shareholders directly own the domain names and trademarks used by such ICP license holders in their daily operations. Therefore, in order for us to be able to carry on our business in China, the Group entered into a series of structure contracts with Kingsoft Qijian, its shareholders Weiqin Qiu and Peili Lei, and Chengdu Digital Entertainment, which enable the Group to exercise control over Kingsoft Qijian, Beijing Digital Entertainment and Chengdu Digital Entertainment and to consolidate these companies' financial results in our results. Beijing Digital Entertainment (which is wholly owned by Kingsoft Qijian) and Chengdu Digital Entertainment (which is owned as to 99.91% by Beijing Digital Entertainment and 0.09% by Weiqin Qiu) hold the requisite ICP licenses.

Pre-existing Structure Contracts during the 2022 financial year

To streamline the corporate structure of the Group, the Group has commenced an internal reorganization exercise. In 2007, the Group has (i) entered into structure contracts relating to Kingsoft Qijian; and (ii) entered into structure contracts relating to Chengdu Digital Entertainment. In 2012, the Group has entered into structure contracts relating to Zhuhai Season Shiyou and Chengdu Season Shiyou. In 2020, the Group has entered into structure contracts relating to Wuhan Jufang Technology.

The risks for operating business with contractual arrangements exist in the following aspects: (i) the PRC government may determine that the agreements which established the structure for operating the Group's business in the PRC do not comply with PRC government restrictions on foreign investment; (ii) the Group's structure contracts with relevant contractually-controlled entities and their shareholders may be less effective in providing operational control as compared with having direct ownership of those entities; and (iii) in the event of the imposition of statutory liens, bankruptcy or criminal proceedings against the shareholders of the relevant contractually-controlled entities, the Company may lose the ability to use a major portion of its assets. For details of such risks, please refer to the Company's prospectus. The Company has made and will continue to make efforts to keep abreast of the recent development of PRC laws and regulations on the contractual arrangement. In order to mitigate the risks, the Company will consult the PRC legal advisors of the Company from time to time and un-wind the contractual arrangements in due course where applicable.

The structure contracts in relation to the business operations of the Group subject to the reporting requirements under the Chapter 14A of the Listing Rules which were pre-existing during the 2022 financial year were as follows:

Structure Contracts relating to Kingsoft Qijian

- (i) A loan agreement dated 30 March 2007 between Weiqin Qiu, Peili Lei and Chengdu Interactive Entertainment which provided for an interest free loan by Chengdu Interactive Entertainment of RMB1,200,000 to Weiqin Qiu and of RMB300,000 to Peili Lei, entirely for the purpose of repaying the loan provided by Zhuhai Software. The loans have no definite maturity date and Chengdu Interactive Entertainment may request repayment at any time. Weiqin Qiu and Peili Lei shall repay the loans by transferring the equity interest they hold in Kingsoft Qijian to Chengdu Interactive Entertainment or any person or entity as it may direct.

DIRECTORS' REPORT (continued)

- (ii) A shareholder voting agreement dated 30 March 2007 among Chengdu Interactive Entertainment, Weiqin Qiu, Peili Lei and Kingsoft Qijian, under which Weiqin Qiu and Peili Lei irrevocably entrust all of their shareholder rights in Kingsoft Qijian to Chengdu Interactive Entertainment, including but not limited to the voting rights and the right to nominate directors of Kingsoft Qijian.
- (iii) A call option agreement dated 30 March 2007 among Weiqin Qiu, Peili Lei, Kingsoft Qijian and Chengdu Interactive Entertainment, under which Chengdu Interactive Entertainment was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, part or all of Weiqin Qiu's and Peili Lei's equity interest in Kingsoft Qijian at anytime, at a nominal amount subject to applicable PRC laws.
- (iv) An equity pledge agreement dated 30 March 2007 among Weiqin Qiu, Peili Lei, Chengdu Interactive Entertainment and Kingsoft Qijian, pursuant to which Weiqin Qiu and Peili Lei pledged all of their equity interests in Kingsoft Qijian (and any increase in their capital contributions) in favor of Chengdu Interactive Entertainment as security for the performance of their respective obligations under the above loan agreement, the shareholder voting agreement and the call option agreement, the performance by Kingsoft Qijian of its obligations under the above shareholder voting agreement and the call option agreement, the performance by Chengdu Digital Entertainment of its obligations under the intellectual property license agreements (as described below in "Structure Contracts relating to Chengdu Digital Entertainment") and the performance by Beijing Digital Entertainment of its obligations under the intellectual property license agreements (as described below).
- (v) Zhuhai Software (as the licensor) and Beijing Digital Entertainment (as the licensee) entered into a framework intellectual property license agreement on 15 June 2007 for a term of 10 years from 1 January 2007 which will be automatically renewed for one year at the end of the term or any renewed term, unless the licensor notifies otherwise. Zhuhai Software agreed to enter into agreements to license certain intellectual property rights to Beijing Digital Entertainment on a case-by-case basis.

Structure Contracts relating to Chengdu Digital Entertainment

- (i) A loan agreement dated 30 March 2007 between Weiqin Qiu and Chengdu Interactive Entertainment which provided for an interest free loan of RMB100,000 by Chengdu Interactive Entertainment to Weiqin Qiu entirely for the purpose of capital funding of Chengdu Digital Entertainment. The loan has no definite maturity date and Chengdu Interactive Entertainment may request repayment at any time. Weiqin Qiu shall repay the loan by transferring the equity interest she holds in Chengdu Digital Entertainment to Chengdu Interactive Entertainment or any person or entity nominated by Chengdu Interactive Entertainment.
- (ii) A shareholder voting agreement dated 30 March 2007 among Chengdu Interactive Entertainment, Weiqin Qiu and Chengdu Digital Entertainment, under which Weiqin Qiu irrevocably entrusts all of her shareholder rights in Chengdu Digital Entertainment to Chengdu Interactive Entertainment, including but not limited to the voting rights and the right to nominate directors of Chengdu Digital Entertainment.
- (iii) A call option agreement dated 30 March 2007 among Weiqin Qiu, Chengdu Digital Entertainment and Chengdu Interactive Entertainment, under which Chengdu Interactive Entertainment was granted an exclusive irrevocable option to purchase, or designate a third party to purchase, part or all of Weiqin Qiu's equity interest in Chengdu Digital Entertainment at any time, at a nominal amount subject to applicable PRC laws.
- (iv) An equity pledge agreement dated 30 March 2007 among Weiqin Qiu, Chengdu Interactive Entertainment, Chengdu Digital Entertainment and Beijing Digital Entertainment, pursuant to which Weiqin Qiu pledged all of her equity interests in Chengdu Digital Entertainment (and any increase in her capital contribution) in favor of Chengdu Interactive Entertainment as security for the performance of her obligations under the above loan agreement, shareholder voting agreement and call option agreement as well as the performance by Chengdu Digital Entertainment of its obligations under the above shareholder voting agreement, the call option agreement, and the intellectual property license agreements (as described below).

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- (v) Chengdu Interactive Entertainment (as the licensor) and Chengdu Digital Entertainment (as the licensee) entered into a framework intellectual property license agreement on 15 June 2007 for a term of 10 years from 1 January 2007 which will be automatically renewed for one year at the end of the term or any renewed term, unless the licensor notifies otherwise. Chengdu Interactive Entertainment agreed to enter into agreements to license certain intellectual property rights to Chengdu Digital Entertainment.

As Weiqin Qiu is the sister of Pak Kwan Kau, and Peili Lei is the aunt of Jun Lei, with Pak Kwan Kau and Jun Lei being our executive Directors when the above said structure contracts were signed and now our non-executive Directors, Weiqin Qiu and Peili Lei are associates of Pak Kwan Kau and Jun Lei, and therefore, are our connected persons. Accordingly, certain transactions under the structure contracts technically constituted connected transactions. The Company applied to the Stock Exchange for and was granted a specific waiver from strict compliance with the applicable disclosure and shareholders' approval requirements of Chapter 14A of the Listing Rules in relation to the transactions contemplated under the structure contracts for so long as the shares of the Company are listed on the Stock Exchange.

The independent non-executive Directors have reviewed the structure contracts relating to Kingsoft Qijian, Beijing Digital Entertainment and Chengdu Digital Entertainment and have confirmed that:

- these structure contracts remain unchanged and are consistent with their disclosure in the prospectus of the Company dated 24 September 2007;
- no dividends or other distributions were made by Kingsoft Qijian, Beijing Digital Entertainment, or Chengdu Digital Entertainment to the holders of their equity interests for the year ended 31 December 2022; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

Structure Contracts Relating to Zhuhai Seasun Shiyou and Chengdu Seasun Shiyou

- (i) Tao Zou, Weiqin Qiu and Chengdu Westhouse Interactive Entertainment Co., Ltd. ("**Chengdu Westhouse**") entered into a loan agreement on 3 September 2012, pursuant to which Chengdu Westhouse provided interest free loans of RMB10,000,000 to Tao Zou and Weiqin Qiu for repaying the liability incurred by Tao Zou and Weiqin Qiu for the acquisition of the entire registered capital in Zhuhai Seasun Shiyou. The loans have no fixed maturity date, and Chengdu Westhouse may demand repayment at any time. Subject to the PRC Laws, Tao Zou and Weiqin Qiu shall repay the loans by transferring their equity interests in Zhuhai Seasun Shiyou to Chengdu Westhouse or its designated third party.
- (ii) Tao Zou, Weiqin Qiu, Chengdu Westhouse and Zhuhai Seasun Shiyou entered into a shareholder voting entrustment agreement on 3 September 2012, pursuant to which Tao Zou and Weiqin Qiu irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to nominate executive directors of Zhuhai Seasun Shiyou) in Zhuhai Seasun Shiyou to such persons designated by Chengdu Westhouse.
- (iii) Tao Zou, Weiqin Qiu, Chengdu Westhouse and Zhuhai Seasun Shiyou entered into an exclusive option agreement on 3 September 2012, pursuant to which Chengdu Westhouse was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by Tao Zou and Weiqin Qiu in Zhuhai Seasun Shiyou at any time at an exercise price equal to the corresponding portion of liability of Chengdu Westhouse borne by Tao Zou and Weiqin Qiu under the loan agreement. However, if the lowest conversion price permitted by the PRC Laws is higher than the amounts of those liabilities, the exercise price shall be the lowest price permitted by the PRC Laws. Despite the above, Tao Zou and Weiqin Qiu shall jointly waive the obligations of Chengdu Westhouse for paying the shortfall in the case that the lowest price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC. When the option is exercised by Chengdu Westhouse, Chengdu Westhouse is entitled to the rights to pay the exercise price by directly waiving the corresponding portion of liability of Chengdu Westhouse borne by Tao Zou and Weiqin Qiu. The ratio of the waived liability of Tao Zou and Weiqin Qiu to their total liabilities shall be the same as that of the transferred equity interest held by Tao Zou and Weiqin Qiu to their total equity interest in Zhuhai Seasun Shiyou.

DIRECTORS' REPORT (continued)

- (iv) Chengdu Westhouse and Chengdu Season Shiyou entered into an exclusive technology development, support and consultation agreement on 3 September 2012, pursuant to which Chengdu Westhouse agreed, on the terms, conditions and pricing as required by the agreement, to provide to Chengdu Season Shiyou exclusively and Chengdu Season Shiyou agreed to accept the technology development, support and consultation services exclusively provided by Chengdu Westhouse for an indefinite term unless otherwise terminated by Chengdu Westhouse in accordance with the terms of the agreement.
- (v) Tao Zou, Weiqin Qiu, Zhuhai Season Shiyou, Chengdu Season Shiyou and Chengdu Westhouse entered into a business operation agreement on 3 September 2012, pursuant to which, Tao Zou, Weiqin Qiu, Zhuhai Season Shiyou and Chengdu Season Shiyou will make relevant undertakings and guarantee to Chengdu Westhouse for the daily operation of Chengdu Season Shiyou for a term of 10 years, unless otherwise terminated by Chengdu Westhouse, to ensure that Chengdu Season Shiyou would perform the obligations under the above exclusive technology development, support and consultation agreement entered into on the same date. On 3 September 2022, Tao Zou, Weiqin Qiu, Zhuhai Season Shiyou, Chengdu Season Shiyou and Chengdu Westhouse entered into a supplemental agreement to the business operation agreement, pursuant to which, the business operation agreement will be automatically renewed for the period of one year unless Chengdu Season Shiyou notice other parties 30 days prior than the expiration of the business agreement.
- (vi) Tao Zou, Weiqin Qiu, Zhuhai Season Shiyou and Chengdu Westhouse entered into an equity pledge agreement on 3 September 2012, pursuant to which, Tao Zou and Weiqin Qiu agreed to pledge all equity interests they respectively held in Zhuhai Season Shiyou and any increase in capital contributions in favor of Chengdu Westhouse, and granted the priority of pledge compensation while Zhuhai Season Shiyou agreed to utilize these equity pledge arrangement as a security for the performance of their obligations under the above loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreement and business operation agreement dated 3 September 2012 and the settlement in respect of the relevant guaranteed debts. Guaranteed debts represents all direct, indirect, resulting loss and expected interest loss arising from any default by Tao Zou, Weiqin Qiu, Zhuhai Season Shiyou and Chengdu Season Shiyou, and all expenses generated by Chengdu Westhouse for enforcing mandatory performance of all agreed obligations by Tao Zou, Weiqin Qiu, Zhuhai Season Shiyou under the above loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreement and business operation agreement all dated 3 September 2012.

The arrangement relating to Zhuhai Season Shiyou and Chengdu Season Shiyou was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in this annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the structure contracts relating to Zhuhai Season Shiyou and Chengdu Season Shiyou, and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or any other distributions to the holders of their equity interests were made by Zhuhai Season Shiyou and Chengdu Season Shiyou for the year ended 31 December 2022; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

Structure Contracts Relating to Wuhan Jufang Technology

- (i) Wei Liu, Weiqin Qiu and Kingsoft Shiyou (Wuhan) Network Technology Co., Ltd. ("**Kingsoft Shiyou (Wuhan) Network Technology**", formerly known as Season Technology (Wuhan) Co., Ltd.) entered into a loan agreement on 16 July 2020, pursuant to which Kingsoft Shiyou (Wuhan) Network Technology provided interest free loans of RMB800,000 and RMB200,000 to Wei Liu and Weiqin Qiu respectively for subscription and fully payment of the entire registered capital of Wuhan Jufang Technology Co., Ltd. ("**Wuhan Jufang Technology**"). The loans have no fixed maturity date, and Kingsoft Shiyou (Wuhan) Network Technology may demand repayment at any time. Subject to the PRC Laws, Wei Liu and Weiqin Qiu shall repay the loans by transferring their equity interests in Wuhan Jufang Technology to Kingsoft Shiyou (Wuhan) Network Technology or its designated third party. Moreover, the ratio of the transferred equity interests in Wuhan Jufang Technology to the equity interests in Wuhan Jufang Technology held by these borrowers on the date of notice of repayment shall be the same as that of the requested repayment to the loans of these borrowers on the date of signing the loan agreement.
- (ii) Weiqin Qiu, Wei Liu, Kingsoft Shiyou (Wuhan) Network Technology and Wuhan Jufang Technology entered into a shareholder voting entrustment agreement on 16 July 2020, pursuant to which Wei Liu and Weiqin Qiu irrevocably entrusted their shareholder rights (including but not limited to the voting rights and the right to designate and nominate the senior management (such as directors and managers) of Wuhan Jufang Technology) in Wuhan Jufang Technology to Season Technology (Wuhan) or persons designated by Kingsoft Shiyou (Wuhan) Network Technology.
- (iii) Wei Liu, Weiqin Qiu, Kingsoft Shiyou (Wuhan) Network Technology and Wuhan Jufang Technology entered into an exclusive option agreement on 16 July 2020, pursuant to which Kingsoft Shiyou (Wuhan) Network Technology was granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the equity interest owned by Wei Liu and Weiqin Qiu in Wuhan Jufang Technology at any time at the price equal to the corresponding portion of liability of Kingsoft Shiyou (Wuhan) Network Technology borne by Wei Liu and Weiqin Qiu under the loan agreement. However, if the lowest transfer price permitted by the PRC Laws is higher than the amounts of those liabilities, the transfer price shall be the lowest price permitted by the PRC Laws. Despite the above, Wei Liu and Weiqin Qiu shall jointly waive the obligations of Kingsoft Shiyou (Wuhan) Network Technology for paying the shortfall in the case that the lowest price permitted by the PRC Laws is higher than the portion of liability, subject to the laws and regulations of the PRC. When the option is exercised by Kingsoft Shiyou (Wuhan) Network Technology, Kingsoft Shiyou (Wuhan) Network Technology is entitled to the rights to pay the transfer price by directly waiving the corresponding portion of liability of Kingsoft Shiyou (Wuhan) Network Technology borne by Wei Liu and Weiqin Qiu. The ratio of the waived liability of Wei Liu and Weiqin Qiu to their total liabilities shall be the same as that of the transferred equity interest held by Wei Liu and Weiqin Qiu to their total equity interest in Wuhan Jufang Technology. In addition, Kingsoft Shiyou (Wuhan) Network Technology was also granted an irrevocable exclusive option to acquire, or designate a third party to acquire, all or part of the assets of Wuhan Jufang Technology at any time at the lowest price permitted by the PRC Laws.
- (iv) Kingsoft Shiyou (Wuhan) Network Technology and Wuhan Jufang Technology entered into an exclusive technology development, support and consultation agreement on 16 July 2020, pursuant to which Kingsoft Shiyou (Wuhan) Network Technology agreed, on the terms, conditions and pricing as required by the agreement, to provide to Wuhan Jufang Technology, and Wuhan Jufang Technology agreed to exclusively accept, the technology development, support and consultation services for an indefinite term unless otherwise terminated by Kingsoft Shiyou (Wuhan) Network Technology in accordance with the terms of the agreement. The settlement period of the service fee payable by Wuhan Jufang Technology to Kingsoft Shiyou (Wuhan) Network Technology shall be negotiated and agreed by both parties separately. The relevant service fees shall be comprised of the results service fee (the remaining 80%–100% of business income of Wuhan Jufang Technology for the year, net of the mutually-agreed business cost of Wuhan Jufang Technology) and the mutually-agreed service fee (for the specified consultation services and technology services provided by Kingsoft Shiyou (Wuhan) Network Technology at the request of Wuhan Jufang Technology from time to time). Kingsoft Shiyou (Wuhan) Network Technology shall be entitled to the rights to adjust the above service fees at its discretion. Kingsoft Shiyou (Wuhan) Network Technology and Chengdu Kingsoft Shiyou Jufang Technology Co., Ltd. ("**Chengdu Kingsoft Shiyou Jufang Technology**", formerly known as Chengdu Jufang Technology Co., Ltd.), the subsidiary of Wuhan Jufang Technology, entered into an

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exclusive technology development, support and consultation agreement on 28 July 2020, pursuant to which Kingsoft Shiyou (Wuhan) Network Technology agreed, on the terms, conditions and pricing as required by the agreement, to provide to Chengdu Kingsoft Shiyou Jufang Technology, and Chengdu Kingsoft Shiyou Jufang Technology agreed to exclusively accept, the technology development, support and consultation services for an indefinite term unless otherwise terminated by Kingsoft Shiyou (Wuhan) Network Technology in accordance with the terms of the agreement. The settlement period of the service fee payable by Chengdu Kingsoft Shiyou Jufang Technology to Kingsoft Shiyou (Wuhan) Network Technology shall be negotiated and agreed by both parties separately. The relevant service fees shall be comprised of the results service fee (the remaining 80%–100% of business income of Chengdu Kingsoft Shiyou Jufang Technology for the year, net of the mutually-agreed business cost of Chengdu Kingsoft Shiyou Jufang Technology) and the mutually-agreed service fee (for the specified consultation services and technology services provided by Kingsoft Shiyou (Wuhan) Network Technology at the request of Chengdu Kingsoft Shiyou Jufang Technology from time to time). Kingsoft Shiyou (Wuhan) Network Technology shall be entitled to the rights to adjust the above service fees at its discretion.

- (v) Wei Liu, Weiqin Qiu, Kingsoft Shiyou (Wuhan) Network Technology and Wuhan Jufang Technology entered into a business operation agreement on 16 July 2020, pursuant to which, Wei Liu, Weiqin Qiu and Wuhan Jufang Technology will make relevant undertakings and guarantee to Kingsoft Shiyou (Wuhan) Network Technology for the daily operation of Wuhan Jufang Technology for a term of 10 years, unless otherwise terminated by Kingsoft Shiyou (Wuhan) Network Technology, to ensure that Wuhan Jufang Technology would perform the obligations under the agreements entered into with Kingsoft Shiyou (Wuhan) Network Technology. Wei Liu, Weiqin Qiu, Kingsoft Shiyou (Wuhan) Network Technology, Wuhan Jufang Technology and Chengdu Kingsoft Shiyou Jufang Technology entered into a business operation agreement on 28 July 2020, pursuant to which, Wei Liu, Weiqin Qiu, Wuhan Jufang Technology and Chengdu Kingsoft Shiyou Jufang Technology will make relevant undertakings and guarantee to Kingsoft Shiyou (Wuhan) Network Technology for the daily operation of Chengdu Kingsoft Shiyou Jufang Technology for a term of 10 years, unless otherwise terminated by Kingsoft Shiyou (Wuhan) Network Technology, to ensure that Chengdu Kingsoft Shiyou Jufang Technology would perform the obligations under the agreements entered into with Kingsoft Shiyou (Wuhan) Network Technology.
- (vi) Wei Liu, Weiqin Qiu, Kingsoft Shiyou (Wuhan) Network Technology and Wuhan Jufang Technology entered into an equity pledge agreement on 16 July 2020, pursuant to which, Wei Liu and Weiqin Qiu agreed to pledge all equity interests they respectively held in Wuhan Jufang Technology and any increase in capital contributions in favor of Kingsoft Shiyou (Wuhan) Network Technology, and granted the priority of pledge compensation while Wuhan Jufang Technology agreed to utilize these equity pledge arrangement as a security for the performance of obligations of Wei Liu, Weiqin Qiu, Wuhan Jufang Technology and Chengdu Kingsoft Shiyou Jufang Technology under the above loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreements and business operation agreements and the settlement in respect of the relevant guaranteed debts. Guaranteed debts represents all direct, indirect, resulting loss and expected interest loss arising from any default by Wei Liu, Weiqin Qiu, Wuhan Jufang Technology and Chengdu Kingsoft Shiyou Jufang Technology, and all expenses generated by Kingsoft Shiyou (Wuhan) Network Technology for enforcing mandatory performance of all agreed obligations by Wei Liu, Weiqin Qiu, Wuhan Jufang Technology under the above loan agreement, shareholder voting entrustment agreement, exclusive option agreement, exclusive technology development, support and consultation agreements and business operation agreements.

The arrangement relating to Wuhan Jufang Technology was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment. Subject to the relevant disclosures in this annual report of the Company, cloning of structure contracts similar to those relating to Kingsoft Qijian and Chengdu Digital Entertainment will not be subject to the strict requirements of announcement and shareholders' approval under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the structure contracts relating to Wuhan Jufang Technology, and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or any other distributions to the holders of their equity interests were made by Wuhan Jufang Technology for the year ended 31 December 2022; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

New Structure Contracts during the 2022 financial year

Structure Contracts Relating to Shiyou Zhuhai

- (i) 13 natural person shareholders (collectively, the “**Natural Person Shareholders of Shiyou Zhuhai**”), each being a shareholder of Shiyou Zhuhai, Beijing Digital Entertainment, together with the Natural Person Shareholders of Shiyou Zhuhai, the “**Shareholders of Shiyou Zhuhai**”) and Shiyou Wuhan entered into a loan agreement on 17 January 2022 (the “**Shiyou Zhuhai Loan Agreement**”), pursuant to which Shiyou Wuhan provided interest free loan in the principal amount of RMB1,000,000 to the Shareholders of Shiyou Zhuhai without a fixed maturity date, and Shiyou Wuhan may demand repayment from each of the Natural Person Shareholders of Shiyou Zhuhai and Beijing Digital Entertainment at any time. Under the Shiyou Zhuhai Loan Agreement, the Shareholders of Shiyou Zhuhai shall repay the loans by transferring their equity interests in Shiyou Zhuhai to Shiyou Wuhan or its designated third party, and the equity interests to be transferred out of the equity interests in Shiyou Zhuhai held by the Shareholders of Shiyou Zhuhai as at the date of the repayment notice shall represent the same percentage as that of the demand repayment out of the total principal amount under the Loan Agreement on the date thereof.
- (ii) The Natural Person Shareholders of Shiyou Zhuhai, Beijing Digital Entertainment, Shiyou Wuhan and Shiyou Zhuhai, entered into a shareholder voting entrustment agreement on 17 January 2022 (the “**Shiyou Zhuhai Shareholder Voting Agreement**”), pursuant to which each of the Natural Person Shareholders of Shiyou Zhuhai and Beijing Digital Entertainment irrevocably entrusted their shareholder rights in Shiyou Zhuhai to Shiyou Wuhan or persons designated by Shiyou Wuhan including, but not limited to, the voting rights and right to nominate director and senior management of Shiyou Zhuhai.
- (iii) The Natural Person Shareholders of Shiyou Zhuhai, Beijing Digital Entertainment, Shiyou Wuhan and Shiyou Zhuhai entered into an exclusive call option agreement on 17 January 2022 (the “**Shiyou Zhuhai Call Option Agreement**”), pursuant to which (i) Shiyou Wuhan was granted an exclusive irrevocable option to purchase, or otherwise designate an entity or individual to purchase, the entire equity interest in Shiyou Zhuhai in accordance with the terms of the Shiyou Zhuhai Call Option Agreement and applicable PRC laws, and (ii) Shiyou Wuhan was granted an exclusive irrevocable option to purchase, or otherwise designate an entity or individual to purchase, at the time and in the manner so determined thereby, all or part of the assets owned by Shiyou Zhuhai at the lowest price permitted under the PRC laws in accordance with the terms of the Shiyou Zhuhai Call Option Agreement and the applicable PRC laws.

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- (iv) The Natural Person Shareholders of Shiyou Zhuhai, Beijing Digital Entertainment, Shiyou Wuhan and Shiyou Zhuhai entered into an equity pledge agreement on 17 January 2022 (the “**Shiyou Zhuhai Equity Pledge Agreement**”), pursuant to which, the Shareholders of Shiyou Zhuhai, as the pledgor, agreed to pledge all equity interest in Shiyou Zhuhai held thereby (and any increased capital contribution) in favour of Shiyou Wuhan as security for the performance of their respective obligations under the Shiyou Zhuhai Loan Agreement, Shiyou Zhuhai Call Option Agreement, Shiyou Zhuhai Shareholder Voting Agreement, Shiyou Zhuhai Business Operation Agreement (as defined below) and the Shiyou Zhuhai Equity Pledge Agreement, as well as the performance by Shiyou Zhuhai under the above relevant agreements and the exclusive technology development, support and consultation agreement.
- (v) Shiyou Zhuhai and Shiyou Wuhan entered into an exclusive technology development, support and consultation agreement on 17 January 2022, pursuant to which Shiyou Wuhan shall provide the consultation service, technology development and support of operation management to Shiyou Zhuhai. The relevant service fees shall be comprised of the results service fee (the remaining 80%-100% of business income of Shiyou Zhuhai for the year, net of the mutually agreed business cost of Shiyou Zhuhai) and the mutually-agreed service fee (for the specified consultation services and technology services provided by Shiyou Wuhan at the request of Shiyou Zhuhai from time to time). Shiyou Wuhan shall be entitled to the rights to adjust the above service fees at its discretion.
- (vi) The Natural Person Shareholders of Shiyou Zhuhai, Beijing Digital Entertainment, Shiyou Wuhan and Shiyou Zhuhai entered into a business operation agreement on 17 January 2022 (the “**Shiyou Zhuhai Business Operation Agreement**”), pursuant to which, each of the Shareholders of Shiyou Zhuhai and Shiyou Zhuhai shall make relevant undertakings and guarantee to Shiyou Wuhan in relation to the daily operation of Shiyou Zhuhai for a term of 10 years, unless otherwise terminated by Shiyou Wuhan, to ensure that Shiyou Zhuhai would perform the obligations under the relevant structure contracts relating to Shiyou Zhuhai.
- (vii) The Natural Person Shareholders of Shiyou Zhuhai, Beijing Digital Entertainment, Shiyou Wuhan and Shiyou Zhuhai entered into a supplemental agreement on 31 May 2022, pursuant to which, Jiang Liu, one of the Natural Person Shareholders of Shiyou Zhuhai, transferred his equity interest in Shiyou Zhuhai to another Natural Person Shareholder Ke Zheng, and all rights and obligations of Jiang Liu under the Shiyou Zhuhai Loan Agreement, Shiyou Zhuhai Call Option Agreement, Shiyou Zhuhai Shareholder Voting Agreement, Shiyou Zhuhai Business Operation Agreement and the Shiyou Zhuhai Equity Pledge Agreement shall be assigned and novated to Ke Zheng. The parties shall continue to exercise their rights and obligations in accordance with the foregoing agreements.

The arrangement relating to Shiyou Zhuhai was substantially similar to the arrangement under the existing structure contracts relating to Kingsoft Qijian and Chengdu Digital Entertainment.

The independent non-executive Directors have reviewed the structure contracts relating to Shiyou Zhuhai and have confirmed that:

- these structure contracts are similar and consistent with those as disclosed in the prospectus of the Company dated 24 September 2007;
- no dividends or any other distributions to the holders of their equity interests were made by Shiyou Zhuhai for the year ended 31 December 2022; and
- the terms of such structure contracts are fair and reasonable so far as the Group is concerned and in the interests of the shareholders and the Company as a whole.

2. Continuing Transactions and Continuing Connected Transactions

Continuing Connected Transactions with Xiaomi Group

The Company and Xiaomi entered into a framework agreement on 2 December 2019 (the “**Framework Agreement**”). Pursuant to the Framework Agreement, (i) the Group will provide various comprehensive services to Xiaomi Group, mainly including the cloud services, the promotion services, the mailbox customized development services and advertising agency services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) the Group will provide hardware products (mainly including server, storage devices, load balancer and other hardware products manufactured by independent third parties) to Xiaomi Group; (iv) Xiaomi Group will provide various comprehensive services to the Group, mainly including the promotion services, the software development services, the canteen services and other ancillary services; and (v) Xiaomi Group will provide products to the Group, for a term of three years ending 31 December 2022.

In order to renew the transactions under the Framework Agreement for the next three years ending 31 December 2025, the Company and Xiaomi entered into a new framework agreement on 30 December 2022, pursuant to which: (i) the Group will provide various comprehensive services to Xiaomi Group, mainly including the promotion services, the mailbox customized development services and licensing and subscription services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) Xiaomi Group will provide various comprehensive services to the Group, mainly including the promotion services, and the catering services and other ancillary services; and (iv) Xiaomi Group will provide products to the Group, for a term of three years ending 31 December 2025.

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. Mr. Jun LEI holds a majority of voting power in Xiaomi, save for resolutions with respect to a limited number of reserved matters. As such, Xiaomi is a connected person of the Company. Therefore, the entering into the Framework Agreement between the Company and Xiaomi and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For details of the abovementioned continuing connected transactions, please refer to the announcements of the Company dated 2 December 2019, 26 May 2020, 23 March 2022 and 30 December 2022.

The annual caps for the continuing connected transactions under the Framework Agreement as compared with the actual transactions amounts incurred or received by the Group for the year ended 31 December 2022 are set out as follows:

	Annual Cap for 2022 RMB million	Actual Amount for 2022 RMB million
Fees payable by Xiaomi Group		
Provision of cloud services by the Group	1,249.50	0
Provision of promotion services by the Group	15.00	1.89
Provision of advertising agency services by the Group	195.00	0
Joint operation of games provided by Group	30.00	13.08
Provision of hardware products by the Group	76.80	0
Fees payable by the Group		
Provision of promotion, software development and canteen services and other ancillary services by Xiaomi Group	128.05	17.45
Provision of products by Xiaomi Group	392.50	0.74

DIRECTORS' REPORT (continued)

Since Kingsoft Cloud is no longer a subsidiary of the Company and the transactions between Kingsoft Cloud and Xiaomi Group no longer constitute connected transactions of the Group after its spin-off and separate listing on May 8, 2020, the above-mentioned actual amount for 2022 no longer includes the relevant transactions between Kingsoft Cloud and Xiaomi Group.

Continuing Connected Transactions with Kingsoft Office Group

In September 2022, the transfer of partnership interests in the relevant Qiwen Entities and the change of general partner or co-general partners of each Qiwen Entity (as the case may be) was completed ("**Completion**"). Accordingly, Beijing Kingsoft Qiwen became the general partner of Qiwen Entities. Beijing Kingsoft Qiwen is wholly owned by Mr. Jun LEI, a Director and substantial shareholder of the Company. As Qiwen Entities hold an aggregate of approximately 11.33% equity interests of Kingsoft Office, a subsidiary of the Company, Kingsoft Office Group became connected subsidiaries of the Company by virtue of Rule 14A.16 of the Listing Rules.

Before Kingsoft Office Group became connected subsidiaries of the Company, the Group had entered into various continuing transactions with Kingsoft Office Group, which upon the Completion, have become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Such continuing connected transactions mainly comprise: (a) the lease agreements (as supplemented) entered into between Zhuhai Software, Chengdu Seasun Shiyou, Beijing Kingsoft and Wuhan Kingsoft, which are subsidiaries of the Company (as the lessor), and the subsidiaries of Kingsoft Office (as the lessee) in relation to certain leases of premises for, among others, office, employee dormitory or warehouse purposes; (b) service agreements entered into between the subsidiaries of the Company and certain members of the Kingsoft Office Group in relation to the provision of relevant office and administrative services by the subsidiaries of the Company; and (c) the corporate contract and the related credit terms arrangement agreement entered into between Zhuhai Qingzhu, a wholly-owned subsidiary of the Company, and Kingsoft Office in relation to guest room reservation corporate rates and the credit terms services.

For details of the abovementioned continuing connected transactions, please refer to the announcements of the Company dated 28 September 2022.

In respect of the above continuing connected transactions of the Group, the independent non-executive Directors have reviewed the related agreements and transactions contemplated thereunder and confirmed that these transactions were:

- (i) entered into in the ordinary and usual course of business of the Group;
- (ii) conducted on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties;
- (iii) entered into in accordance with the terms of the respective agreements and were fair and reasonable and in the interests of the Company and its shareholders as a whole;
- (iv) the aggregate annual amount of the transactions were within the relevant annual caps (if any);
- (v) the transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements, including the pricing range, the process for determining the prices; and
- (vi) the Group's internal control procedures are adequate and effective to ensure that transactions are so conducted.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

3. Related Party Transactions

Details of the related party transactions for the year are included in note 42 to the financial statements. Certain related party transactions disclosed in note 42 to the financial statements also constitute connected transactions or continuing connected transactions as disclosed above. Such certain transactions between connected persons and the Group as shown above have been entered into and/or are ongoing during the year and the Company had made relevant disclosures to the extent required in accordance with the requirements of the Listing Rules.

Compliance with the Code on Corporate Governance Practice

During the year ended 31 December 2022, the Company complied with all code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules with the exception of the deviation from code provision C.1.6 and D.1.2. Please also refer to the Corporate Governance Report in this annual report for full details.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2022 has been audited by Ernst & Young, who will retire and, being eligible, offer themselves for reappointment at our forthcoming AGM.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, which would oblige our Company to offer new shares on a pro-rata basis to existing shareholders.

Principal Risks and Uncertainties

For details of the financial risks of the Group, please refer to note 45 to the financial statements of this report. For details of the foreign currency risk, please refer to the Management Discussion and Analysis in this report. Save as disclosed above, a number of other factors, including downturn of the global or PRC economy, overall competitive environment and international policies may affect the result and business of the Group.

On behalf of the Board

Jun LEI
Chairman

Hong Kong, 21 March 2023

INDEPENDENT AUDITOR'S REPORT



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To the shareholders of Kingsoft Corporation Limited

(Continued in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Kingsoft Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 185, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of investments in associates</i>	
<p>As at 31 December 2022, the Group held significant amounts of investments in associates amounting to RMB5,347,967,000. The Group recognised impairment losses amounting to RMB6,526,228,000 for the year ended 31 December 2022.</p> <p>Investments in associates are subject to impairment assessments when there is an indication of impairment. For those investments with impairment indicators, the recoverable amounts of the investments in associates were determined by management with the assistance of the external valuer engaged by the Group. Significant management judgements and estimates are required to determine the expected future cash flows and the assumptions used including growth rates and discount rates applied.</p> <p>Disclosures about accounting policies, significant accounting judgements and estimates and investments in associates are included in Note 2.4 "Summary of Significant Accounting Policies", Note 3 "Significant Accounting Judgements and Estimates" and Note 21 "Investments in Associates" to the consolidated financial statements.</p>	<p>Our audit procedures included evaluating the assessments made by management on the existence of indicators of impairment of the investments in associates.</p> <p>For those investments with impairment indicators, with the assistance of our internal valuation specialists, we assessed the valuation methodology, key assumptions and parameters, used by management in determining the recoverable amount, such as revenue growth rate by reference to historical growth rate and discount rates by reference to the ones applied by comparative companies.</p> <p>We also evaluated cash flow projections prepared by management by reference to the historical financial data, financial budget and available market data.</p> <p>We also evaluated the competence, capabilities, objectivity and independence of the external valuer engaged by the Group to appraise the recoverable amount of the investments in associates with impairment indicators.</p> <p>We also assessed the adequacy of the disclosure made about the impairment of investments in associates.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Share-based payments</i>	
<p>The Group operates several share option schemes and share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.</p> <p>The share-based compensation costs were measured with reference to the fair values of the share options and awarded shares at the grant date. The fair values were determined by the management with the assistance of external valuers engaged by the Group, and the costs were recognised in share-based compensation costs in profit or loss, together with a corresponding increase in equity, over the period in which the performance and/or service conditions were fulfilled. The share-based compensation costs recognised during the year ended 31 December 2022 were RMB260,794,000. The determination of fair values and the forfeiture rates of share options and awarded shares required significant management judgements and estimates and was based on assumptions.</p> <p>Disclosures about accounting policies, significant accounting judgements and estimates and share-based payments are included in Note 2.4 "Summary of Significant Accounting Policies", Note 3 "Significant Accounting Judgements and Estimates" and Note 35 "Share-based Compensation Costs" to the consolidated financial statements.</p>	<p>Our audit procedures included obtaining grant letters, reviewing key information (i.e. grant dates, number of share options and awarded shares granted and vesting terms), evaluating the competence, capabilities, objectivity and independence of external valuers and assessing the methodologies, assumptions and parameters adopted, such as the dividend yield, expected volatility, risk-free interest rate, expected forfeiture rate and weighted average share price, in the valuation of the share options and restricted share units with option features with the assistance of our internal valuation specialists. For the awarded shares granted, we reviewed the fair value of the shares at the grant date.</p> <p>We recomputed the share-based compensation costs recorded during the year. We also assessed the Group's disclosures about the details of those share option schemes and share award schemes and the relevant assumptions.</p>

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (continued)

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Kwok Yin.

Ernst & Young
Certified Public Accountants
Hong Kong

21 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
REVENUE	5	7,636,743	6,371,406
Cost of revenue		(1,459,742)	(1,157,117)
Gross profit		6,177,001	5,214,289
Research and development costs		(2,552,754)	(2,328,009)
Selling and distribution expenses		(1,242,518)	(1,064,954)
Administrative expenses		(618,956)	(570,016)
Share-based compensation costs	7	(260,794)	(219,151)
Other income	5	395,156	391,203
Other expenses		(28,453)	(62,779)
Other gains/(losses), net	6	(6,499,855)	842,402
Finance income	8	449,005	416,250
Finance costs	9	(157,438)	(142,789)
Share of profits and losses of:			
Joint ventures	20	(19,634)	(31,673)
Associates	21	(1,362,103)	(1,301,645)
PROFIT/(LOSS) BEFORE TAX	7	(5,721,343)	1,143,128
Income tax credit/(expense)	12	380,355	(190,285)
PROFIT/(LOSS) FOR THE YEAR		(5,340,988)	952,843
Attributable to:			
Owners of the parent		(6,048,194)	395,332
Non-controlling interests		707,206	557,511
		(5,340,988)	952,843
		RMB	RMB
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic		(4.43)	0.29
Diluted		(4.45)	0.28

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
PROFIT/(LOSS) FOR THE YEAR	(5,340,988)	952,843
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation into presentation currency	(340,558)	101,521
Reclassification adjustments for disposal of a subsidiary	373	—
Reclassification adjustments for deemed disposal of associates	(592)	22,236
Share of other comprehensive income/(loss) of associates	362,430	(95,844)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	21,653	27,913
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences of the Company on translation into presentation currency	467,097	(154,010)
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value, net of tax	(145)	(2,307)
Share of other comprehensive income of an associate	11,750	40,576
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	478,702	(115,741)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	500,355	(87,828)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(4,840,633)	865,015
Attributable to:		
Owners of the parent	(5,577,877)	315,977
Non-controlling interests	737,244	549,038
	(4,840,633)	865,015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	1,551,294	1,258,503
Investment properties	16	190,911	157,111
Right-of-use assets	17	470,245	488,728
Goodwill	18	185,564	185,564
Other intangible assets	19	109,992	121,859
Investments in joint ventures	20	141,165	146,121
Investments in associates	21	5,347,967	12,130,558
Equity investments designated at fair value through other comprehensive income	22	18,273	8,418
Financial assets at fair value through profit or loss	23	211,353	226,969
Deferred tax assets	33	93,410	124,674
Other non-current assets	24	28,044	35,098
Total non-current assets		8,348,218	14,883,603
CURRENT ASSETS			
Inventories	25	18,335	18,577
Trade receivables	26	860,597	839,268
Prepayments, other receivables and other assets	27	1,331,934	1,691,939
Financial assets at fair value through profit or loss	23	3,125,099	2,902,205
Restricted cash	28	2,456	9,382
Cash and bank deposits	28	18,201,410	16,190,138
Total current assets		23,539,831	21,651,509
CURRENT LIABILITIES			
Trade payables	29	452,672	423,400
Other payables and accruals	30	1,347,722	1,426,585
Lease liabilities	17	100,538	50,804
Contract liabilities	31	2,186,742	2,003,324
Income tax payable		210,903	192,071
Liability component of convertible bonds	32	2,589,698	—
Total current liabilities		6,888,275	4,096,184
NET CURRENT ASSETS		16,651,556	17,555,325
TOTAL ASSETS LESS CURRENT LIABILITIES		24,999,774	32,438,928

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Contract liabilities	31	308,723	143,807
Deferred tax liabilities	33	357,356	1,029,633
Lease liabilities	17	104,962	154,455
Liability component of convertible bonds	32	—	2,248,587
Other non-current liabilities		67,128	63,830
Derivative financial instrument		6,615	6,426
Total non-current liabilities		844,784	3,646,738
Net assets		24,154,990	28,792,190
EQUITY			
Equity attributable to owners of the parent			
Issued capital	34	5,281	5,308
Share premium account	34	2,213,361	2,490,650
Treasury shares	34	(29,059)	(15,259)
Equity component of convertible bonds	32	468,700	468,700
Other reserves	36	16,842,983	21,834,670
		19,501,266	24,784,069
Non-controlling interests		4,653,724	4,008,121
Total equity		24,154,990	28,792,190

Jun LEI
Director

Tao ZOU
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	TREASURY SHARES	EQUITY COMPONENT OF CONVERTIBLE BONDS	STATUTORY RESERVES	SHARE-BASED COMPENSATION RESERVE	OTHER CAPITAL RESERVE	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED PROFITS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	(NOTE 34)	(NOTE 34)	(NOTE 34)	(NOTE 32)	(NOTE 36)	(NOTE 36)	(NOTE 36)						
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	5,316	2,762,242	(11,181)	468,700	443,939	543,532	3,842,751	(8,332)	(105,705)	16,723,297	24,664,559	3,563,351	28,227,910
Profit for the year	—	—	—	—	—	—	—	—	—	395,332	395,332	557,511	952,843
Other comprehensive income/(loss) for the year:													
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	(2,307)	—	—	(2,307)	—	(2,307)
Exchange differences translation into presentation currency	—	—	—	—	—	—	—	—	(44,016)	—	(44,016)	(8,473)	(52,489)
Reclassification adjustments for partial disposal and deemed disposal associates	—	—	—	—	—	—	—	—	22,236	—	22,236	—	22,236
Share of other comprehensive income/(loss) of associates	—	—	—	—	—	—	—	40,576	(95,844)	—	(55,268)	—	(55,268)
Total comprehensive income/(loss) for the year	—	—	—	—	—	—	—	38,269	(117,624)	395,332	315,977	549,038	865,015
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(207,867)	(207,867)
Final 2020 dividend declared	—	(227,736)	—	—	—	—	—	—	—	—	(227,736)	—	(227,736)
Share-based compensation costs (note 35)	—	—	—	—	—	139,276	—	—	—	—	139,276	84,322	223,598
Exercise of share options (note 35)	5	37,905	—	—	—	(13,477)	—	—	—	—	24,433	—	24,433
Vesting and settlement of share-based awards (note 35)	—	18,848	3,291	—	—	(22,139)	—	—	—	—	—	—	—
Exercise and vesting of share-based awards issued by subsidiaries	—	—	—	—	—	(10,156)	5,895	—	—	—	(4,261)	(1,688)	(5,949)
Share of reserves of associates	—	—	—	—	—	—	777	—	—	—	777	—	777
Shares repurchased (note 34)	(13)	(100,609)	(7,369)	—	—	—	—	—	—	—	(107,991)	—	(107,991)
Profit appropriation	—	—	—	—	190,375	—	—	—	—	(190,375)	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(20,965)	—	—	—	(20,965)	20,965	—
At 31 December 2021	5,308	2,490,650	(15,259)	468,700	634,314 [#]	637,036 [#]	3,828,458 [#]	29,937 [#]	(223,329) [#]	16,928,254 [#]	24,784,069	4,008,121	28,792,190
	ATTRIBUTABLE TO OWNERS OF THE PARENT												
	ISSUED CAPITAL	SHARE PREMIUM ACCOUNT	TREASURY SHARES	EQUITY COMPONENT OF CONVERTIBLE BONDS	STATUTORY RESERVES	SHARE-BASED COMPENSATION RESERVE	OTHER CAPITAL RESERVE	FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED PROFITS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	(NOTE 34)	(NOTE 34)	(NOTE 34)	(NOTE 32)	(NOTE 36)	(NOTE 36)	(NOTE 36)						
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	5,308	2,490,650	(15,259)	468,700	634,314	637,036	3,828,458	29,937	(223,329)	16,928,254	24,784,069	4,008,121	28,792,190
Loss for the year	—	—	—	—	—	—	—	—	—	(6,048,194)	(6,048,194)	707,206	(5,340,988)
Other comprehensive income/(loss) for the year:													
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	(145)	—	—	(145)	—	(145)
Exchange differences translation into presentation currency	—	—	—	—	—	—	—	—	96,607	—	96,607	29,932	126,539
Reclassification adjustments for disposal of a subsidiary	—	—	—	—	—	—	—	—	267	—	267	106	373
Reclassification adjustments for deemed disposal of associates	—	—	—	—	—	—	—	—	(592)	—	(592)	—	(592)
Share of other comprehensive income of associates	—	—	—	—	—	—	—	11,750	362,430	—	374,180	—	374,180
Total comprehensive income/(loss) for the year	—	—	—	—	—	—	—	11,605	458,712	(6,048,194)	(5,577,877)	737,244	(4,840,633)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(230,554)	(230,554)
Final 2021 dividend declared (note 13)	—	(139,925)	—	—	—	—	—	—	—	—	(139,925)	—	(139,925)
Share-based compensation costs (note 35)	—	—	—	—	—	172,328	—	—	—	—	172,328	91,075	263,403
Vesting and settlement of share-based awards (note 35)	—	11,012	1,948	—	—	(12,960)	—	—	—	—	—	—	—
Exercise and vesting of share-based awards issued by subsidiaries	—	—	—	—	—	(54,735)	56,293	—	—	—	1,558	3,510	5,068
Share of reserves of associates	—	—	—	—	—	—	432,213	—	—	—	432,213	—	432,213
Shares repurchased for share award scheme (note 34)	—	—	(23,117)	—	—	—	—	—	—	—	(23,117)	—	(23,117)
Shares repurchased and cancelled (note 34)	(27)	(148,376)	7,369	—	—	—	—	—	—	—	(141,034)	—	(141,034)
Profit appropriation	—	—	—	—	217,158	—	—	—	—	(217,158)	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(6,949)	—	—	—	(6,949)	56,949	50,000
Partial disposal of a subsidiary (note 39)	—	—	—	—	(6,000)	—	—	—	—	6,000	—	(12,621)	(12,621)
At 31 December 2022	5,281	2,213,361	(29,059)	468,700	845,472 [#]	741,669 [#]	4,310,015 [#]	41,542 [#]	235,383 [#]	10,668,902 [#]	19,501,266	4,653,724	24,154,990

[#] These reserve accounts comprise the consolidated other reserves of RMB16,842,983,000 (2021: RMB21,834,670,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(5,721,343)	1,143,128
Adjustments for:			
Gain on disposal of items of property, plant and equipment	7	(42)	(231)
Gain on disposal of items of other intangible assets	7	(9,338)	—
Depreciation of property, plant and equipment and investment properties	7	163,627	128,530
Depreciation of right-of-use assets	7	73,750	56,460
Amortisation of other intangible assets	7	35,417	27,445
Finance costs	9	157,438	142,789
Finance income	8	(449,005)	(416,250)
Fair value gains on financial instruments at fair value through profit or loss, net	6	(94,808)	(121,153)
Gain on disposal of subsidiaries	39	(23,698)	—
Loss on disposal of an joint venture	6	4,892	—
Gain on disposal of an associate	6	—	(51,048)
Loss on partial disposal of a subsidiary	6	126	—
Gain on a partial disposal of an associate	6	—	(3,276)
Gain on deemed disposal of joint ventures	6	(2,570)	(9,856)
(Gain)/loss on deemed disposal of associates	6	1,691	(628,586)
Share-based compensation costs		260,794	219,151
Share of losses of joint ventures		19,634	31,673
Share of losses of associates		1,362,103	1,301,645
Foreign exchange differences, net	6	54,603	(32,522)
Impairment of trade and other receivables	7	25,468	46,324
Impairment of loans to a joint venture	6	8,636	—
Impairment of loan receivables	6	16,955	—
Recovery of consideration payable	6	(12,200)	—
Impairment of consideration on disposal of an associate	6	20,000	—
Impairment of investments in associates	6	6,526,228	—
Compensation to a shareholder of a joint venture	6	—	4,039
		2,418,358	1,838,262
Decrease/(increase) in trade receivables		438	(100,739)
Decrease/(increase) in prepayments, other receivables and other assets		45,283	(66,851)
(Increase)/decrease in inventories		(68)	505
Decrease/(increase) in other non-current assets		4,690	(7,129)
Increase in trade payables		26,508	135,361
Increase in contract liabilities		349,195	554,220
(Decrease)/increase in other payables and accruals		(102,587)	118,125
Decrease in other non-current liabilities		(1,250)	(32,348)
Cash generated from operations		2,740,567	2,439,406
Interest received		74,778	81,879
Income tax paid		(241,826)	(301,187)
Net cash flows from operating activities		2,573,519	2,220,098

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		255,147	251,063
Purchases of items of property, plant and equipment and investment properties		(482,137)	(288,648)
Purchases of other intangible assets		(26,521)	(13,829)
Purchases of leasehold lands		—	(1,284)
Increase/(decrease) in deposits with original maturity of over three months when acquired, net		4,623,303	(2,084,392)
(Purchase)/redemption of financial assets at fair value through profit or loss		(133,679)	1,159,453
Purchase of an equity investment designated at fair value through other comprehensive income		(10,000)	—
Disposal of property, plant and equipment		751	752
Dividends received from a joint venture		—	13,000
Investments in joint ventures		(13,000)	(12,300)
Investments in associates		(285,670)	(97,946)
Decrease/(increase) in other loans		474,104	(524,442)
Acquisition of a business	38	—	(60,000)
Disposal of subsidiaries	39	9,180	—
Partial disposal of a subsidiary	39	(26,842)	—
Dividends received from an associate		27,045	—
Proceeds from disposal of other intangible assets		9,908	—
Proceeds from disposal of associates		—	53,275
Net cash flows from/(used in) investing activities		4,421,589	(1,605,298)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Changes in the ownership interests in subsidiaries		50,000	—
Issuance of preferred shares of a subsidiary		—	50,000
Proceeds from exercise of share options		—	24,433
Proceeds from exercise of share options issued by a subsidiary		9,871	—
Cash settlement of share options and share awards issued by a subsidiary		(4,802)	(5,949)
Repurchase of shares		(164,151)	(107,991)
Principal portion of lease payments		(49,782)	(27,508)
Dividends paid to owners of the parent	13	(139,925)	(227,736)
Dividends paid to non-controlling interests		(295,156)	(172,643)
Interest paid		(25,096)	(25,003)
Decrease in restricted cash		—	12,792
Net cash flows used in financing activities		(619,041)	(479,605)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		6,376,067	135,195
Cash and cash equivalents at beginning of year		4,553,428	4,455,271
Effect of foreign exchange rate changes, net		89,387	(37,038)
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		11,018,882	4,553,428
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	9,050,156	1,816,922
Deposits with original maturity of less than three months when acquired	28	1,968,726	2,736,506
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS			
	28	11,018,882	4,553,428

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2022

1. CORPORATE AND GROUP INFORMATION

Kingsoft Corporation Limited (the “Company”) was incorporated under the Companies Act of the British Virgin Islands on 20 March 1998. On 15 November 2005, the Company was redomiciled to the Cayman Islands under the Company Law (2004 revision) of the Cayman Islands. The registered office of the Company is located at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company’s shares have been listed on the Stock Exchange of Hong Kong Limited (“Stock Exchange”) since 9 October 2007.

The principal place of business of the Company is located at Building D, Xiaomi Campus, No. 33 Xierqi Middle Road, Haidian District, Beijing, the People’s Republic of China (“PRC”).

During the year, the Company and its subsidiaries (together, the “Group”) were involved in the following principal activities:

- design, research and development and sales and marketing of office software products and services of WPS Office; and
- research and development of games, and provision of PC games and mobile games services.

Information about subsidiaries and structured entities

Particulars of the Company’s principal subsidiaries and structured entities held by the Group as at 31 December 2022 are as follows:

NAME	PLACE OF INCORPORATION/REGISTRATION AND OPERATIONS	ISSUED ORDINARY/REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY		PRINCIPAL ACTIVITIES
			DIRECT	INDIRECT	
Kingsoft Entertainment Software Holdings Limited (“KES Holdings”)	Cayman Islands	US\$1	100	—	Investment holding
Seasun Holdings Limited (“Seasun Holdings”)	Cayman Islands	US\$3,469,269	—	72	Investment holding
Kingsoft Shiyou Holdings Limited (“Shiyou Holdings”)	Cayman Islands	US\$500,000	—	80	Investment holding
Kingsoft Entertainment Software Corporation Limited	Hong Kong	HK\$10,000,000	—	100	Investment holding, and operation and distribution of games
Seasun Games Corporation Limited	Hong Kong	HK\$18,600,000	—	72	Investment holding and provision of game services
Kingame Corporation Limited	Hong Kong	HK\$1	—	80	Investment holding and provision of game services
Chengdu Kingsoft Interactive Entertainment Co., Ltd. (i)(ii)	Chinese Mainland	RMB2,600,000,000	—	100	Research and development of games
Beijing Kingsoft Qijian Digital Technology Co., Ltd. (i)(iv)	Chinese Mainland	RMB1,500,000	—	100	Marketing and operation of SMS and wireless service of online games and application software
Chengdu Kingsoft Digital Entertainment Technology Co., Ltd. (i)(iv)	Chinese Mainland	RMB110,000,000	—	100	Marketing and operation of entertainment software products
Chengdu Westhouse Interactive Entertainment Co., Ltd. (i)(ii)	Chinese Mainland	RMB15,000,000	—	72	Research and development of games
Zhuhai Seasun Shiyou Technology Co., Ltd. (i)(iv)	Chinese Mainland	RMB10,000,000	—	72	Marketing and operation of entertainment software products

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries and structured entities (continued)

Particulars of the Company's principal subsidiaries and structured entities held by the Group as at 31 December 2022 are as follows: (continued)

NAME	PLACE OF INCORPORATION/REGISTRATION AND OPERATIONS	ISSUED ORDINARY/REGISTERED SHARE CAPITAL	PERCENTAGE OF EQUITY ATTRIBUTABLE TO THE COMPANY		PRINCIPAL ACTIVITIES
			DIRECT	INDIRECT	
Chengdu Seasun Shiyou Technology Co., Ltd. (i)(iv)	Chinese Mainland	RMB10,000,000	—	72	Marketing and operation of entertainment software products
Zhuhai Kingsoft Digital Network Technology Co., Ltd. (i)(iii)	Chinese Mainland	RMB10,000,000	—	72	Research and development of online games
Kingsoft Shiyou (Wuhan) Network Technology Co., Ltd. (i)(ii)	Chinese Mainland	RMB300,000,000	—	80	Research and development of online games
Wuhan Jufang Technology Co., Ltd. (i)(iv)	Chinese Mainland	RMB1,000,000	—	80	Research and development of online games
Chengdu Kingsoft Shiyou Jufang Technology Co., Ltd. (i)(iv)	Chinese Mainland	RMB1,000,000	—	80	Marketing and operation of entertainment software products
Wuhan Seasun Shiyou Technology Co., Ltd. (i)(iv)	Chinese Mainland	RMB10,000,000	—	72	Marketing and operation of entertainment software products
Zhuhai Kingsoft Shiyou Technology Co., Ltd. (i)(iv)	Chinese Mainland	RMB1,000,000	—	80	Marketing and operation of entertainment software products
Zhuhai Kingsoft Software Co., Ltd. (i)(iii)	Chinese Mainland	RMB215,500,000	—	100	Research, development and distribution of consumer application software
Beijing Kingsoft Office Software Co., Ltd. ("Beijing Kingsoft Office") (i)(iii)	Chinese Mainland	RMB461,221,529	—	53	Sale and operation of office application software
Zhuhai Kingsoft Office Software Co., Ltd. (i)(iii)	Chinese Mainland	RMB1,623,260,000	—	53	Sale and operation of office application software
Wuhan Kingsoft Office Software Co., Ltd. (i)(iii)	Chinese Mainland	RMB650,000,000	—	53	Sale and operation of office application software
Beijing Shuke Wangwei Technology Co., Ltd. ("Shuke") (i)(iii)	Chinese Mainland	RMB34,928,865	—	37	Sale and operation of office application software
Wuhan Kingsoft Software Co., Ltd. (i)(iii)	Chinese Mainland	RMB1,000,000,000	—	100	Marketing and operation of entertainment software products

- (i) The English names of these companies represent the best efforts by the management of the Company in directly translating the Chinese names of these companies, as no English names have been registered.
- (ii) These companies are registered as wholly-foreign-owned enterprises under PRC law.
- (iii) These companies are registered as limited liability enterprises under PRC law, except for Beijing Kingsoft Office which is registered as a joint stock limited enterprise under PRC law.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries and structured entities (continued)

Particulars of the Company's principal subsidiaries and structured entities held by the Group as at 31 December 2022 are as follows: (continued)

- (iv) The Company does not have legal ownership in the equity of these entities. However, under certain contractual agreements (including power of attorney agreement, loan agreement, equity option agreement, equity interest pledge agreement and exclusive technical consulting and service agreement) entered into with the registered owners of these entities, the Company and its other legally owned subsidiaries control these entities by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these entities to the Company and/or its other legally owned subsidiaries. As a result, these entities are treated as subsidiaries of the Company and their financial statements have been consolidated by the Company.

The above table lists the subsidiaries and structured entities of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, equity investments and certain other financial assets which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

The Company and certain subsidiaries have set up trusts or entities for the purpose of purchasing, administering and holding their shares for the share award scheme adopted. The Group has the power to govern the financial and operating policies of these trusts or entities and derive benefits from the services of the employees who have been awarded the shares through their continued employment with the Group. The assets and liabilities of these trusts or entities are included in consolidated statement of financial position.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRSs 2018–2020</i>	Amendments to IFRS 1, IFRS 9 and IAS 41

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories* in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to IFRSs 2018–2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:
- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*³

Amendments to IFRS 16 *Lease liability in a Sale and Leaseback*²

IFRS 17 *Insurance Contracts*¹

Amendments to IFRS 17 *Insurance Contracts*^{1, 4}

Amendment to IFRS 17 *Initial Application of IFRS 17 and IFRS 9 — Comparative Information*⁵

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current (the "2020 Amendments")*²

Amendments to IAS 1 *Non-current Liabilities with Covenants (the "2022 Amendments")*²

Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies*¹

Amendments to IAS 8 *Definition of Accounting Estimates*¹

Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2024

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

⁵ An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise deferred tax for all temporary differences related to leases at the beginning of the earliest comparative period presented. The Group is performing detailed assessments on the impact of amendments to IAS 12. The Group has estimated that it will recognise a deferred tax asset for deductible temporary differences associated with lease liabilities and a deferred tax liability for taxable temporary differences associated with right-of-use assets, and will recognise the cumulative effect of initially applying the amendments as an adjustment to retained profits at 1 January 2022.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments, and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives used for this purpose are as follows:

Buildings	Over the lease terms of related leasehold lands
Electronic equipment	2 to 4 years
Office equipment and fixtures	3 to 5 years
Motor vehicles	4 to 5 years
Leasehold improvements	Over the shorter of the expected life of the leasehold improvements and the lease terms

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each investment property to its residual value over its estimated useful life. The estimated useful lives are as follows:

Leasehold lands	Over the lease term
Buildings	Over the lease term of the leasehold land

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Purchased software, technology, trademark, non-compete agreements and customer relationship

Purchased software, technology, trademark, non-compete agreements and customer relationship are stated at cost less any impairment losses and are amortised on the straight-line basis over the estimated economic lives of 1 to 10 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

At inception or on reassessment of a contract that contains a lease component and non-lease component(s), the Group adopts the practical expedient not to separate non-lease component(s) and to account for the lease component and the associated non-lease component(s) (e.g., property management services for leases of properties) as a single lease component.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold lands	Over lease terms
Buildings	1 to 6 years
Equipment	5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are separately presented in the Group's consolidated statement of financial position.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of properties and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

The Group considers a financial asset in default when contractual payments are 180 days past due. The Group has rebutted the 90 days past due presumption of default based on reasonable and supportable information, including the Group's credit risk control practices and the historical recovery rate of financial assets over 90 days past due. However, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or as payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments, interest-bearing bank loans, lease liabilities and the liability component of convertible bonds.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost

After initial recognition, lease liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and comprises materials and production costs related to the purchase and production of inventories. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank deposits comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event, and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction of the related expense when the expense is incurred.

Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Office software and services

The Group is engaged in design, research and development, and sales and marketing of the office software products and services of WPS Office.

Sales of application software

Revenue from the sales of application software is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the application software.

Some contracts for the sales of application software require the Group to provide when-and-if-available upgrades, technical support and training to the customers. Contracts which bundled sales of application software and after-sale services are comprised of two performance obligations because the promises to transfer the application software and provide after-sale services are distinct and separately identifiable. Accordingly, the revenue from the sales of application software is recognised upon the control of the software is transferred and the revenue in relation to services associated with the software is amortised over the period that the services are provided.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Office software and services (continued)

WPS Office Subscription service

The Group provides WPS Office subscription service, including WPS membership, Docer membership and various virtual products and services to individual and enterprise users.

The Group provides different types of memberships of office application software, which enables subscription users to access to various products and functions during the membership validity period. The performance obligation of the subscription service is satisfied over the period in which the subscription services are provided, and payment is generally in advance. Revenue is recognised over the subscription period.

The Group provides various kinds of virtual products and services, such as resume templates and paper check service, at a fix price. Payment is generally in advance. Revenue is recognised and the performance obligation is satisfied at the point in time when the virtual products are available for use by the customers or service is provided to customers.

Online marketing service

The Group provides marketing services primarily through display of impressions or clicks of the advertisement/ embedded hyperlinks on particular areas of the Group's websites or software. The service fee from customers is charged primarily on the basis of per click, per thousand impressions or per sales. Revenue is recognised over time as services are rendered.

(b) Services rendered in online games and mobile games

The Group engages in development and operation of online games and mobile games. Revenue from services in online games and mobile games is recognised upon services are rendered to players. The Group offers subscription service and virtual items to players. The service fee is paid directly by end players mainly via online payment channels or distributors.

The Group operates certain of its games through cooperation with third-party game distribution platforms under certain co-operation agreements. The Group is responsible for providing ongoing updates of new contents and technical support for the operation of the games. The third-party game distribution platforms are responsible for distribution, marketing, platform maintenance and payment collections. The third-party game distribution platforms collect the payment from players and remit the net proceeds, after deducting the commission charged, to the Group. In general, the portion of the proceeds received by the Group is calculated based on the standard price of in-game virtual currency sold and the agreed sharing ratios in the contracts signed with third-party game distribution platforms. As some third-party game distribution platforms offer various marketing discounts from time to time to players to encourage spending, the actual prices paid by players may be lower than the standard prices of in-game virtual currency. Such marketing discount information is not available to be tracked reliably, as such, the Group is not able to make a reasonable estimate of the gross amount received. In this case, the net amount received from these third-party game distribution platforms is recognised as contract liabilities. For other third-party game distribution platforms which do not offer discounts, gross amount before deduction of commission charged is recognised as contract liabilities, and the relevant commission is recognised as cost of revenue.

Certain of the Group's games were licensed from game developers and published and operated by the Group in defined regions and/or countries or within a specific period. The Group has evaluated the respective roles and responsibilities of the Group and the game developers in the delivery of game experience to players and concluded that the Group have the primary responsibility in these licensing arrangements as the Group are responsible for marketing and promotion of the games in the market, hosting the game servers, determining the price of the in-game virtual items, selection of distribution and payment channels and providing customer services.

The Group recognises revenue under different revenue streams described below.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(b) Services rendered in online games and mobile games (continued)

Subscription services in online games

Several online games of the Group are not free to play. The Group applies a pay-to-play subscription-based model, in which the players pay for a pre-specified length of game playing time within a specified period of time, revenue is recognised based on the actual game playing time by the players or amortised over the pre-determined period because the players simultaneously receives and consumes the benefits provided by the Group.

Sales of in-game virtual items

Some online games and all mobile games of the Group are free to play. Players can purchase game cards or online points and convert them into various in-game virtual items for better in-game experience. Given there is obligation to maintain the in-game virtual items and allow users to gain access and experience from them, revenue is recognised when services are rendered.

- Consumable items represent in-game virtual items that can be consumed by player actions or expire over a predetermined expiration time. The Group keeps track of the consumption or expiration of all the consumable items in the game. Revenue is recognised based on consumption, expiration period, or player life, where applicable, in accordance with the type and term of relevant virtual items as determined by management.
- Permanent items represent in-game virtual items that are accessible by the players as long as they play the game. The Group will provide continuous services in connection with these permanent items until these items are no longer used by the players. Revenues is recognised over player life as determined by management.

Licensing fees

The Group also derives revenue from licensing games to third-party publishing partners, who operate the Group's games in defined regions and/or countries or within a specific period.

The Group has evaluated the respective roles and responsibilities of the Group and the third-party game publishers in the delivery of game experience to players and concluded that the third-party game publishers have the primary responsibility in these licensing arrangements as they are responsible for marketing and promotion of the games in the market, hosting the game servers, determining the price of the in-game virtual items, selection of distribution and payment channels and providing customer services. Accordingly, the Group records licensing fees, which are calculated based on a pre-determined percentage of the proceeds received by game publishers from players, on a net basis.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

Contract liabilities represent cash received or receivables (whichever is earlier) from the subscription of software and related service and payment for online and mobile games in advance of services being rendered. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Group operates several share option schemes and share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model for share options and based on the market value for awarded shares. Further details of the fair values of share options and awarded shares are given in note 35 to the financial statements.

The cost of equity-settled transactions is recognised in share-based compensation costs, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Defined contribution plan for PRC employees

Full-time employees of the Group's subsidiaries which operate in Chinese Mainland are required to participate in a defined contribution scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the defined contribution scheme which covers pension, medical care, unemployment insurance, employee housing fund and other welfare. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the defined contribution scheme. The Group has no legal obligation for the benefits beyond the contributions made.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 13 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. The functional currency of the Company is HK\$. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and certain overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and certain overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Accounting for companies governed under contractual arrangements as subsidiaries

The Company and some of its subsidiaries do not hold any equity interests in certain of their subsidiaries. Nevertheless, under the contractual agreements entered into between the Group and the shareholders who are the registered owners of those subsidiaries, the directors of the Company determine that the Group has the power to govern the financial and operating policies of those subsidiaries so as to obtain benefits from their activities. As such, those subsidiaries are accounted for as subsidiaries of the Group for accounting purposes.

The Group's revenue generated from the entities which are controlled by the Group through the contractual agreements described above amounted to approximately RMB3,269,977,000 (2021: RMB2,650,616,000) for the year ended 31 December 2022. At 31 December 2022, the Group's net assets held by these entities amounted to approximately RMB1,909,920,000 (2021: RMB1,798,694,000).

Classification between cash and cash equivalents and financial assets at fair value through profit or loss for wealth management products

The Group invests in principal protected structured deposits/wealth management products issued by reputable banks in Chinese Mainland amounting to RMB3,106,539,000 (2021: RMB10,628,061,000) in aggregate as at 31 December 2022.

In order for a financial asset to be classified as cash equivalent and measured at amortised cost, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The directors of the Company determine that the Group's structured deposits/wealth management products which have contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that is unrelated to the principal amount, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI on the principal amount outstanding.

As at 31 December 2022, the directors of the Company determined that the amount of structured deposits/wealth management products classified as cash equivalents and financial assets at fair value through profit or loss amounting to nil (2021: RMB7,757,138,000) and RMB3,106,539,000 (2021: RMB2,870,923,000), respectively.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Fair value of financial assets at fair value through profit or loss

The Group held financial assets at fair value through profit or loss amounting to RMB3,336,452,000 (2021: RMB3,129,174,000) as at 31 December 2022. The wealth management products amounting to RMB3,106,539,000 (2021: RMB2,870,923,000) have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk volatility and discount rates and hence they are subject to uncertainty. Fair value of certain of financial instruments is determined using valuation model with the assistance of the external valuer engaged by the Group. Management makes estimates and assumptions about factors, such as the risk-free rate and, expected volatility as the parameters for applying the valuation. Further details are included in note 44 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2022 was RMB3,498,000 (2021: RMB24,017,000). The amount of unrecognised tax losses at 31 December 2022 was RMB2,487,514,000 (2021: RMB1,671,456,000). Further details are included in note 33 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2022 was RMB185,564,000 (2021: RMB185,564,000). Further details are given in note 18.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the investments in associates and right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type and customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables (continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 26 to the financial statements.

Useful lives of virtual items provided in the Group's online games and mobile games

The players purchase in-game virtual items provided in the Group's online games and mobile games, which include items consumed at a single point in time, over a pre-specified period or throughout the whole game life. Revenue is recognised over the estimated lives of the virtual items or the users, where appropriate, which are determined on the basis of the Group's best estimate that takes into account all known, available and relevant information at the time of assessment. The Group estimates the lives of the in-game virtual items and the users on a game-by-game basis and re-assesses periodically. Future usage patterns may differ from the historical usage patterns on which the revenue recognition is based. The Group monitors the operating strategy and business patterns of the online games and mobile games. Any adjustments arising from changes in the lives of the virtual items and the users as a result of updated information will be accounted for prospectively as a change in accounting estimate.

Recognition of share-based compensation costs

The Company and some of its subsidiaries adopted their own share award schemes and/or share option schemes. The fair values of the awarded shares and options granted during the year ended 31 December 2022 were valued by external valuers based on valuation model. The valuation requires the Group to make estimates about the dividend yield, expected volatility, risk-free interest rate, expected forfeiture rate and weighted average share price, and hence it is subject to uncertainty. The fair value of these awarded shares and options granted during the year ended 31 December 2022 was approximately RMB319,840,000 (2021: RMB495,073,000). The share-based compensation costs recognised during the year ended 31 December 2022 amounted to RMB260,794,000 (2021: RMB219,151,000).

The grant of awarded shares and share options is conditional upon the satisfaction of specified vesting conditions, including the service period. Judgement is required to take into account the vesting conditions and adjust the number of awarded shares and share options included in the measurement of share-based compensation costs.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) the office software and services segment engages in the design, research and development, and sales and marketing of the office software products and services of WPS Office; and
- (b) the entertainment software and others segment engages in the research and development of games, and the provision of PC games and mobile games services.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

4. OPERATING SEGMENT INFORMATION (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that net other gains/(losses), finance income, non-lease-related finance costs as well as share of profits and losses of joint ventures and associates are excluded from such measurement.

YEAR ENDED 31 DECEMBER 2022	OFFICE SOFTWARE AND SERVICES RMB'000	ENTERTAINMENT SOFTWARE AND OTHERS RMB'000	TOTAL RMB'000
SEGMENT REVENUE (note 5):			
Sales	3,890,588	3,746,155	7,636,743
SEGMENT RESULTS	927,049	933,176	1,860,225
<i>Reconciliation:</i>			
Other losses, net			(6,499,855)
Finance income			449,005
Finance costs (other than interest on lease liabilities)			(148,981)
Share of profits and losses of:			
Joint ventures			(19,634)
Associates			(1,362,103)
Loss before tax			(5,721,343)
OTHER SEGMENT INFORMATION:			
Impairment losses recognised in the statement of profit or loss	(35,699)	(6,541,588)	(6,577,287)
Depreciation and amortisation	(107,977)	(164,817)	(272,794)
Capital expenditure*	(192,090)	(323,031)	(515,121)

* Capital expenditure consists of additions to property, plant and equipment, investment properties and other intangible assets.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

4. OPERATING SEGMENT INFORMATION (continued)

YEAR ENDED 31 DECEMBER 2021	OFFICE SOFTWARE AND SERVICES RMB'000	ENTERTAINMENT SOFTWARE AND OTHERS RMB'000	TOTAL RMB'000
SEGMENT REVENUE (note 5):			
Sales	3,264,794	3,106,612	6,371,406
SEGMENT RESULTS	896,850	454,803	1,351,653
<i>Reconciliation:</i>			
Other gains, net			842,402
Finance income			416,250
Finance costs (other than interest on lease liabilities)			(133,859)
Share of profits and losses of:			
Joint ventures			(31,673)
Associates			(1,301,645)
Profit before tax			<u>1,143,128</u>
OTHER SEGMENT INFORMATION:			
Impairment losses recognised in the statement of profit or loss	(4,962)	(41,362)	(46,324)
Depreciation and amortisation	(86,342)	(126,093)	(212,435)
Capital expenditure*	(150,683)	(259,369)	(410,052)

* Capital expenditure consists of additions to property, plant and equipment, leasehold lands and other intangible assets, including assets from the business combination.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers:

	2022 RMB'000	2021 RMB'000
Chinese Mainland	7,202,630	5,987,976
Hong Kong	384,882	343,522
Other countries/regions	49,231	39,908
Total	7,636,743	6,371,406

The revenue information above is based on the locations of the Group's operations.

(b) Non-current assets:

	2022 RMB'000	2021 RMB'000
China	2,533,847	2,236,312
Other countries/regions	2,203	3,266
Total	2,536,050	2,239,578

The non-current asset information above is based on the locations of the assets and excludes financial instruments, deferred tax assets and investments in associates and joint ventures.

Information about major customers

There was no revenue from transaction with a single customer which amounted to 10% or more of the Group's revenue during the years ended 31 December 2022 and 31 December 2021.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

5. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	7,603,290	6,342,766
Revenue from other sources		
Gross rental income from investment property operating leases:		
Lease payments, including fixed payments	33,453	28,640
	7,636,743	6,371,406

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2022

SEGMENTS	OFFICE SOFTWARE AND SERVICES RMB'000	ENTERTAINMENT SOFTWARE AND OTHERS RMB'000	TOTAL RMB'000
TYPES OF GOODS OR SERVICES			
Sale and subscription of software and related services	3,701,441	—	3,701,441
Game services	—	3,155,531	3,155,531
Online marketing services	188,493	—	188,493
Royalties	—	464,167	464,167
Others	142	93,516	93,658
Total revenue from contracts with customers	3,890,076	3,713,214	7,603,290
GEOGRAPHICAL MARKETS			
Chinese Mainland	3,766,788	3,402,389	7,169,177
Hong Kong	79,067	305,815	384,882
Other countries/regions	44,221	5,010	49,231
Total revenue from contracts with customers	3,890,076	3,713,214	7,603,290
TIMING OF REVENUE RECOGNITION			
Goods or services transferred at a point in time	1,499,969	333,535	1,833,504
Services transferred over time	2,390,107	3,379,679	5,769,786
Total revenue from contracts with customers	3,890,076	3,713,214	7,603,290

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

5. REVENUE AND OTHER INCOME (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

For the year ended 31 December 2021

SEGMENTS	OFFICE SOFTWARE AND SERVICES RMB'000	ENTERTAINMENT SOFTWARE AND OTHERS RMB'000	TOTAL RMB'000
TYPES OF GOODS OR SERVICES			
Sale and subscription of software and related services	2,956,355	—	2,956,355
Game services	—	2,515,044	2,515,044
Online marketing services	308,006	—	308,006
Royalties	—	478,647	478,647
Others	—	84,714	84,714
Total revenue from contracts with customers	3,264,361	3,078,405	6,342,766
GEOGRAPHICAL MARKETS			
Chinese Mainland	3,161,425	2,797,911	5,959,336
Hong Kong	69,158	274,364	343,522
Other countries/regions	33,778	6,130	39,908
Total revenue from contracts with customers	3,264,361	3,078,405	6,342,766
TIMING OF REVENUE RECOGNITION			
Goods or services transferred at a point in time	1,426,094	110,890	1,536,984
Services transferred over time	1,838,267	2,967,515	4,805,782
Total revenue from contracts with customers	3,264,361	3,078,405	6,342,766

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

5. REVENUE AND OTHER INCOME (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

For the year ended 31 December 2022

SEGMENTS	OFFICE SOFTWARE AND SERVICES RMB'000	ENTERTAINMENT SOFTWARE AND OTHERS RMB'000	TOTAL RMB'000
REVENUE FROM CONTRACTS WITH CUSTOMERS	3,890,076	3,713,214	7,603,290

For the year ended 31 December 2021

SEGMENTS	OFFICE SOFTWARE AND SERVICES RMB'000	ENTERTAINMENT SOFTWARE AND OTHERS RMB'000	TOTAL RMB'000
REVENUE FROM CONTRACTS WITH CUSTOMERS	3,264,361	3,078,405	6,342,766

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Software related services	1,473,473	874,257
Game services	471,548	529,772
Royalties	25,992	18,559
Others	2,390	2,978
	1,973,403	1,425,566

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

5. REVENUE AND OTHER INCOME (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sales of application software

The performance obligation for the sales of application software is satisfied upon delivery of the application software and payment is generally due within 30 to 90 days from invoice date, except for certain customers, where payment in advance may be required. The performance obligation associated with the sales of application software is satisfied at the point in time when the products are delivered.

WPS Office subscription service

The performance obligation for membership service is satisfied over time as services are rendered. The performance obligations for the sales of virtual products/services are satisfied at the point in time when the products are available for use or services are rendered. The payment in advance is normally required.

Online marketing service

The performance obligation for online marketing service is satisfied over time as services are rendered. The payments are generally due in 30 to 60 days.

Game services and royalties

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 to 90 days from the date of billing, except for individual customers and certain agents, where payment in advance is required.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2022	2021
	RMB'000	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	2,186,742	1,985,682
After one year	308,723	161,449
	2,495,465	2,147,131

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to royalties and WPS Office subscription service, of which the performance obligations are to be satisfied within membership periods stated in the contracts. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

5. REVENUE AND OTHER INCOME (continued)

Other income

	2022 RMB'000	2021 RMB'000
Government grants*	372,006	382,188
Others	23,150	9,015
	395,156	391,203

* There are no unfulfilled conditions or contingencies relating to these government grants.

6. OTHER GAINS/(LOSSES), NET

	NOTES	2022 RMB'000	2021 RMB'000
Gain on disposal of an associate		—	51,048
Gain/(loss) on deemed disposal of associates		(1,691)	628,586
Gain on deemed disposal of joint ventures		2,570	9,856
Gain on a partial disposal of an associate		—	3,276
Gain on disposal of subsidiaries	39	23,698	—
Loss on partial disposal of a subsidiary	39	(126)	—
Loss on disposal of a joint venture		(4,892)	—
Impairment of investments in associates	21	(6,526,228)	—
Impairment of loans to a joint venture	42(b)(ii)	(8,636)	—
Impairment of loan receivables		(16,955)	—
Foreign exchange differences, net		(54,603)	32,522
Fair value gains on financial instruments at fair value through profit or loss, net		94,808	121,153
Others		(7,800)	(4,039)
		(6,499,855)	842,402

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	NOTE	2022 RMB'000	2021 RMB'000
Employee benefit expenses (including directors' remuneration (note 10)):			
Wages and salaries		2,624,130	2,257,246
Social insurance costs and staff welfare		367,743	332,942
Share-based compensation costs		260,794	219,151
Pension plan contributions*		234,072	194,351
		3,486,739	3,003,690
Gain on disposal of items of property, plant and equipment		(42)	(231)
Gain on disposal of items of other intangible assets		(9,338)	—
Lease payments not included in the measurement of lease liabilities		19,487	26,308
Cost of inventories sold		4,397	2,128
Cost of services provided		1,183,227	920,592
Depreciation of property, plant and equipment	(a)	154,267	126,997
Depreciation of investment properties	(a)	9,360	1,533
Depreciation of right-of-use assets	(a)	73,750	56,460
Amortisation of other intangible assets	(a)	35,417	27,445
Impairment of trade and other receivables**		25,468	46,324
Donations**		1,391	10,018
Auditor's remuneration		6,900	7,000

* At 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2021: nil).

** These amounts are included in "other expenses" on the consolidated statement of profit or loss.

Note:

(a) Depreciation/amortisation of property, plant and equipment, investment properties, right-of-use assets, and other intangible assets:

	2022 RMB'000	2021 RMB'000
Included in:		
Cost of revenue	41,613	49,763
Research and development costs	91,508	63,695
Selling and distribution expenses	18,344	14,564
Administrative expenses	121,329	84,413
	272,794	212,435

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

8. FINANCE INCOME

An analysis of finance income is as follows:

	NOTE	2022 RMB'000	2021 RMB'000
Finance income from banks*		429,888	411,761
Interest income from loans to related parties	42(a)	19,117	4,489
		449,005	416,250

* This amount includes finance income recognised for cash and bank deposits and wealth management products issued by banks.

9. FINANCE COSTS

An analysis of finance costs is as follows:

	NOTES	2022 RMB'000	2021 RMB'000
Interest on convertible bonds	32	144,433	132,441
Interest on other non-current liabilities		4,548	1,418
Interest on lease liabilities	17(c)	8,457	8,930
		157,438	142,789

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2022 RMB'000	2021 RMB'000
Fees	1,311	1,215
Other emoluments:		
Salaries, allowances and benefits in kind	3,620	5,078
Discretionary bonuses	420	1,500
Pension scheme contributions	38	28
Share-based compensation	44,287	42,547
	48,365	49,153
	49,676	50,368

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2022 RMB'000	2021 RMB'000
Shun Tak Wong	437	405
David Yuen Kwan Tang	437	405
Wenjie Wu	437	405
	1,311	1,215

There were no other emoluments payable to the independent non-executive directors during the year (2021: nil).

(b) Executive directors, non-executive directors and the chief executive

	2022			
	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS IN KIND RMB'000	DISCRETIONARY BONUSES RMB'000	PENSION SCHEME CONTRIBUTIONS RMB'000
Executive directors:				
Tao Zou	—	1,642	420	38
Yuk Keung Ng ¹	—	1,119	—	—
Non-executive directors:				
Pak Kwan Kau	—	437	—	—
Jun Lei	—	422	—	—
Chi Ping Lau ^{2,3}	—	—	—	—
Lei Wen Yao ²	—	—	—	—
	—	3,620	420	38

- 1 On 25 May 2022, Mr. Yuk Keung Ng retired from the positions of executive director of the Company due to the expiration of his tenure.
- 2 On 23 August 2022, Mr. Chi Ping Lau resigned as the non-executive director of the Company and on the same day, Mr. Lei Wen Yao was appointed as the non-executive director of the Company.
- 3 Mr. Chi Ping Lau agreed to waive his remuneration for the year ended 31 December 2022.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive directors and the chief executive (continued)

	2021			
	FEES RMB'000	SALARIES, ALLOWANCES AND BENEFITS	DISCRETIONARY	PENSION SCHEME
		IN KIND	BONUSES	CONTRIBUTIONS
		RMB'000	RMB'000	RMB'000
Executive directors:				
Tao Zou	—	2,170	1,500	19
Yuk Keung Ng	—	2,195	—	—
Non-executive directors:				
Pak Kwan Kau	—	405	—	—
Jun Lei	—	308	—	9
Chi Ping Lau ¹	—	—	—	—
	—	5,078	1,500	28

1 Mr. Chi Ping Lau agreed to waive his remuneration for the year ended 31 December 2021.

During the year and prior years, certain directors were granted share options and awarded shares, in respect of their services to the Group, further details of which are set out in note 35 to the financial statements. The fair value of such share options and awarded shares, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant. During the year ended 31 December 2022, share-based compensation costs of RMB43,895,000 and RMB392,000 were recognised in the statement of profit or loss for Mr. Tao Zou and Mr. Yuk Keung Ng, respectively (2021: RMB41,275,000 and RMB1,266,000, respectively).

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director and the chief executive (2021: two directors and the chief executive), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining four (2021: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022	2021
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	3,309	3,067
Discretionary bonuses	1,150	1,120
Pension scheme contributions	186	89
Share-based compensation	30,986	55,924
	35,631	60,200

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	NUMBER OF EMPLOYEES	
	2022	2021
HK\$2,500,001 to HK\$3,000,000	1	—
HK\$6,000,001 to HK\$6,500,000	—	1
HK\$6,500,001 to HK\$7,000,000	1	—
HK\$15,000,001 to HK\$15,500,000	1	—
HK\$15,500,001 to HK\$16,000,000	—	1
HK\$16,500,001 to HK\$17,000,000	1	—
HK\$50,500,001 to HK\$51,000,000	—	1
	4	3

During the year and the prior years, share options and awarded shares were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. The fair value of such options and awarded shares, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosure.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

12. INCOME TAX

PRC corporate income tax represents the tax charged on the estimated assessable profits arising in Chinese Mainland during the year. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to tax holidays and preferential tax rates.

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	NOTES	2022 RMB'000	2021 RMB'000
Current — Chinese Mainland		236,824	203,423
Current — Hong Kong		11,613	5,841
Current — Elsewhere		12,221	18,172
Deferred	33	(641,013)	(37,151)
Total tax charge/(credit) for the year		(380,355)	190,285

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

12. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2022 RMB'000	2021 RMB'000
Profit/(loss) before tax	(5,721,343)	1,143,128
Tax at the statutory tax rate of Chinese Mainland	(1,430,336)	285,782
Lower tax rates for specific provinces or enacted by local authorities	(303,975)	(176,441)
Effect of different tax rates in different jurisdictions	7,523	(36,395)
Effect on opening deferred tax of change in rates	(1,663)	3,706
Income not subject to tax	(9,915)	(173,537)
Expenses not deductible for tax	1,688,283	151,654
Research and development super deduction	(106,741)	(132,599)
Profits and losses attributable to joint ventures and associates	374,430	329,502
Tax losses and deductible temporary differences not recognised	109,671	99,654
Tax losses and deductible temporary differences utilised from previous periods	(54,808)	(120,739)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	44,739	26,010
Effect of withholding tax on the change of carrying amount of an investment	(705,923)	(33,471)
Effect of withholding tax on income arising from overseas operations	3,002	2,485
Others	5,358	(35,326)
Tax charge at the Group's effective rate	(380,355)	190,285

The share of tax credit attributable to associates amounting to RMB2,347,740 (2021: tax expense RMB8,385,468) and the tax expense attributable to joint ventures is nil (2021: RMB1,094,290) were included in "share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

13. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Proposed final dividend (note (a)): HK\$0.13 (2021: HK\$0.12) per share based on issued share capital as at year end	158,202	134,433
Less: Dividend for shares held for share award scheme as at year end	(436)	(364)
	157,766	134,069

- (a) The actual amount of the 2021 dividend finally paid was RMB139,925,000, after eliminating the amount of RMB325,000 paid for shares held by the share award scheme trust and RMB366,000 paid for shares held for cancellation.
- (b) The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,364,079,868 (2021: 1,368,379,188) in issue during the year.

The calculation of the diluted earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the convertible bonds of the Company, the share option schemes and the share award schemes adopted by the Group's subsidiaries and associates, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2022 RMB'000	2021 RMB'000
EARNINGS/(LOSS)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation:	(6,048,194)	395,332
Decrease in earnings/increase in loss adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries	(28,114)	(13,798)
	(6,076,308)	381,534
SHARES		
	2022	2021
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the year used in the basic earnings/(loss) per share calculation	1,364,079,868	1,368,379,188
Effect of dilution — weighted average number of ordinary shares:		
Share options	—	3,013,201
Awarded shares	—	2,983,872
	1,364,079,868	1,374,376,261

The convertible bonds issued by the Company are anti-dilutive and ignored in the calculation of diluted earnings/(loss) per share for the years ended 31 December 2022 and 31 December 2021.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

15. PROPERTY, PLANT AND EQUIPMENT

	BUILDINGS RMB'000	ELECTRONIC EQUIPMENT RMB'000	OFFICE EQUIPMENT AND FIXTURES RMB'000	MOTOR VEHICLES RMB'000	LEASEHOLD IMPROVEMENTS RMB'000	CONSTRUCTION IN PROGRESS RMB'000	TOTAL RMB'000
31 DECEMBER 2022							
At 1 January 2022:							
Cost	939,132	472,733	409,704	10,922	61,082	26,426	1,919,999
Accumulated depreciation and impairment	(81,362)	(341,865)	(212,223)	(6,544)	(19,502)	—	(661,496)
Net carrying amount	857,770	130,868	197,481	4,378	41,580	26,426	1,258,503
At 1 January 2022, net of accumulated depreciation and impairment	857,770	130,868	197,481	4,378	41,580	26,426	1,258,503
Additions	14,593	66,259	34,517	1,725	1,608	329,791	448,493
Transfers	16,440	—	10,231	—	15,748	(42,419)	—
Depreciation provided during the year	(18,554)	(76,979)	(44,562)	(1,459)	(12,713)	—	(154,267)
Disposals	—	(414)	(58)	(146)	(91)	—	(709)
Government grants received	—	(236)	—	—	—	—	(236)
Disposal of subsidiaries (note 39)	—	(539)	(19)	—	—	—	(558)
Exchange realignment	—	9	56	3	—	—	68
At 31 December 2022, net of accumulated depreciation and impairment	870,249	118,968	197,646	4,501	46,132	313,798	1,551,294
At 31 December 2022:							
Cost	970,166	533,269	452,071	9,783	75,046	313,798	2,354,133
Accumulated depreciation and impairment	(99,917)	(414,301)	(254,425)	(5,282)	(28,914)	—	(802,839)
Net carrying amount	870,249	118,968	197,646	4,501	46,132	313,798	1,551,294

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	BUILDINGS	ELECTRONIC EQUIPMENT	OFFICE EQUIPMENT AND FIXTURES	MOTOR VEHICLES	LEASEHOLD IMPROVEMENTS	CONSTRUCTION IN PROGRESS	TOTAL
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 DECEMBER 2021							
At 1 January 2021:							
Cost	682,926	380,913	332,493	8,108	37,701	291,203	1,733,344
Accumulated depreciation and impairment	(63,558)	(281,861)	(185,533)	(5,623)	(11,867)	—	(548,442)
Net carrying amount	619,368	99,052	146,960	2,485	25,834	291,203	1,184,902
At 1 January 2021, net of accumulated depreciation and impairment	619,368	99,052	146,960	2,485	25,834	291,203	1,184,902
Additions	—	102,911	47,568	3,460	4,686	136,683	295,308
Transfer to investment properties (note 16)	(91,366)	—	—	—	—	—	(91,366)
Disposals	—	(439)	(5)	(77)	—	—	(521)
Depreciation provided during the year	(20,098)	(69,413)	(28,055)	(1,490)	(7,941)	—	(126,997)
Transfers	349,866	1,547	31,046	—	19,001	(401,460)	—
Government grants received	—	(2,775)	—	—	—	—	(2,775)
Exchange realignment	—	(15)	(33)	—	—	—	(48)
At 31 December 2021, net of accumulated depreciation and impairment	857,770	130,868	197,481	4,378	41,580	26,426	1,258,503
At 31 December 2021:							
Cost	939,132	472,733	409,704	10,922	61,082	26,426	1,919,999
Accumulated depreciation and impairment	(81,362)	(341,865)	(212,223)	(6,544)	(19,502)	—	(661,496)
Net carrying amount	857,770	130,868	197,481	4,378	41,580	26,426	1,258,503

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

16. INVESTMENT PROPERTIES

	BUILDINGS RMB'000	LEASEHOLD LANDS RMB'000	TOTAL RMB'000
31 DECEMBER 2022			
At 1 January 2022:			
Cost	164,124	14,223	178,347
Accumulated depreciation	(18,110)	(3,126)	(21,236)
Net carrying amount	146,014	11,097	157,111
At 1 January 2022, net of accumulated depreciation	146,014	11,097	157,111
Addition	43,160	—	43,160
Depreciation	(8,927)	(433)	(9,360)
At 31 December 2022, net of accumulated depreciation	180,247	10,664	190,911
At 31 December 2022:			
Cost	207,284	14,223	221,507
Accumulated depreciation	(27,037)	(3,559)	(30,596)
Net carrying amount	180,247	10,664	190,911
	BUILDINGS RMB'000	LEASEHOLD LANDS RMB'000	TOTAL RMB'000
31 DECEMBER 2021			
At 1 January 2021:			
Cost	70,463	10,320	80,783
Accumulated depreciation	(14,542)	(2,238)	(16,780)
Net carrying amount	55,921	8,082	64,003
At 1 January 2021, net of accumulated depreciation	55,921	8,082	64,003
Transfer from owner-occupied property and right-of-use assets (notes 15 and 17)	91,366	3,275	94,641
Depreciation	(1,273)	(260)	(1,533)
At 31 December 2021, net of accumulated depreciation	146,014	11,097	157,111
At 31 December 2021:			
Cost	164,124	14,223	178,347
Accumulated depreciation	(18,110)	(3,126)	(21,236)
Net carrying amount	146,014	11,097	157,111

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

16. INVESTMENT PROPERTIES (continued)

The Group's investment properties consist of buildings and leasehold lands in Zhuhai, Guangdong. As at 31 December 2022, the fair value of the buildings and the leasehold lands was approximately RMB401 million (2021: RMB406 million) which was estimated based on the income approach model.

17. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings and equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 to 70 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between several months and 6 years, while equipment generally has lease terms of 5 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	LEASEHOLD LANDS RMB'000	BUILDINGS RMB'000	EQUIPMENT RMB'000	TOTAL RMB'000
As at 1 January 2021	289,361	215,587	23	504,971
Additions	32,564	26,823	95	59,482
Reduction*	—	(15,939)	—	(15,939)
Transfer to investment properties (note 16)	(3,275)	—	—	(3,275)
Depreciation charge	(5,577)	(50,869)	(14)	(56,460)
Exchange realignment	—	(51)	—	(51)
As at 31 December 2021 and 1 January 2022	313,073	175,551	104	488,728
Additions	—	82,312	—	82,312
Reduction*	—	(27,073)	—	(27,073)
Depreciation charge	(5,460)	(68,264)	(26)	(73,750)
Exchange realignment	—	28	—	28
As at 31 December 2022	307,613	162,554	78	470,245

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

17. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	(205,259)	(222,517)
New leases	(82,312)	(26,918)
Accretion of interest recognised during the year:		
Interest recognised in profit or loss	(8,457)	(8,930)
Payments	58,239	36,438
Reduction*	32,362	16,548
Exchange realignment	(73)	120
Carrying amount at 31 December	(205,500)	(205,259)
Analysed into:		
Current portion	(100,538)	(50,804)
Non-current portion	(104,962)	(154,455)

* The reduction of right-of-use assets and lease liabilities during the years ended 31 December 2022 and 2021 was mainly arising from the early termination and modification of lease contracts.

The maturity analysis of lease liabilities is disclosed in note 45 to the financial statements.

The Group has applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain buildings during the year.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	8,457	8,930
Depreciation charge of right-of-use assets	73,750	50,883
Expense relating to leases of low-value assets, short-term leases (included in cost of sales, selling and distribution expenses, administrative expenses, and research and development costs)	19,487	26,308
Total amount recognised in profit or loss	101,694	86,121

(d) The total cash outflow for leases and future cash outflows relating to leases that have not commenced are disclosed in notes 40(c) and 41(b), respectively, to the financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

17. LEASES (continued)

The Group as a lessor

The Group leases its investment properties (note 16) consisting of leasehold lands and buildings in Zhuhai, Guangdong under operating lease arrangements. The term of the lease also requires the tenant to pay security deposits and provide for periodic rent as stipulated in the contract. Rental income recognised by the Group during the year was RMB33,453,000 (2021: RMB28,640,000), details of which are included in note 5 to the financial statements.

At 31 December 2022, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2022 RMB'000	2021 RMB'000
Within one year	23,647	24,800
After one year but within two years	20,460	23,647
After two years but within three years	21,483	20,460
After three years but within four years	22,558	21,483
After four years but within five years	23,685	22,558
After five years	8,023	31,708
	119,856	144,656

18. GOODWILL

	RMB'000
At 1 January 2021 and 31 December 2021:	
Cost	185,564
Accumulated impairment	—
Net carrying amount	185,564
At 1 January 2022 and 31 December 2022:	
Cost	185,564
Accumulated impairment	—
Net carrying amount	185,564

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the office software and services cash-generating unit for impairment testing.

The recoverable amount of the office software and services cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 19%. The growth rate used to extrapolate the cash flows of the office software and services unit beyond the five-year period is 3%.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

18. GOODWILL (continued)

Impairment testing of goodwill (continued)

The key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill are as follows: (i) budgeted revenue, determined based on the revenue achieved in the year immediately before the budget year and expected market development; and (ii) discount rate, before tax and reflects specific risks relating to the relevant unit. The values assigned to the key assumptions are consistent with external information sources.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision was considered necessary as at 31 December 2022.

19. OTHER INTANGIBLE ASSETS

	CAPITALISED						TOTAL RMB'000
	PURCHASED SOFTWARE RMB'000	SOFTWARE COSTS RMB'000	TECHNOLOGY RMB'000	CUSTOMER RELATIONSHIP RMB'000	TRADEMARK RMB'000	NON-COMPETE AGREEMENTS RMB'000	
31 DECEMBER 2022							
Cost at 1 January 2022, net of accumulated amortisation	35,050	—	30,344	44,034	8,771	3,660	121,859
Additions	23,468	—	—	—	—	—	23,468
Amortisation provided during the year	(17,043)	—	(6,991)	(9,150)	(900)	(1,333)	(35,417)
Disposals	(3)	—	—	—	—	—	(3)
Disposal of subsidiaries (note 39)	(50)	—	—	—	—	—	(50)
Exchange realignment	135	—	—	—	—	—	135
At 31 December 2022, net of accumulated amortisation	41,557	—	23,353	34,884	7,871	2,327	109,992
At 31 December 2022:							
Cost	234,594	27,229	38,800	51,300	9,000	4,000	364,923
Accumulated amortisation	(193,037)	(27,229)	(15,447)	(16,416)	(1,129)	(1,673)	(254,931)
Net carrying amount	41,557	—	23,353	34,884	7,871	2,327	109,992

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

19. OTHER INTANGIBLE ASSETS (continued)

	PURCHASED SOFTWARE RMB'000	CAPITALISED SOFTWARE COSTS RMB'000	TECHNOLOGY RMB'000	CUSTOMER RELATIONSHIP RMB'000	TRADEMARK RMB'000	NON-COMPETE AGREEMENTS RMB'000	TOTAL RMB'000
31 DECEMBER 2021							
Cost at 1 January 2021, net of accumulated amortisation	23,374	—	25,776	18,025	—	—	67,175
Additions	26,180	—	—	—	—	—	26,180
Acquisition of a business (note 38)	—	—	11,500	31,500	9,000	4,000	56,000
Amortisation provided during the year	(14,453)	—	(6,932)	(5,491)	(229)	(340)	(27,445)
Exchange realignment	(51)	—	—	—	—	—	(51)
At 31 December 2021, net of accumulated amortisation	35,050	—	30,344	44,034	8,771	3,660	121,859
At 31 December 2021:							
Cost	205,432	27,229	38,800	51,300	9,000	4,000	335,761
Accumulated amortisation	(170,382)	(27,229)	(8,456)	(7,266)	(229)	(340)	(213,902)
Net carrying amount	35,050	—	30,344	44,034	8,771	3,660	121,859

20. INVESTMENTS IN JOINT VENTURES

	2022 RMB'000	2021 RMB'000
Share of net assets	141,016	152,742
Goodwill on acquisition	77,571	70,801
Provision for impairment	218,587 (77,422)	223,543 (77,422)
	141,165	146,121

The Group's shareholdings in the joint ventures all comprise equity shares held by the Company's subsidiaries.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

20. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2022 RMB'000	2021 RMB'000
Share of the joint ventures' loss for the year	(19,634)	(31,673)
Share of the joint ventures' total comprehensive loss	(19,634)	(31,673)
Aggregate carrying amount of the Group's investments in the joint ventures	141,165	146,121

The Group has discontinued the recognition of its share of losses of four (2021: three) joint ventures because the share of losses of these joint ventures exceeded the Group's interests in the joint ventures and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of these joint ventures for the year ended 31 December 2022 and cumulatively were RMB1,913,000 (2021: nil) and RMB13,465,000 (2021: RMB11,552,000), respectively.

During the year ended 31 December 2022, no impairment loss was recognised for its investments in joint ventures (2021: nil).

The Group's balances with the joint ventures are disclosed in notes 26, 27, 29 and 42(b) to the financial statements, respectively.

21. INVESTMENTS IN ASSOCIATES

	2022 RMB'000	2021 RMB'000
Share of net assets	6,091,443	6,369,908
Goodwill on acquisition	7,042,332	7,020,230
Provision for impairment	13,133,775 (7,785,808)	13,390,138 (1,259,580)
	5,347,967	12,130,558

The Group's shareholdings in the associates all comprise equity shares held by the Company's subsidiaries except for the investments in Cheetah Mobile Inc. ("Cheetah Mobile") and Kingsoft Cloud Holdings Limited ("Kingsoft Cloud"), the shareholdings in which are held through the Company.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

21. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the Group's material associate are as follows:

NAME	PARTICULARS OF ISSUED SHARES HELD	PLACE OF REGISTRATION AND BUSINESS	PERCENTAGE OF			PRINCIPAL ACTIVITIES
			OWNERSHIP INTEREST	VOTING POWER	PROFIT SHARING	
Kingsoft Cloud	Ordinary shares	Cayman Islands	41	37	41	Investment holding

Impairment of investment in Kingsoft Cloud

The Group held certain ordinary shares in Kingsoft Cloud which are listed on the National Association of Securities Dealers Automated Quotations and the Stock Exchange of Hong Kong Limited. As the share price of Kingsoft Cloud has been struggled with sluggish performance and traded below the carrying value in book of the Company for a prolonged period of time, the Group performed an impairment assessment on the investment in Kingsoft Cloud as at 30 September 2022. Based on the results of the impairment testing of investment in Kingsoft Cloud as at 30 September 2022, in the opinion of the directors, an impairment provision of RMB6,485,767,000 (2021: nil) was recognised, being the difference of the then carrying amount over the recoverable amount as at 30 September 2022.

The recoverable amount of investment in Kingsoft Cloud was determined based on a value in use calculation using expected cash flow projections approved by senior management covering a period of five years. The discount rate applied to the expected cash flow projections was 16%, which was determined with reference to the average rate for companies in relevant industry with similar business risk, and the cash flows projection beyond the five-year period were extrapolated using a growth rate of 2.0%, which was the same as the long-term average growth rate of the industry.

The following describes each key assumption on which management has based its expected cash flow projections to undertake impairment testing:

Revenue growth rate — The basis used to determine the revenue growth rate is the historical revenue growth rate, adjusted for expected market development and Kingsoft Cloud's business plan.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant business.

The values assigned to the key assumptions are consistent with external information sources.

As at 31 December 2022, an impairment testing on Kingsoft Cloud was performed and no further impairment is considered necessary.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

21. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information in respect of Kingssoft Cloud adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2022	2021
	RMB'000	RMB'000
Current assets	9,048,310	12,412,435
Non-current assets, excluding goodwill	11,377,014	12,340,036
Goodwill on acquisition of the associate	5,767,660	5,541,844
Current liabilities	6,660,374	7,532,116
Non-current liabilities	1,547,822	2,615,434
Non-controlling interests	800,526	1,001,572
Net assets	17,184,262	19,145,193
Net assets, excluding goodwill	11,416,602	13,603,349
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	41%	39%
Group's share of net assets of the associate, excluding goodwill*	4,443,888	5,161,560
Goodwill on acquisition	5,767,660	5,541,844
Less: impairment (note 6)	(6,485,767)	—
Carrying amount of the investment	3,725,781	10,703,404
Revenue	8,180,107	9,060,710
Loss for the period	(3,031,590)	(2,112,817)
Other comprehensive income/(loss)	656,942	(143,781)
Total comprehensive loss for the period	(2,374,648)	(2,256,598)

* The amount excludes the reserves of the associate not included in the associate's comprehensive income.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

21. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2022 RMB'000	2021 RMB'000
Share of the associates' loss for the year	(178,507)	(430,261)
Share of the associates' other comprehensive income	119,592	1,781
Share of the associates' total comprehensive loss	(58,915)	(428,480)
Aggregate carrying amount of the Group's investments in the associates	1,622,186	1,427,154

The Group has discontinued the recognition of its share of losses of one (2021: two) associate because the share of losses of this associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of these associates for the year ended 31 December 2022 and cumulatively were RMB1,331,000 (2021: RMB325,000) and RMB1,701,000 (2021: RMB370,000), respectively.

The Group's balances with the associates are disclosed in notes 26, 27, 29 and 42(b) to the financial statements, respectively.

As at 31 December 2022 and 2021, the Group held certain ordinary shares in Cheetah Mobile which are listed on the New York Stock Exchange in the form of American depository shares. As at 31 December 2022, the carrying amount of the Group's investment in Cheetah Mobile was RMB1,049,584,000 (2021: RMB1,233,085,000), against which an accumulated provision for impairment of RMB1,253,856,000 (2021: RMB1,253,856,000) was made.

22. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	18,273	8,418

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2022 RMB'000	2021 RMB'000
Ordinary share subscription option	(i)	18,560	31,282
Wealth management products	(ii)	3,106,539	2,870,923
Others		211,353	226,969
		3,336,452	3,129,174
Current portion		3,125,099	2,902,205
Non-current portion		211,353	226,969
		3,336,452	3,129,174

- (i) The ordinary share subscription option represents the rights to subscribe for an aggregate of 1,032,917 ordinary shares of an independent third-party game company in Vietnam, which could be exercised from time to time at the Group's full discretion on or before 31 December 2022. On 14 November 2022, the Group entered into the novation agreement with the third-party game company, pursuant to which, the exercise period of the ordinary share subscription option extend to the time of effectiveness of the registration statement filed with the U.S. Securities and Exchange Commission.
- (ii) The Group invests in wealth management products issued by reputable banks in Chinese Mainland. The wealth management products were mandatory classified as financial assets at fair value through profit or loss as their contractual cash flows are not SPPI.

24. OTHER NON-CURRENT ASSETS

	2022 RMB'000	2021 RMB'000
Prepayments for purchase of equipment	4,022	10,583
Long term deferred cost	2,219	8,294
Others	21,803	16,221
	28,044	35,098

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

25. INVENTORIES

	2022 RMB'000	2021 RMB'000
Packaging materials	142	144
Trading stocks	18,193	18,433
	18,335	18,577

26. TRADE RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	908,945	884,875
Impairment	(48,348)	(45,607)
	860,597	839,268

The Group's trading terms with its customers are mainly on credit, except for sales to individual customers or to certain agents, where payment in advance is normally required. The credit period is generally one month, extending up to twelve months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from associates, a joint venture, a company whose parent has significant influence on the Company and a company controlled by a director of the Company of RMB11,879,000 (2021: RMB31,257,000), RMB1,106,000 (2021: RMB942,000), RMB107,533,000 (2021: RMB116,700,000) and RMB11,098,000 (2021: RMB11,789,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group (note 42(b)).

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

26. TRADE RECEIVABLES (continued)

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022 RMB'000	2021 RMB'000
0 to 30 days	402,450	358,400
31 to 60 days	124,859	113,692
61 to 90 days	91,232	102,589
91 to 365 days	179,385	149,186
1 to 2 years	43,127	74,679
Over 2 years	19,544	40,722
	860,597	839,268

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 RMB'000	2021 RMB'000
At beginning of year	45,607	29,350
Impairment losses, net	9,627	29,472
Amounts written off as uncollectable	(7,288)	(13,076)
Exchange realignment	402	(139)
At end of year	48,348	45,607

An impairment analysis is performed at each reporting date individually or using a provision matrix to measure expected credit losses collectively. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., product type and customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

26. TRADE RECEIVABLES (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables:

As at 31 December 2022

	CURRENT	PAST DUE			TOTAL	
		LESS THAN 1 YEAR	1 TO 2 YEARS	2 TO 3 YEARS		OVER 3 YEARS
Impairment for credit losses assessed by credit risk portfolio						
Expected credit loss rate	0%	3%	23%	48%	100%	2%
Gross carrying amount (RMB'000)	640,955	212,013	17,209	2,685	6,419	879,281
Expected credit losses (RMB'000)	597	6,509	3,876	1,283	6,419	18,684
Impairment for credit losses assessed individually*						
Expected credit loss rate	—	—	100%	—	100%	100%
Gross carrying amount (RMB'000)	—	—	23,992	—	5,672	29,664
Expected credit losses (RMB'000)	—	—	23,992	—	5,672	29,664

As at 31 December 2021

	CURRENT	PAST DUE			TOTAL	
		LESS THAN 1 YEAR	1 TO 2 YEARS	2 TO 3 YEARS		OVER 3 YEARS
Impairment for credit losses assessed by credit risk portfolio						
Expected credit loss rate	0%	2%	18%	45%	100%	1%
Gross carrying amount (RMB'000)	662,929	170,759	8,831	3,804	2,624	848,947
Expected credit losses (RMB'000)	318	3,414	1,603	1,720	2,624	9,679
Impairment for credit losses assessed individually*						
Expected credit loss rate	—	100%	100%	100%	100%	100%
Gross carrying amount (RMB'000)	—	24,483	65	5,177	6,203	35,928
Expected credit losses (RMB'000)	—	24,483	65	5,177	6,203	35,928

* The individually impaired trade receivables were related to customers that were credit-impaired or in default payments and no receivables are expected to be recovered and full allowance for credit losses was provided for such individual trade receivables.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	NOTE	2022 RMB'000	2021 RMB'000
Prepayments		152,486	194,993
Deposits		15,643	13,899
Due from related parties	42(b)	94,223	554,334
Loan receivables		—	605
Other receivables		1,128,922	936,967
		1,391,274	1,700,798
Impairment allowance		(59,340)	(8,859)
		1,331,934	1,691,939

The movements in the loss allowance for impairment of prepayments, other receivables and other assets are as follows:

	2022 RMB'000	2021 RMB'000
At beginning of year	8,859	7,288
Impairment losses, net	61,432	16,852
Amounts written off as uncollectable	(10,951)	(15,281)
	59,340	8,859

Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2022, the loss allowance for impairment of prepayments, other receivables and other assets was recognised by the Group mainly for its prepayments to third-party game distribution platforms and loan receivables.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

28. CASH AND BANK DEPOSITS AND RESTRICTED CASH

	2022 RMB'000	2021 RMB'000
Cash and bank balances	9,050,156	1,816,922
Non-pledged time deposits with original maturity of three months or less when acquired	1,968,726	1,618,596
Principal protected structure deposits with original maturity of three months or less when acquired	—	1,117,910
	11,018,882	4,553,428
Non-pledged time deposits with original maturity of over three months when acquired	7,182,528	4,997,482
Principal protected structure deposits with original maturity of over three months when acquired	—	6,639,228
	7,182,528	11,636,710
Cash and bank deposits	18,201,410	16,190,138
Restricted cash	2,456	9,382
	18,203,866	16,199,520

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of one day to a year depending on the immediate cash requirements of the Group and earn interest at the respective short term deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

As at 31 December 2022, cash and bank balances amounting to RMB15,140,958,000 (2021: RMB13,326,372,000) were denominated in RMB. The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

29. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2022 RMB'000	2021 RMB'000
0 to 30 days	157,696	210,511
31 to 60 days	61,916	69,504
61 to 90 days	71,054	31,134
91 to 365 days	124,545	97,903
Over 1 year	37,461	14,348
	452,672	423,400

Trade payables are non-interest-bearing and are normally settled on terms of two to three months.

Included in the Group's trade payables are amounts due to a company controlled by a director of the Company, a company whose parent has significant influence on the Company, a joint venture and associates of the Group of RMB6,700,000 (2021: RMB7,706,000), RMB1,099,000 (2021: RMB3,436,000), RMB56,796,000 (2021: RMB62,031,000) and RMB47,841,000 (2021: RMB39,544,000), respectively, which are repayable on credit terms similar to those offered by the counterparty (note 42(b)).

30. OTHER PAYABLES AND ACCRUALS

	NOTE	2022 RMB'000	2021 RMB'000
Deposits received from customers		50,119	45,573
Deferred government grants		45,991	65,842
Other payables		880,222	927,676
Accruals		172,404	220,957
Other taxes payable		186,597	154,549
Due to related parties	42(b)	12,389	11,988
		1,347,722	1,426,585

Other payables are non-interest-bearing and have an average term of not more than one year.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

31. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2022 and 31 December 2021 are as follows:

	31 DECEMBER 2022 RMB'000	31 DECEMBER 2021 RMB'000
Office software and services	2,029,925	1,601,061
Entertainment software and others	465,540	546,070
	2,495,465	2,147,131
Current portion	2,186,742	2,003,324
Non-current portion	308,723	143,807
	2,495,465	2,147,131

Contract liabilities include advances received from customers for delivery of software products and rendering of services. The increase in contract liabilities in 2022 was mainly due to the increase in relation to the provision of office software and services. Contract liabilities as at 31 December 2022 included an advance of RMB11,321,000 (2021: nil) from a company whose parent has significant influence on the Company (note 42(b)).

32. CONVERTIBLE BONDS

On 29 April 2020, the Company issued five-year convertible bonds in the principal amount of HK\$3,100,000,000 (equivalent to RMB2,827,820,000) which bear interest at a rate of 0.625% per annum payable semi-annually (the "2020 Convertible Bonds"). The 2020 Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 9 June 2020 to the date falling 10 days prior to the maturity date, at a price of HK\$35.7637 per share, subject to adjustments. The Company may redeem under certain circumstances the outstanding 2020 Convertible Bonds at a predetermined amount together with interest accrued by giving the bondholders not less than 30 nor more than 60 days' prior notice. On the maturity date, any 2020 Convertible Bonds not converted will be redeemed by the Company at 105.85% of the principal amount together with accrued and unpaid interest thereon.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

32. CONVERTIBLE BONDS (continued)

In accordance with the terms and conditions of the 2020 Convertible Bonds, the aggregate payment of the special dividend in relation to the spin-off and separate listing of Kingsoft Cloud, the 2019 final dividend and the 2020 final dividend distributed by the Company resulted in adjustments (the "Adjustments") to the conversion price of the 2020 Convertible Bonds. The Adjustments became effective on 8 June 2021, the respective conversion price of the 2020 Convertible Bonds was adjusted to HK\$35.32 per share. Assuming full conversion of the 2020 Convertible Bonds at the adjusted conversion price of HK\$35.32 per share and no further issue of shares, the 2020 Convertible Bonds will be convertible into approximately 87,768,969 shares of the Company, representing an increase of 1,088,900 shares from the original 86,680,069 shares.

There was no conversion or redemption of the 2020 Convertible Bonds during the years ended 31 December 2022 and 2021. The 2020 Convertible Bonds have been split into the liability and equity components as follows:

	31 DECEMBER 2022 RMB'000	31 DECEMBER 2021 RMB'000
Liability component	2,589,698	2,248,587
Less: Current portion	(2,589,698)	—
Non-current portion	—	2,248,587
Equity component	468,700	468,700

The movements of the liability component and the equity component of the 2020 Convertible Bonds for the years ended 31 December 2022 and 2021 are set out below:

	LIABILITY COMPONENT RMB'000	EQUITY COMPONENT RMB'000
At 1 January 2021	2,196,595	468,700
Interest expenses	132,441	—
Interest paid	(16,073)	—
Exchange realignment	(64,376)	—
At 31 December 2021 and 1 January 2022	2,248,587	468,700
Interest expenses	144,433	—
Interest paid	(16,639)	—
Exchange realignment	213,317	—
At 31 December 2022	2,589,698	468,700

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

33. DEFERRED TAX

Deferred tax liabilities

	2022						
	DEFERRED COST RMB'000	FAIR VALUE ADJUSTMENT ARISING FROM ACQUISITION OF SUBSIDIARIES RMB'000	WITHHOLDING TAXES ON THE DISTRIBUTABLE PROFITS OF THE GROUP'S PRC SUBSIDIARIES RMB'000	GAIN ON DEEMED DISPOSAL OF A SUBSIDIARY RMB'000	INTEREST RECEIVABLES RMB'000	OTHERS RMB'000	TOTAL RMB'000
At 1 January 2022	1,271	3,265	31,010	974,956	24,723	11,968	1,047,193
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12)	(769)	(1,115)	18,729	(705,923)	11,962	11,998	(665,118)
Gross deferred tax liabilities at 31 December 2022	502	2,150	49,739	269,033	36,685	23,966	382,075

Deferred tax assets

	2022							
	CONTRACT LIABILITIES RMB'000	ACCRUALS RMB'000	GOVERNMENT GRANTS RMB'000	PROVISIONS RMB'000	PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS RMB'000	TAX LOSSES AVAILABLE FOR OFFSETTING FUTURE TAXABLE PROFITS RMB'000	OTHERS RMB'000	TOTAL RMB'000
At 1 January 2022	75,452	22,762	4,994	13,881	1,128	24,017	—	142,234
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 12)	(9,058)	(7,036)	45	8,896	(662)	(20,519)	4,229	(24,105)
Gross deferred tax assets at 31 December 2022	66,394	15,726	5,039	22,777	466	3,498	4,229	118,129

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

33. DEFERRED TAX (continued)

Deferred tax liabilities

	2021						
	DEFERRED COST RMB'000	FAIR VALUE ADJUSTMENT ARISING FROM ACQUISITION OF SUBSIDIARIES RMB'000	WITHHOLDING TAXES ON THE DISTRIBUTABLE PROFITS OF THE GROUP'S PRC SUBSIDIARIES RMB'000	GAIN ON DISPOSAL OF A SUBSIDIARY RMB'000	INTEREST RECEIVABLES RMB'000	OTHERS RMB'000	TOTAL RMB'000
At 1 January 2021	491	6,570	30,945	1,008,427	18,217	14,414	1,079,064
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12)	780	(3,305)	65	(33,471)	6,506	(2,446)	(31,871)
Gross deferred tax liabilities at 31 December 2021	1,271	3,265	31,010	974,956	24,723	11,968	1,047,193

Deferred tax assets

	2021						
	CONTRACT LIABILITIES RMB'000	ACCRUALS RMB'000	GOVERNMENT GRANTS RMB'000	PROVISIONS RMB'000	PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS RMB'000	TAX LOSSES AVAILABLE FOR OFFSETTING FUTURE TAXABLE PROFITS RMB'000	TOTAL RMB'000
At 1 January 2021	84,290	23,408	9,633	16,903	2,721	—	136,955
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 12)	(8,838)	(646)	(4,639)	(3,022)	(1,593)	24,017	5,279
Gross deferred tax assets at 31 December 2021	75,452	22,762	4,994	13,881	1,128	24,017	142,234

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

33. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2022 RMB'000	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	93,410	124,674
Net deferred tax liabilities recognised in the consolidated statement of financial position	(357,356)	(1,029,633)
	(263,946)	(904,959)

The Group has tax losses arising in Chinese Mainland of RMB2,414,892,000 as at 31 December 2022 (2021: RMB1,719,884,000) that will expire in one to five years for offsetting against future taxable profits.

The amounts and expiration dates of the tax losses carried forward at 31 December 2022 and 2021 are listed below:

	2022 RMB'000	2021 RMB'000
Expiration date		
31 December 2022	—	42,115
31 December 2023	217,334	192,386
31 December 2024	414,080	350,960
31 December 2025	526,209	432,269
31 December 2026	585,324	702,154
31 December 2027	671,945	—

The Group also has tax losses arising in Hong Kong of RMB84,121,000 (2021: RMB44,105,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

33. DEFERRED TAX (continued)

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2022 RMB'000	2021 RMB'000
Tax losses	2,487,514	1,671,456
Deductible temporary differences	6,565	7,413
	2,494,079	1,678,869

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Chinese Mainland. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Chinese Mainland and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008.

A deferred tax liability is recognised for the estimated withholding taxes to the extent that it is probable that those subsidiaries will distribute earnings in the foreseeable future. This requires an estimation of the likely timing and level of dividends to be distributed, and a judgement as to whether the dividends are associated with earnings generated from 1 January 2008 or not. The aggregate amount of temporary differences associated with investments in subsidiaries in Chinese Mainland, for which deferred tax liabilities have not been recognised for withholding taxes that would be payable on the unremitted earnings of these subsidiaries, totalled approximately RMB12,722 million at 31 December 2022 (2021: RMB11,326 million). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

34. SHARE CAPITAL

Shares	2022 RMB'000	2021 RMB'000
Authorised:		
2,400,000,000 (2021: 2,400,000,000) ordinary shares of US\$0.0005 each	9,260	9,260
Issued and fully paid:		
1,362,295,717 (2021: 1,370,203,717) ordinary shares of US\$0.0005 each	5,281	5,308

A summary of the movements in the Company's share capital is as follows:

	NOTES	NUMBER OF SHARES IN ISSUE	ISSUED CAPITAL RMB'000	SHARE PREMIUM ACCOUNT RMB'000	TREASURY SHARES RMB'000	TOTAL RMB'000
At 1 January 2021		1,368,042,540	5,316	2,762,242	(11,181)	2,756,377
Final 2020 dividend approved and paid		—	—	(227,736)	—	(227,736)
Exercise of share options	35	1,470,200	5	37,905	—	37,910
Vesting of awarded shares	35	1,381,220	—	18,848	3,291	22,139
Share repurchased		(3,995,200)	(13)	(100,609)	(7,369)	(107,991)
At 31 December 2021 and 1 January 2022		1,366,898,760*	5,308	2,490,650	(15,259)	2,480,699
Final 2021 dividend approved and paid	13	—	—	(139,925)	—	(139,925)
Vesting of awarded shares	35	814,560	—	11,012	1,948	12,960
Share repurchased for share award scheme		(1,267,000)	—	—	(23,117)	(23,117)
Share repurchased and cancelled		(7,908,000)	(27)	(148,376)	7,369	(141,034)
At 31 December 2022		1,358,538,320*	5,281	2,213,361	(29,059)	2,189,583

* Excluding 3,757,397 (2021: 3,304,957) shares held by the share award scheme trust on behalf of the Company as at 31 December 2022.

During the year ended 31 December 2022, no share options (2021: 1,470,200) were exercised and 814,560 (2021: 1,381,220) awarded shares were vested.

Share-based compensation

Details of the Company's share-based compensation schemes and the related instruments issued under these schemes are included in note 35 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS

The Company's share award arrangements

- (a) The Company adopted the 2011 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Share Option Scheme include the Group's executive directors (exclusive of any non-executive director) and other employees of the Group. The 2011 Share Option Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares which may be issued upon exercise of all share options to be granted under the 2011 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 9 December 2011. The maximum number of shares issuable under share options to each eligible participant in the 2011 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period determined at the discretion of the board of directors and ends on a date which is no later than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The 2011 Share Option Scheme was terminated on 9 December 2021 and the options granted before the termination date of the 2011 Share Option Scheme shall continue to be valid and effective until the options' expiry date.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

The Company's share award arrangements (continued)

(a) (continued)

The following share options were outstanding under the 2011 Share Option Scheme during the year:

	2022		2021	
	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE HK\$ PER SHARE	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE HK\$ PER SHARE
Outstanding at 1 January	3,129,800	20.73	4,600,000	20.58
Exercised during the year	—	—	(1,470,200)	20.25
Outstanding at 31 December	3,129,800	20.73	3,129,800	20.73
Exercisable at 31 December	3,129,800	20.73	3,009,800	20.65

There was no exercise of the options under 2011 Share Option Scheme during the year ended 31 December 2022 (2021: 1,470,200). The weighted average share price at the date of the exercise for the options during the year ended 31 December 2021 was HK\$33.69.

The date of grant and exercise prices of the share options outstanding under the 2011 Share Option Scheme are as follows:

	NUMBER OF SHARE OPTIONS			DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK\$ PER SHARE
	AT 1 JANUARY 2021	EXERCISED DURING THE YEAR ENDED 31 DECEMBER 2021	AT 31 DECEMBER 2021 AND 31 DECEMBER 2022		
Executive directors					
Tao Zou	4,000,000	(1,470,200)	2,529,800	21 April 2017	20.25
Yuk Keung Ng*	600,000	—	600,000	23 November 2017	22.75
Total	4,600,000	(1,470,200)	3,129,800		

* On 25 May 2022, Mr. Yuk Keung Ng retired from the position of executive director of the Company due to the expiration of his tenure.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

The Company's share award arrangements (continued)

(a) *(continued)*

The vesting periods of these share options varied from 1 to 5 years. The exercise period of the share options granted under the 2011 Share Option Scheme shall be any time after the end of the vesting period and before the tenth anniversary of the grant date.

The weighted average remaining contractual life for the Company's share options outstanding under the 2011 Share Option Scheme as at 31 December 2022 was 4.41 years (2021: 5.41 years).

The total expense in respect of the 2011 Share Option Scheme for the year ended 31 December 2022 was RMB140,000 (2021: RMB1,979,000).

At the end of the reporting period, the Company had 3,129,800 share options outstanding under the 2011 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 3,129,800 additional ordinary shares of the Company and additional share capital of RMB11,000 and share premium of RMB57,943,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 3,129,800 share options outstanding under the 2011 Share Option Scheme, which represented approximately 0.23% of the Company's shares in issue as at that date.

- (b) The Company operates the 2021 Share Option Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2021 Share Option Scheme include the directors and other employees of the Group or any of the Group's invested entities. The 2021 Share Option Scheme became effective on 9 December 2021 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares which may be issued upon exercise of all share options to be granted under the 2021 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue on 9 December 2021. The maximum number of shares issuable under share options to each eligible participant in the 2021 Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period determined at the discretion of the board of directors and ends on a date which is no later than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

The Company's share award arrangements (continued)

(b) (continued)

The following share options were outstanding under the 2021 Share Option Scheme during the year:

	2022	
	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE HK\$ PER SHARE
Outstanding at 1 January	—	—
Granted during the year	5,500,000	31.69
Outstanding at 31 December	5,500,000	31.69
Exercisable at 31 December	—	—

During the year ended 31 December 2022, no share options under 2021 Share Option Scheme were exercised (2021: nil).

The date of grant and exercise prices of the share options outstanding under the 2021 Share Option Scheme are as follows:

	NUMBER OF SHARE OPTIONS GRANTED DURING THE			DATE OF GRANT OF SHARE OPTIONS	EXERCISE PRICE OF SHARE OPTIONS HK\$ PER SHARE
	AT 1 JANUARY 2022	YEAR ENDED 31 DECEMBER 2022	AT 31 DECEMBER 2022		
Executive director Tao Zou	—	5,500,000	5,500,000	4 July 2022	31.69

The fair value of the share options under the 2021 Share Option Scheme granted during the year was HK\$94,655,000 (HK\$17.21 each).

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

The Company's share award arrangements (continued)

(b) (continued)

The fair value of the share options granted during the year was estimated by an external valuer on the grant date, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2022
Dividend yield (%)	0.39
Expected volatility (%)	53.57
Risk-free interest rate (%)	2.80
Expected life of options (years)	10
Weighted average share price (HKD per share)	30.40

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The vesting periods of these share options varied from 1 to 5 years. The exercise period of the share options granted under the 2021 Share Option Scheme shall be any time after the end of the vesting period and before the tenth anniversary of the grant date.

The weighted average remaining contractual life for the Company's share options outstanding under the 2021 Share Option Scheme as at 31 December 2022 was 9.51 years.

The total expense in respect of the 2021 Share Option Scheme for the year ended 31 December 2022 was RMB18,731,000 (2021: nil).

At the end of the reporting period, the Company had 5,500,000 share options outstanding under the 2021 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 5,500,000 additional ordinary shares of the Company and additional share capital of RMB19,000 and share premium of RMB155,673,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 5,500,000 share options outstanding under the 2021 Share Option Scheme, which represented approximately 0.40% of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

The Company's share award arrangements (continued)

- (c) On 31 March 2008, the directors of the Company approved and adopted the Share Award Scheme for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the Share Award Scheme include the directors and other employees of the Group or any of the Group's associates. Unless early terminated by the directors of the Company, the Share Award Scheme is valid and effective for a term of five years commencing from 31 March 2008. In prior years, the directors of the Company resolved to have several extensions to the termination date of the Share Award Scheme and on 5 July 2021, the directors of the Company resolved to further extend the termination date of the Share Award Scheme to 30 March 2027.

The directors will not grant any awarded shares which would result in the total number of shares (but not counting those which have lapsed or have been forfeited), in aggregate, over 10% of the issued shares of the Company as at the date of such grant.

No award will be granted to any eligible participants which would result in the maximum number of awarded shares which are the subject of the awarded shares to such eligible participants (including any which have lapsed or have been forfeited) under the Share Award Scheme in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the issued share capital of the Company.

The vesting period of the awarded shares granted is determined at the discretion of the board of directors.

The following awarded shares were outstanding under the Share Award Scheme during the year:

	2022 NUMBER OF AWARDED SHARES	2021 NUMBER OF AWARDED SHARES
At 1 January	5,054,760	2,735,280
Granted during the year	2,626,000	4,282,800
Forfeited during the year	(866,540)	(582,100)
Vested during the year	(814,560)	(1,381,220)
At 31 December	5,999,660	5,054,760

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

The Company's share award arrangements (continued)

(c) (continued)

The date of grant and movements of the awarded shares outstanding under the Share Award Scheme adopted by the Company are as follows:

2022

	NUMBER OF AWARDED SHARES					GRANT DATE
	AT 1 JANUARY	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	VESTED DURING THE YEAR	AT 31 DECEMBER	
Executive directors						
Tao Zou	600	—	—	—	600	5 July 2021
	—	2,200,000	—	—	2,200,000	1 July 2022
Yuk Keung Ng*	120,000	—	—	(120,000)	—	23 November 2017
	600	—	(600)	—	—	5 July 2021
	121,200	2,200,000	(600)	(120,000)	2,200,600	
Other employees						
	270,000	—	—	(270,000)	—	1 January 2017
	5,600	—	—	(5,600)	—	22 April 2017
	80,000	—	—	(80,000)	—	25 May 2017
	10,000	—	—	(10,000)	—	1 August 2017
	180,000	—	(500)	(90,000)	89,500	16 April 2018
	120,000	—	(40,000)	(80,000)	—	18 September 2019
	13,440	—	(1,280)	(4,480)	7,680	23 May 2020
	450,000	—	—	(150,000)	300,000	30 August 2020
	17,920	—	(3,360)	(4,480)	10,080	24 April 2020
	3,786,600	—	(820,800)	—	2,965,800	5 July 2021
	—	26,000	—	—	26,000	25 March 2022
	—	400,000	—	—	400,000	19 July 2022
	4,933,560	426,000	(865,940)	(694,560)	3,799,060	
Total	5,054,760	2,626,000	(866,540)	(814,560)	5,999,660	

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

The Company's share award arrangements (continued)

(c) (continued)

2021

	NUMBER OF AWARDED SHARES				AT 31 DECEMBER	GRANT DATE
	AT 1 JANUARY	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	VESTED DURING THE YEAR		
Executive directors						
Tao Zou	600,000	—	—	(600,000)	—	21 April 2017
	—	600	—	—	600	5 July 2021
Yuk Keung Ng*	240,000	—	—	(120,000)	120,000	23 November 2017
	—	600	—	—	600	5 July 2021
	840,000	1,200	—	(720,000)	121,200	
Other employees						
	4,200	—	—	(4,200)	—	19 February 2016
	540,000	—	—	(270,000)	270,000	1 January 2017
	12,600	—	(700)	(6,300)	5,600	22 April 2017
	160,000	—	—	(80,000)	80,000	25 May 2017
	20,000	—	—	(10,000)	10,000	1 August 2017
	270,000	—	—	(90,000)	180,000	16 April 2018
	240,000	—	(80,000)	(40,000)	120,000	18 September 2019
	20,480	—	(1,920)	(5,120)	13,440	23 May 2020
	600,000	—	—	(150,000)	450,000	30 August 2020
	28,000	—	(4,480)	(5,600)	17,920	24 April 2020
	—	4,281,600	(495,000)	—	3,786,600	5 July 2021
	1,895,280	4,281,600	(582,100)	(661,220)	4,933,560	
Total	2,735,280	4,282,800	(582,100)	(1,381,220)	5,054,760	

* On 25 May 2022, Mr. Yuk Keung Ng retired from the positions of executive director of the Company due to the expiration of his tenure.

The vesting periods of these awarded shares varied from 1 to 5 years.

The fair value of the awarded shares was determined based on the market value of the Company's shares at the grant date. The weighted average fair value of the awarded shares granted during the year ended 31 December 2022 was RMB25.63 per share (2021: RMB36.44 per share).

The total expense recognised in respect of the Share Award Scheme adopted by the Company for the year ended 31 December 2022 was RMB44,452,000 (2021: RMB25,170,000).

As at 31 December 2022, 2,243,359 (2021: 1,749,803) forfeited or unawarded shares were held by the share award scheme trust and would be granted in future.

At the date of approval of these financial statements, the Company had 5,999,660 awarded shares outstanding under the Share Award Scheme, which represented approximately 0.44% of the Company's shares in issue as at that date.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

Seasun Holdings' share award arrangements

- (a) On 27 June 2013 (the "Seasun Holdings Share Option Adoption Date"), the shareholders of the Company and Seasun Holdings, a subsidiary of the Company, approved and adopted the Seasun Holdings Share Option Scheme for the purpose of providing incentives and rewards to eligible participants in which selected employees of Seasun Holdings, its subsidiaries and any other invested entities are entitled to participate. The Seasun Holdings Share Option Scheme shall be valid and effective for a term of ten years commencing on the Seasun Holdings Share Option Adoption Date.

The maximum number of ordinary shares under the Seasun Holdings Share Option Scheme which may be issued upon exercise of all share options to be granted may not in aggregate exceed 80,000,000 shares (representing 10% of the shares in issue). On 24 May 2017, the shareholders of the Company and Seasun Holdings approved to amend the maximum number of ordinary shares, which may be issued upon exercise in the Seasun Holdings Share Option Scheme, to be 40,000,000 shares.

The total number of ordinary shares issued and to be issued under the Seasun Holdings Share Option Scheme upon exercise of the share options granted to each eligible participants (including both exercised and outstanding share options) in any 12-month period must not exceed 1% of the total number of shares in issue at any time. Any further grant of share options in excess of this limit is subject to separate approval of shareholders of the Company and Seasun Holdings in general meeting with such participant and his associates abstaining from voting.

The exercise price, exercise period and vesting period of share options are determinable by the board of directors of Seasun Holdings.

The following share options were outstanding under the Seasun Holdings Share Option Scheme during the year:

	2022		2021	
	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE RMB PER SHARE	NUMBER OF SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE RMB PER SHARE
Outstanding at 1 January	23,063,389	4.49	22,277,500	4.30
Granted during the year	200,000	4.87	1,930,889	8.05
Forfeited during the year	(142,000)	8.14	(795,000)	7.30
Cancelled during the year	(2,455,400)	1.61	(350,000)	6.35
Outstanding at 31 December	20,665,989	4.81	23,063,389	4.49
Exercisable at 31 December	16,165,100	3.88	15,515,200	3.03

There was no exercise of the options under the Seasun Holdings Share Option Scheme during the years ended 31 December 2022 and 2021.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

Season Holdings' share award arrangements (continued)

(a) (continued)

The share options outstanding as at the end of the reporting period were granted during 2013 to 2022 and the vesting periods of these share options varied from 4 to 5 years. The exercise period of the share options granted under the Season Holdings Share Option Scheme shall be any time after the end of the vesting period and before the tenth anniversary of the grant date.

The exercise prices of the share options outstanding as at the end of the reporting period are from RMB1.00 per share to RMB2.44 per share or from US\$0.90 per share to US\$1.26 per share.

The weighted average fair values of the share options granted under the Season Holdings Share Option Scheme during the year ended 31 December 2022 and 2021 were US\$0.35 per share and US\$0.41 per share.

The fair value of the share options of Season Holdings granted during the year was estimated by an external valuer on the grant date, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2022	2021
Dividend yield (%)	11	7
Expected volatility (%)	58	53–55
Risk-free interest rate (%)	2.29	0.28–1.28
Expected life of options (years)	10	10
Weighted average share price (RMB per share)	6.51	8.10

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The total expense in respect of the Season Holdings Share Option Scheme for the year ended 31 December 2022 was RMB3,585,000 (2021: RMB9,264,000).

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

Seasun Holdings' share award arrangements (continued)

- (b) On 21 March 2017, the directors of the Company and Seasun Holdings approved and adopted the Seasun Holdings Share Award Scheme for the purpose of providing incentives and rewards to eligible participants in which selected employees of Seasun Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of Seasun Holdings, the Seasun Holdings Share Award Scheme is valid and effective for a term of ten years commencing from 21 March 2017.

The directors of Seasun Holdings will not grant those awarded shares which would result in the total number of shares (but not counting any shares which have lapsed or have been forfeited) being greater than 50,832,211 shares as at the date of such grant.

The vesting period of the awarded shares granted is determined at the discretion of the board of directors of Seasun Holdings.

The following awarded shares were outstanding under the Seasun Holdings Share Award Scheme during the year:

	2022 NUMBER OF AWARDED SHARES	2021 NUMBER OF AWARDED SHARES
Outstanding at 1 January	50,366,461	43,136,799
Granted during the year	50,000	7,289,662
Forfeited during the year	(195,000)	(60,000)
Cancelled during the year	(537,542)	—
Outstanding at 31 December	49,683,919	50,366,461

The date of grant and movements of the awarded shares outstanding under the Seasun Holdings Share Award Scheme adopted by Seasun Holdings are as follows:

2022

	NUMBER OF AWARDED SHARES		
	AT 1 JANUARY	AT 31 DECEMBER	GRANT DATE
Executive director Tao Zou	18,123,462	18,123,462	22 April 2017

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

Season Holdings' share award arrangements (continued)

(b) (continued)

	NUMBER OF AWARDED SHARES				AT 31 DECEMBER	GRANT DATE
	AT 1 JANUARY	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	CANCELLED DURING THE YEAR		
Other employees	21,088,501	—	—	(537,542)	20,550,959	22 April 2017
	1,400,000	—	—	—	1,400,000	18 January 2018
	574,836	—	—	—	574,836	22 March 2018
	1,050,000	—	(150,000)	—	900,000	1 June 2018
	900,000	—	—	—	900,000	26 March 2019
	6,239,662	—	(30,000)	—	6,209,662	24 March 2021
	990,000	—	(15,000)	—	975,000	30 September 2021
	—	50,000	—	—	50,000	1 April 2022
	32,242,999	50,000	(195,000)	(537,542)	31,560,457	
Total	50,366,461	50,000	(195,000)	(537,542)	49,683,919	

2021

	NUMBER OF AWARDED SHARES			GRANT DATE
	AT 1 JANUARY	AT 31 DECEMBER		
Executive director Tao Zou	18,123,462	18,123,462		22 April 2017

	NUMBER OF AWARDED SHARES				GRANT DATE
	AT 1 JANUARY	GRANTED DURING THE YEAR	FORFEITED DURING THE YEAR	AT 31 DECEMBER	
Other employees	21,088,501	—	—	21,088,501	22 April 2017
	1,400,000	—	—	1,400,000	18 January 2018
	574,836	—	—	574,836	22 March 2018
	1,050,000	—	—	1,050,000	1 June 2018
	900,000	—	—	900,000	26 March 2019
	—	6,289,662	(50,000)	6,239,662	24 March 2021
	—	1,000,000	(10,000)	990,000	30 September 2021
	25,013,337	7,289,662	(60,000)	32,242,999	
Total	43,136,799	7,289,662	(60,000)	50,366,461	

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

Season Holdings' share award arrangements (continued)

(b) (continued)

The weighted average fair value of the awarded shares granted during the year ended 31 December 2022 and 31 December 2021 were RMB6.51 and RMB8.10 per share.

The awarded shares outstanding as at the end of the reporting period were granted during 2017 to 2022 and the vesting periods of these share options varied from 1 to 5 years.

The fair value of the awarded shares was estimated by an external valuer on the grant date, with reference to the fair values of Season Holdings' ordinary shares using a discounted cash flow method.

No other feature of the awarded shares granted was incorporated into the measurement of fair value.

The total expense in respect of the Season Holdings Share Award Scheme for the year ended 31 December 2022 was RMB39,532,000 (2021: RMB92,326,000).

Kingsoft Office's share award arrangements

(a) On 2 June 2021, the shareholders of Beijing Kingsoft Office approved and adopted the Kingsoft Office Share Award Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Beijing Kingsoft Office and its subsidiaries are entitled to participate. The Kingsoft Office Share Award Scheme shall be valid and effective for a term of five years commencing on 2 June 2021.

The maximum number of shares under the Kingsoft Office Share Award Scheme which may be issued upon exercise of all restricted share units (the "RSUs") with option features to be granted may not in aggregate exceed 870,000 shares (representing 0.19% of the shares of Beijing Kingsoft Office in issue on 2 June 2021).

The maximum number of shares issuable under RSUs to each eligible participant in the Kingsoft Office Share Award Scheme shall not in aggregate exceed 1% of the shares of the Beijing Kingsoft Office in issue on 2 June 2021.

The exercise price, exercise period and vesting period of RSUs are determinable by the board of directors of Beijing Kingsoft Office.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

Kingsoft Office's share award arrangements (continued)

(a) (continued)

The following RSUs were outstanding under the Kingsoft Office Share Award Scheme during the year ended 31 December 2022:

	2022		2021	
	NUMBER OF SHARE RSUs	WEIGHTED AVERAGE EXERCISE PRICE RMB PER SHARE	NUMBER OF SHARE RSUs	WEIGHTED AVERAGE EXERCISE PRICE RMB PER SHARE
Outstanding at 1 January	829,400	45.26	—	—
Granted during the year	—	—	838,300	45.26
Exercised during the year	(221,529)	44.56	—	—
Forfeited during the year	(52,396)	44.73	(8,900)	45.26
Outstanding at 31 December	555,475	44.56	829,400	45.26
Exercisable at 31 December	43,461	44.56	—	—

During the year ended 31 December 2022, 221,529 RSUs (2021: none) under Kingsoft Office Share Award Scheme were exercised.

The RSUs outstanding as at the end of reporting period were granted during 2021 and the vesting periods of these RSUs were various from 1 to 3 years. The exercise period of the RSUs granted under the Kingsoft Office Share Award Scheme shall be any time after the end of the vesting period and before the first anniversary of the vested date.

The weighted average remaining contractual life for the RSUs outstanding under the Kingsoft Office Share Award Scheme as at 31 December 2022 was 1.87 years (2021: 2.53 years).

The weighted average exercise price of the RSUs outstanding as at the end of the reporting period is RMB44.56 per share.

The weighted average fair value of the RSUs granted under the Kingsoft Office Share Award Scheme during the year ended 31 December 2021 was RMB328.33 per share.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

Kingsoft Office's share award arrangements (continued)

(a) (continued)

The fair value of the RSUs under the Kingsoft Office Share Award Scheme during the year was estimated by management on the grant date, using a binomial model, taking into account the terms and conditions upon which the RSUs were granted. The following table lists the inputs to the model used:

	2021
Dividend yield (%)	0.15
Expected volatility (%)	46.65–47.91
Risk-free interest rate (%)	2.40–2.86
Weighted average share price (RMB per share)	263.58–394.89

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the RSUs granted was incorporated into the measurement of fair value.

The total expense in respect of the Kingsoft Office Share Award Scheme for the year ended 31 December 2022 was RMB106,847,000 (2021: RMB80,249,000).

(b) On 28 April 2022, the shareholders of Beijing Kingsoft Office approved and adopted the 2022 Kingsoft Office Share Award Scheme for the purpose of providing incentives and rewards to eligible participants in which selected employees of Beijing Kingsoft Office and its subsidiaries are entitled to participate. The 2022 Kingsoft Office Share Award Scheme shall be valid and effective for a term of five years commencing on 28 April 2022.

The maximum number of shares under the 2022 Kingsoft Office Share Award Scheme which may be issued upon exercise of all RSUs with option features to be granted may not in aggregate exceed 1,000,000 shares (representing 0.22% of the shares of Beijing Kingsoft Office in issue on 28 April 2022).

The maximum number of shares issuable under RSUs to each eligible participant in the 2022 Kingsoft Office Share Award Scheme shall not in aggregate exceed 1% of the shares of the Beijing Kingsoft Office in issue on 28 April 2022.

The exercise price, exercise period and vesting period of RSUs are determinable by the board of Beijing Kingsoft Office.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

Kingsoft Office's share award arrangements (continued)

(b) (continued)

The following RSUs were outstanding under the 2022 Kingsoft Office Share Award Scheme during the year ended 31 December 2022:

	2022	
	NUMBER OF SHARE RSUs	WEIGHTED AVERAGE EXERCISE PRICE RMB PER SHARE
Outstanding at 1 January	—	—
Granted during the year	1,000,000	45.16
Forfeited during the year	(22,700)	45.16
Outstanding at 31 December	977,300	45.16
Exercisable at 31 December	—	—

There was no exercise of the RSUs under the 2022 Kingsoft Office Share Award Scheme during the year ended 31 December 2022.

The RSUs outstanding as at the end of reporting period were granted during 2022 and the vesting periods of these RSUs were various from 1 to 3.5 years. The exercise period of the RSUs granted under the 2022 Kingsoft Office Share Award Scheme shall be any time after the end of the vesting period and before the first anniversary of the vested date.

The weighted average remaining contractual life for the RSUs outstanding under the Kingsoft Office Share Award Scheme as at 31 December 2022 was 2.48 years.

The exercise price of the RSUs outstanding as at the end of the reporting period is RMB45.16 per share.

The weighted average fair value of the RSUs granted under the 2022 Kingsoft Office Share Award Scheme during the year ended 31 December 2022 were RMB159.21 per share.

The fair value of the RSUs of Kingsoft Office granted during the year was estimated by management on the grant date, using a binomial model, taking into account the terms and conditions upon which the RSUs were granted. The following table lists the inputs to the model used:

	2022
Dividend yield (%)	0.27–0.32
Expected volatility (%)	52.11–61.22
Risk-free interest rate (%)	2.30–2.61
Weighted average share price (RMB per share)	188.70–259.41

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

Kingsoft Office's share award arrangements (continued)

(b) (continued)

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the RSUs granted was incorporated into the measurement of fair value.

The total expense in respect of the 2022 Kingsoft Office Share Award Scheme for the year ended 31 December 2022 was RMB43,203,000 (2021: nil).

- (c) On 3 December 2012, the directors of the Company and Kingsoft Office Software Holdings Limited ("KOS Holdings") approved and adopted the share award scheme of KOS Holdings (the "KOS Share Award Scheme") for the purpose of providing incentives and rewards to eligible participants, in which selected employees of KOS Holdings and its subsidiaries are entitled to participate. In November 2015, pursuant to the approval of the directors and the shareholders of KOS Holdings and a series of agreements, all the outstanding awarded shares under the KOS Share Award Scheme were replaced by the restricted shares of Beijing Kingsoft Office held through certain limited partnerships. The limited partnerships were set up for the purpose of holding the shares of Beijing Kingsoft Office, which is a similar arrangement for the benefit of employees as the KOS Share Award Scheme.

The vesting period of the awarded shares granted is determined at the discretion of the board of directors of Beijing Kingsoft Office.

The following awarded shares were outstanding under Other Share Award Scheme adopted by Beijing Kingsoft Office during the year:

	2022 NUMBER OF AWARDED SHARES	2021 NUMBER OF AWARDED SHARES
Outstanding as at 1 January	2,920,832	5,430,831
Granted during the year	45,000	—
Vested during the year	(2,371,999)	(2,509,999)
Forfeited during the year	(45,000)	—
Outstanding as at 31 December	548,833	2,920,832

The vesting periods of these awarded shares varied from 1 to 6 years.

The fair value of the awarded shares was determined based on the market value of Beijing Kingsoft Office's shares at the grant date. The weighted average fair value of the awarded shares granted during the year ended 31 December 2022 was RMB259.41 per share.

The total expense recognised in respect of Other Share Award Scheme adopted by Beijing Kingsoft Office for the year ended 31 December 2022 was RMB4,304,000 (2021: RMB10,163,000).

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

35. SHARE-BASED COMPENSATION COSTS (continued)

Shiyou Holdings' share award arrangements

- (a) On 13 April 2022, the shareholders and directors of the Shiyou Holdings, a subsidiary of the Company, approved and adopted the Shiyou Holdings Share Award Scheme for the purpose of providing incentives and rewards to eligible participants, in which selected employees of Kingsoft Shiyou Holdings and its subsidiaries are entitled to participate. Unless early terminated by the directors of Shiyou Holdings, the Shiyou Holdings Share Award Scheme is valid and effective for a term of ten years commencing from 13 April 2022.

The directors of Shiyou Holdings will not grant those awarded shares which would result in the total number of shares (but not counting any shares which have lapsed or have been forfeited) greater than 50,000,000 shares, as at the date of such grant.

The vesting period of the awarded shares granted is determined at the discretion of the board of directors of Shiyou Holdings.

No share awards was granted under the Shiyou Holdings Share Award Scheme during the year ended 31 December 2022 since its adoption.

36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

In accordance with the regulations in the PRC and the respective articles of association, the PRC subsidiaries of the Group are required to make an appropriation of retained profits equal to at least 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations. Such appropriations are classified in the consolidated statement of financial position as statutory reserves and start from the first period in which after-tax profits exceed all prior year accumulated losses. Appropriations to these reserves are not required after these reserves have reached 50% of the registered capital of the respective companies. In addition, the PRC subsidiaries may, subject to a shareholders' resolution, draw a discretionary reserve from their after-tax profits. The reserves shall be used to offset accumulated losses, or to increase registered capital of the companies. Where the statutory reserves are converted into capital, the remaining statutory reserve balance shall be no less than 25% of the registered capital prior to the conversion.

Changes in the Company's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiary, and the difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent, which is recorded in "other capital reserve" in the consolidated statement of changes in equity of the financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2022	2021
Percentage of equity interest held by non-controlling interests:		
Beijing Kingsoft Office	47%	47%
Seasun Holdings	28%	28%
Shiyou Holdings	20%	—

	2022 RMB'000	2021 RMB'000
Profit/(loss) for the year allocated to non-controlling interests:		
Beijing Kingsoft Office	540,157	478,569
Seasun Holdings	166,518	55,795
Shiyou Holdings	(12,530)	—
Dividends paid to non-controlling interests of:		
Beijing Kingsoft Office	152,481	130,647
Seasun Holdings	60,118	77,220
Shiyou Holdings	—	—
Accumulated balances of non-controlling interests at the reporting date:		
Beijing Kingsoft Office	4,125,725	3,620,032
Seasun Holdings	430,362	294,000
Shiyou Holdings	21,056	—

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	BEIJING KINGSOFT OFFICE RMB'000	SEASUN HOLDINGS RMB'000	SHIYOU HOLDINGS RMB'000
2022			
Revenue	3,890,588	3,174,581	565,285
Total expenses	(2,741,698)	(2,587,840)	(627,935)
Profit/(loss) for the year	1,148,890	586,741	(62,650)
Total comprehensive income/(loss) for the year	1,160,698	658,659	(51,810)
Current assets	10,865,549	3,033,702	308,199
Non-current assets	1,175,999	404,286	56,889
Current liabilities	(2,815,816)	(1,811,416)	(252,977)
Non-current liabilities	(433,273)	(59,253)	(6,830)
Net assets	8,792,459	1,567,319	105,281
Net cash flows from/(used in) operating activities	1,672,102	506,816	(19,949)
Net cash flows from/(used in) investing activities	4,190,596	441,393	(25,297)
Net cash flows (used in)/from financing activities	(354,798)	(411,448)	41,359
Net increase/(decrease) in cash and cash equivalents	5,507,900	536,761	(3,887)
		BEIJING KINGSOFT OFFICE RMB'000	SEASUN HOLDINGS RMB'000
2021			
Revenue		3,277,168	3,038,034
Total expenses		(2,252,634)	(2,841,434)
Profit for the year		1,024,534	196,600
Total comprehensive income for the year		1,012,036	172,920
Current assets		9,713,756	3,140,034
Non-current assets		700,096	371,004
Current liabilities		(2,387,404)	(2,356,631)
Non-current liabilities		(264,976)	(63,251)
Net assets		7,761,472	1,091,156
Net cash flows from operating activities		1,786,513	217,593
Net cash flows used in investing activities		(536,198)	(340,971)
Net cash flows used in financing activities		(249,631)	(57,872)
Net increase/(decrease) in cash and cash equivalents		1,000,684	(181,250)

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

38. BUSINESS COMBINATION

Heima Proofreading Business

On 1 September 2021, the Group entered into a purchase agreement with a third party to acquire its proofreading business, including the transfer of related software copyrights and domain names and key employees (collectively the "Heima Proofreading Business") at an aggregate cash consideration of RMB60,000,000. The acquisition was made as part of the Group's strategy to expand its product portfolio in the application software market.

The acquisition of Heima Proofreading Business was accounted for as a business combination and the acquisition date was 29 September 2021.

The fair values of the identifiable assets and liabilities of Heima Proofreading Business as at the date of acquisition were as follows:

	NOTES	FAIR VALUE RECOGNISED ON ACQUISITION RMB'000
Intangible assets	19	56,000
Other current assets		4,000
Total identifiable net assets at fair value		60,000
Satisfied by cash		60,000

No material transaction costs were incurred in this acquisition.

An analysis of cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(60,000)
Cash and cash equivalents acquired	—
Net outflow of cash and cash equivalents included in cash flows from investing activities	(60,000)

As the Heima Proofreading Business acquired is not a separate entity or segment and was integrated with the existing business of the Group after the acquisition date, it is impracticable to distinguish the operating result of Heima Proofreading Business from the existing business of the Group. Therefore, it is impractical to disclose the revenue and profit or loss of the business contributed to the Group since the acquisition, or the revenue and profit or loss of the Group assuming the business combination had taken place at the beginning of the year ended 31 December 2021.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

39. DISPOSAL OF SUBSIDIARIES

Disposal of Magic Fuel Game, Inc. ("MFG")

On 5 June 2022, the Group entered into a share transfer agreement with a third party company to dispose of 100% equity interests in MFG, a company engaged in the game research and development business, for an aggregate cash consideration of US\$3,000,000 (equivalent to RMB19,829,000).

The details of the net assets disposed of are as follows:

	NOTES	RMB'000
Net assets disposed of:		
Other intangible assets	19	21
Trade receivables		22
Prepayments, other receivables and other assets		133
Cash and cash equivalents		193
Trade payables		(88)
Other payables and accruals		(365)
		(84)
Exchange fluctuation reserve		372
		288
Gain on disposal of a subsidiary	6	19,541
		19,829
Satisfied by:		
Cash		10,237
Other receivables		9,592
		19,829

An analysis of the net inflows of cash and cash equivalents in respect of the disposal of MFG is as follows:

	RMB'000
Cash consideration received	10,237
Cash and cash equivalents disposed of	(193)
Net cash inflows from the disposal of a subsidiary	10,044

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

39. DISPOSAL OF SUBSIDIARIES (continued)

Disposal of Beijing Kingsoft Xinchuang Office Software Co., Ltd. ("Beijing Xinchuang")

On 18 October 2022, the Group entered into a share transfer agreement with a third party to dispose of 100% equity interests in Beijing Xinchuang, a company engaged in research and development of the office software products and services, at nil consideration.

The details of the net assets disposed of are as follows:

	NOTES	RMB'000
Net assets disposed of:		
Property, plant and equipment	15	172
Other intangible assets	19	29
Right-of-use assets		1,601
Other non-current assets		7
Trade receivables		890
Prepayments, other receivables and other assets		950
Cash and cash equivalents		864
Lease liabilities		(151)
Other payables and accruals		(8,519)
		(4,157)
Gain on disposal of a subsidiary	6	4,157

An analysis of the net outflows of cash and cash equivalents in respect of the disposal of Beijing Xinchuang is as follows:

	RMB'000
Cash consideration	—
Cash and cash equivalents disposed of	(864)
Net cash outflows from the disposal of a subsidiary	(864)

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

39. DISPOSAL OF SUBSIDIARIES (continued)

Partial disposal of Chengdu Jishan Health Technology Co., Ltd. (“Jishan Health”)

On 10 February 2022, the Group entered into a share transfer agreement with a third party company to dispose of 20.1% equity interests in Jishan Health, a company primarily engaged in the healthcare business, for an aggregate cash consideration of RMB6,232,000. The Group continues to hold 40% equity interests in Jishan Health after the disposal. Upon the completion of disposal, the Group lost control of Jishan Health and accounted for Jishan Health as investment in an associate.

The details of the net assets disposed of are as follows:

	NOTES	RMB'000
Net assets disposed of:		
Property, plant and equipment	15	386
Inventories		308
Trade receivables		22
Prepayments, other receivables and other assets		901
Cash and cash equivalents		33,074
Non-pledged time deposits with original maturity of over three months when acquired		42,000
Other payables and accruals		(45,060)
Non-controlling interests		(12,621)
		19,010
Loss on partial disposal of a subsidiary	6	(126)
		18,884
Satisfied by:		
Cash		6,232
Investment in an associate		12,652
		18,884

An analysis of the net outflows of cash and cash equivalents in respect of the partial disposal of Jishan Health is as follows:

	RMB'000
Cash consideration received	6,232
Cash and cash equivalents disposed of	(33,074)
Net cash outflows from the partial disposal of a subsidiary	(26,842)

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB82,312,000 (2021: RMB26,918,000) and RMB82,312,000 (2021: RMB26,918,000), respectively, in respect of lease arrangements for buildings and equipment.

(b) Changes in liabilities arising from financing activities

2022

	LEASE LIABILITIES RMB'000	CONVERTIBLE BONDS RMB'000	DERIVATIVE FINANCIAL INSTRUMENT RMB'000	OTHER NON- CURRENT LIABILITIES RMB'000
At 1 January 2022	205,259	2,248,587	6,426	47,175
Changes from financing cash flows	(58,239)	(16,639)	—	—
New leases	82,312	—	—	—
Foreign exchange movements	73	213,317	—	—
Fair value change	—	—	189	—
Interest expense	8,457	144,433	—	4,548
Decrease arising from termination and modification	(32,362)	—	—	—
At 31 December 2022	205,500	2,589,698	6,615	51,723

2021

	LEASE LIABILITIES RMB'000	CONVERTIBLE BONDS RMB'000	DERIVATIVE FINANCIAL INSTRUMENT RMB'000	OTHER NON- CURRENT LIABILITIES RMB'000
At 1 January 2021	222,517	2,196,595	—	—
Changes from financing cash flows	(36,438)	(16,073)	6,336	45,757
New leases	26,918	—	—	—
Foreign exchange movements	(120)	(64,376)	—	—
Fair value change	—	—	90	—
Interest expense	8,930	132,441	—	1,418
Decrease arising from termination and modification	(16,548)	—	—	—
At 31 December 2021	205,259	2,248,587	6,426	47,175

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2022 RMB'000	2021 RMB'000
Within operating activities	19,487	26,308
Within investing activities	—	1,284
Within financing activities	58,239	36,438
	77,726	64,030

41. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Development of land and buildings	495,784	142,208
Purchase of property, plant and equipment	183	154
	495,967	142,362

As at 31 December 2022, the Group's capital commitments for the development of a piece of land in Zhuhai, the development of a piece of land in Wuhan and leasehold improvements were RMB58,943,000 (2021: RMB111,706,000), RMB427,788,000 (2021: RMB23,221,000) and RMB9,053,000 (2021: RMB7,281,000), respectively.

(b) The Group had no lease contracts that have not yet commenced as at 31 December 2022 (2021: nil).

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

42. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the year:

	NOTES	2022 RMB'000	2021 RMB'000
Provision of services to a company controlled by a director of the Company*	(i)	1,887	7,665
Provision of services to associates	(ii)	19,308	22,239
Provision of services to a joint venture	(iii)	4,229	5,535
Licence fee from a company whose parent has a significant influence on the Company	(iv)	212,949	268,540
Licence fee from an associate	(v)	6,345	7,124
Purchases of products from a company controlled by a director of the Company*		742	831
Purchases of services from a company controlled by a director of the Company*	(vi)	6,887	14,488
Licence fee to a joint venture	(vii)	103,906	116,696
Rental to a company controlled by a director of the Company	(viii)	39,890	38,916
Purchase of cloud services from associates	(ix)	214,618	154,287
Interest income from loans to related parties	42(b)	19,117	4,489

* Also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

- (i) The Group entered into framework agreements with a company controlled by a director of the Company. Pursuant to the framework agreements, the Group provides promotion services to this related company and its affiliates at the prevailing fair market price in the same industry for similar transactions.
- (ii) The Group entered into agreements with associates to provide leasing services to them at the prevailing fair market price.
- (iii) The Group entered into agreements with a joint venture to provide technology support and leasing services to it at the prevailing fair market price.
- (iv) The Group entered into various licensing agreements with a company whose parent has a significant influence on the Company to operate the Group's online games with this related company at the prevailing fair market price.
- (v) The Group entered into an exclusive licensing agreement with an associate to grant the exclusive right to use certain office software.
- (vi) The Group entered into framework agreements with a company controlled by a director of the Company. Pursuant to the framework agreements, affiliates of this related company provide various forms of promotion services to the Group through the internet platforms. The price is based on (i) the prevailing fair market price, (ii) the actual cost incurred plus a reasonable profit margin, or (iii) a price with reference to the price or reasonable profit margin of an independent third party conducting similar transactions.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

42. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

- (vii) The Group entered into the game joint development and operation agreement with a joint venture to jointly develop and operate the Group's online games at the prevailing fair market price.
- (viii) The Group entered into lease agreements with a company controlled by a director of the Company at the prevailing market rent of similar properties and business nature in nearby locations. As at 31 December 2022, the carrying amounts of right-of-use assets and lease liabilities in respect with the lease agreements were RMB92,091,000 (2021:RMB139,834,000) and RMB84,900,000 (2021: RMB154,376,000), respectively. The rental deposits were RMB3,514,000 (2021:RMB3,506,000).
- (ix) The Group entered into cloud service agreements with Kingsoft Cloud and its subsidiaries (collectively, "Kingsoft Cloud Group"). Pursuant to the agreements, Kingsoft Cloud Group provides cloud services to the Group at the prevailing fair market price.
- (x) The Group entered into framework agreements with a company controlled by a director of the Company. Pursuant to the framework agreements, the Group jointly operates the Group's online games with an affiliate of this related company by ways of exclusive and non-exclusive licensing. The Group is entitled to receive licensing fee under the exclusive arrangements and the affiliate of this related company acted as a distribution platform to collect payments from players on behalf of the Group through the non-exclusive arrangements. The net amount remitted to the Group amounted to RMB13,083,000 (2021: RMB6,900,000), including the licensing fee collected on behalf of the Group after deduction of commission in accordance with the co-operation agreements, which is charged at the prevailing fair market price.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

42. RELATED PARTY TRANSACTIONS (continued)

(b) The Group had the following outstanding balances with related parties as at the end of the reporting period:

	NOTES	2022 RMB'000	2021 RMB'000
Due from related parties:			
Loan to an associate	(i)	—	504,088
Loan to a joint venture	(ii)	8,636	8,406
Loan to a key management of a subsidiary	(iii)	5,035	—
Loan to non-controlling shareholder of a subsidiary	(iv)	40,516	—
Other receivables from associates	(v)	36,522	38,334
Other receivables from a company controlled by a director of the Company	(a)(viii)	3,514	3,506
	27	94,223	554,334
Impairment allowance		(8,636)	—
		85,587	554,334
Trade receivables from associates	26	11,879	31,257
Trade receivables from a joint venture	26	1,106	942
Trade receivables from a company whose parent has significant influence on the Company	26	107,533	116,700
Trade receivables from a company controlled by a director of the Company	26	11,098	11,789
Due to related parties:			
Advance from a company controlled by a member of the key management personnel of the Company	30	301	301
Advance from a company whose parent has significant influence on the Company	31	11,321	—
Payables to an associate	30	12,088	11,687
		23,710	11,988
Trade payables to a company controlled by a director of the Company	29	6,700	7,706
Trade payables to a company whose parent has significant influence on the Company	29	1,099	3,436
Trade payables to a joint venture	29	56,796	62,031
Trade payables to associates	29	47,841	39,544
Lease liabilities to a company controlled by a director of the Company	(a)(viii)	84,900	154,376

(i) In 2021, the Group entered into a one-year loan agreement with an associate, pursuant to which, the Group has provided a loan of RMB500,000,000 to this associate with an interest rate of 4.65% per annum. The loan from the associate, including principle and interest receivable, was fully repaid in 2022. The interest income from the associate during the year was approximately RMB18,364,000 (2021: RMB3,857,000).

In 2019 and 2020, the Group entered into two loan agreements with another associate, pursuant to which, the Group provided loans of RMB5,000,000 and RMB10,000,000 to this associate, respectively, with interest rates of 4.35% and 4.35% per annum, respectively. The associate was disposed of in 2021. The interest income from the associate during the year ended 31 December 2021 before disposal was approximately RMB363,000.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

42. RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

- (ii) In 2020, the Group entered into a loan agreement with a joint venture, pursuant to which, the Group provided a loan of RMB8,000,000 to this joint venture, with interest rates of 3.85% per annum. The outstanding balances from the joint venture, including accumulated unpaid principal RMB8,000,000 and interests receivable RMB636,000, were fully impaired in 2022. The interest income from the joint venture during the year before impairment was approximately RMB217,000 (2021:RMB259,000).
- (iii) In 2022, the Group entered into a loan agreement with a key management of a subsidiary, pursuant to which, the Group provided a loan of RMB5,000,000 to the key management of a subsidiary with interest rates of China's one-year loan prime rate plus 0.1% per annum. The outstanding balances from the key management of a subsidiary including accumulated unpaid principal RMB5,000,000 and interests receivable RMB35,000. The interest income from the key management of a subsidiary during the year was approximately RMB35,000 (2021: nil).
- (iv) In 2022, the Group entered into a loan agreement with certain non-controlling shareholder of Shiyou Holdings, pursuant to which, the Group has provided a loan of RMB40,000,000 with an interest rate of London Interbank Offered Rate plus 0.5% per annum to the non-controlling shareholder of Shiyou Holdings. The loan was secured by the shares of Shiyou Holdings held by the non-controlling shareholder. The term of the above loan is one year and can be extended to three years with the permission of the Group. The outstanding balances included accumulated unpaid principle and interests receivable of RMB40,000,000 and RMB516,000, respectively, as at 31 December 2022. The interest income from non-controlling shareholder during the year was RMB501,000 (2021: nil).
- (v) Other receivables from associates are unsecured, interest-free and have no fixed term of repayment.

(c) Compensation of key management personnel of the Group

Other than the directors' remuneration disclosed in note 10 to the financial statements, the compensation of other key management personnel of the Group is as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	3,465	1,120
Pension plan contributions	213	89
Share-based compensation costs	14,922	42,029
Total compensation paid to key management personnel	18,600	43,238

- (d) Since 2016, the Group has guaranteed the non-revolving banking facilities granted to Kingsoft Cloud Group amounting to RMB400,000,000 within 5 years after first withdraw was made. After 8 May 2020, Kingsoft Cloud became an associate of the Group and the guarantee is disclosed as a related party transaction thereafter. During the year ended 31 December 2021, the guarantee was released after the banking facilities were terminated.

The contracted arrangements with the equity holders of those entities in note 1 to the financial statements and related party transactions in respect of items provision of services to, purchases of products from, purchase of services from and jointly operates the Group's online games with a company controlled by a director of the Company in note 42(a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2022

FINANCIAL ASSETS	MANDATORILY DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS RMB'000	EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME RMB'000	FINANCIAL ASSETS AT AMORTISED COST RMB'000	TOTAL RMB'000
Financial assets at fair value through profit or loss	3,336,452	—	—	3,336,452
Equity investments at fair value through other comprehensive income	—	18,273	—	18,273
Financial assets included in other non-current assets	—	—	13,961	13,961
Trade receivables	—	—	860,597	860,597
Financial assets included in prepayments, other receivables and other assets	—	—	405,654	405,654
Restricted cash	—	—	2,456	2,456
Cash and bank deposits	—	—	18,201,410	18,201,410
Total	3,336,452	18,273	19,484,078	22,838,803

FINANCIAL LIABILITIES	HELD FOR TRADING RMB'000	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000	TOTAL RMB'000
Trade payables	—	452,672	452,672
Financial liabilities included in other payables and accruals	—	415,699	415,699
Derivative financial liabilities	6,615	—	6,615
Other non-current liabilities	—	51,723	51,723
Lease liabilities	—	205,500	205,500
Liability component of convertible bonds	—	2,589,698	2,589,698
Total	6,615	3,715,292	3,721,907

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2021

FINANCIAL ASSETS	MANDATORILY DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS RMB'000	EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPRE- HENSIVE INCOME RMB'000	FINANCIAL ASSETS AT AMORTISED COST RMB'000	TOTAL RMB'000
Financial assets at fair value through profit or loss	3,129,174	—	—	3,129,174
Equity investments at fair value through other comprehensive income	—	8,418	—	8,418
Financial assets included in other non-current assets	—	—	7,238	7,238
Trade receivables	—	—	839,268	839,268
Financial assets included in prepayments, other receivables and other assets	—	—	817,229	817,229
Restricted cash	—	—	9,382	9,382
Cash and bank deposits	—	—	16,190,138	16,190,138
Total	3,129,174	8,418	17,863,255	21,000,847

FINANCIAL LIABILITIES	HELD FOR TRADING RMB'000	FINANCIAL LIABILITIES AT AMORTISED COST RMB'000	TOTAL RMB'000
Trade payables	—	423,400	423,400
Financial liabilities included in other payables and accruals	—	524,761	524,761
Derivative financial liabilities	6,426	—	6,426
Other non-current liabilities	—	47,175	47,175
Lease liabilities	—	205,259	205,259
Liability component of convertible bonds	—	2,248,587	2,248,587
Total	6,426	3,449,182	3,455,608

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	CARRYING AMOUNTS		FAIR VALUES	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
FINANCIAL ASSETS				
Loan receivables	13,961	7,238	12,724	6,596
Equity investments designated at fair value through other comprehensive income	18,273	8,418	18,273	8,418
Financial assets at fair value through profit or loss	3,336,452	3,129,174	3,336,452	3,129,174
	3,368,686	3,144,830	3,367,449	3,144,188
FINANCIAL LIABILITIES				
Derivative financial instrument	6,615	6,426	6,615	6,426
Other non-current liabilities	51,723	47,175	56,049	50,897
Liability component of convertible bonds	2,589,698	2,248,587	2,583,051	2,326,172
	2,648,036	2,302,188	2,645,715	2,383,495

Management has assessed that the fair values of cash and bank deposits, restricted cash, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the acting chief financial officer ("CFO") and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the acting CFO. The valuation process and results are discussed with the audit committee.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair value of loans receivable has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair value of an unlisted equity investment designated at fair value through other comprehensive income has been estimated using a market-based valuation technique and equity valuation allocation model. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to revenue ("EV/Revenue") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investment to measure the fair value. The directors believe that the estimated fair value resulting from the valuation technique, which is recorded in the consolidated statement of financial position, and the related changes in fair value which are recorded in other comprehensive income, are reasonable, and that it was the most appropriate value at the end of the reporting period.

The fair values of financial assets at fair value through profit or loss have been estimated as follows: (i) for wealth management products, the fair values have been estimated by using discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks; (ii) for subscription options, the fair values have been estimated by using the Black Scholes Model. Valuations requires the directors to make estimates about the life of option, dividend yield and expected volatility; and (iii) for other financial assets at fair value through profit or loss, the fair values have been estimated by reference to market approach or discount cashflow approach, and using equity valuation allocation model. Valuations requires the directors to make estimates about the underlying equity value, expected volatility and risk-free rate. The estimation of the underlying equity value is based on estimation of price multiple or expected future cash flows. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from these valuation techniques, which are recorded in the consolidated statement of financial position, the related changes in fair values, and the consolidated statement of profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2022

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	—	—	18,273	18,273
Financial assets at fair value through profit or loss	—	—	3,336,452	3,336,452
	—	—	3,354,725	3,354,725

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

As at 31 December 2021

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	
Equity investments designated at fair value through other comprehensive income	—	—	8,418	8,418
Financial assets at fair value through profit or loss	—	—	3,129,174	3,129,174
	—	—	3,137,592	3,137,592

The movements of assets in fair value measurements in Level 3 during the year are as follows:

	2022 RMB'000	2021 RMB'000
Equity investments designated at fair value through other comprehensive income/financial assets at fair value through profit or loss:		
At 1 January	3,137,592	4,120,231
Disposals	—	(1,109,280)
Additions	102,359	18,230
Total gains recognised in profit or loss	94,996	121,243
Total losses recognised in other comprehensive income	(145)	(2,307)
Others	—	(5,360)
Exchange realignment	19,923	(5,165)
At 31 December	3,354,725	3,137,592

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

Below is a summary of significant unobservable input to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2022:

	VALUATION TECHNIQUES	SIGNIFICANT UNOBSERVABLE INPUTS	SENSITIVITY OF FAIR VALUE TO THE INPUT
Financial assets at fair value through profit or loss	Black-Scholes Model	Fair value per share	5% increase (decrease) in fair value per share would result in increase (decrease) in fair value by RMB3,021,000 (2021: RMB3,359,000) RMB(144,000) (2021: RMB(198,000))

Liabilities measured at fair value:

As at 31 December 2022

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	
Derivative financial instrument	—	—	6,615	6,615

As at 31 December 2021

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	
Derivative financial instrument	—	—	6,426	6,426

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

The movements of liabilities in fair value measurements in Level 3 during the year are as follows:

	2022 RMB'000	2021 RMB'000
Other financial liabilities at fair value through profit or loss:		
At 1 January	6,426	—
Additions	—	6,336
Total losses recognised in profit or loss	189	90
At 31 December	6,615	6,426

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2021: nil).

Assets for which fair values are disclosed:

As at 31 December 2022

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	
Loans receivable	—	12,724	—	12,724

As at 31 December 2021

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	
Loans receivable	—	6,596	—	6,596

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2022

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	
Other non-current liabilities	—	—	56,049	56,049
Liability component of convertible bonds	—	—	2,583,051	2,583,051

As at 31 December 2021

	FAIR VALUE MEASUREMENT USING			TOTAL RMB'000
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1) RMB'000	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) RMB'000	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) RMB'000	
Other non-current liabilities	—	—	50,897	50,897
Liability component of convertible bonds	—	—	2,326,172	2,326,172

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise convertible bonds, cash and bank deposits and restricted cash. The main purpose of these financial instruments is to raise finance for the Group's operations and payment of dividends. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from revenue derived from overseas markets by operating units in currencies other than the units' functional currencies and monetary assets denominated in currencies other than the functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US\$ and HK\$ exchange rates, with all other variables held constant, of the Group's profit/(loss) before tax (arising from US\$ and HK\$ denominated financial instruments) for the year:

	INCREASE/ (DECREASE) IN LOSS BEFORE TAX RMB'000
2022	
If RMB strengthens 5% against HK\$	(33,472)
If RMB weakens 5% against HK\$	33,472
<hr/>	
If RMB strengthens 5% against US\$	(209)
If RMB weakens 5% against US\$	209
<hr/>	
	INCREASE/ (DECREASE) IN PROFIT BEFORE TAX RMB'000
2021	
If RMB strengthens 5% against HK\$	34,146
If RMB weakens 5% against HK\$	(34,146)
<hr/>	
If RMB strengthens 5% against US\$	2,600
If RMB weakens 5% against US\$	(2,600)
<hr/>	

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 to the financial statements.

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging

As at 31 December 2022

	12-MONTH ECLS		LIFETIME ECLS	
	STAGE 1 RMB'000	STAGE 2 RMB'000	SIMPLIFIED APPROACH RMB'000	TOTAL RMB'000
Trade receivables*	—	—	908,945	908,945
Financial assets included in prepayments, other receivables and other assets				
— Normal**	405,654	—	—	405,654
— Doubtful**	45,591	—	—	45,591
Financial assets included in other non-current assets				
— Normal**	13,961	—	—	13,961
Cash and bank deposits				
— Not yet past due	18,201,410	—	—	18,201,410
Restricted cash				
— Not yet past due	2,456	—	—	2,456
	18,669,072	—	908,945	19,578,017

As at 31 December 2021

	12-MONTH ECLS		LIFETIME ECLS	
	STAGE 1 RMB'000	STAGE 2 RMB'000	SIMPLIFIED APPROACH RMB'000	TOTAL RMB'000
Trade receivables*	—	—	884,875	884,875
Financial assets included in prepayments, other receivables and other assets				
— Normal**	817,229	—	—	817,229
— Doubtful**	—	—	—	—
Financial assets included in other non-current assets				
— Normal**	7,238	—	—	7,238
Cash and bank deposits				
— Not yet past due	16,190,138	—	—	16,190,138
Restricted cash				
— Not yet past due	9,382	—	—	9,382
	17,023,987	—	884,875	17,908,862

* For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 26 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The principal approach used by the Group to manage liquidity risk arising from financial liabilities is to maintain an adequate level of cash and bank deposits with different banks.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2022				
	ON DEMAND RMB'000	LESS THAN 3 MONTHS RMB'000	3 TO LESS THAN 12 MONTHS RMB'000	1 TO 5 YEARS RMB'000	TOTAL RMB'000
Convertible bonds	—	—	2,965,746	—	2,965,746
Trade payables	25,106	290,666	136,900	—	452,672
Other payables and accruals	362,694	5,907	48,185	—	416,786
Lease liabilities	38,077	25,107	40,078	105,180	208,442
Other non-current liabilities	—	—	—	72,500	72,500
	425,877	321,680	3,190,909	177,680	4,116,146

	2021				
	ON DEMAND RMB'000	LESS THAN 3 MONTHS RMB'000	3 TO LESS THAN 12 MONTHS RMB'000	1 TO 5 YEARS RMB'000	TOTAL RMB'000
Convertible bonds	—	—	15,841	2,714,514	2,730,355
Trade payables	13,761	296,772	112,867	—	423,400
Other payables and accruals	487,757	16,341	20,663	—	524,761
Lease liabilities	17,221	28,079	32,056	141,387	218,743
Other non-current liabilities	—	—	—	72,500	72,500
	518,739	341,192	181,427	2,928,401	3,969,759

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 2021.

The Group monitors capital using the asset-liability ratio, which represents total liabilities divided by total assets.

	2022 RMB'000	2021 RMB'000
Total liabilities	(7,733,059)	(7,742,922)
Total assets	31,888,049	36,535,112
Asset-liability ratio	24%	21%

46. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities.

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	205	651
Right-of-use assets	277	760
Investments in subsidiaries	847,882	715,088
Investments in associates	3,525,668	3,245,688
Total non-current assets	4,374,032	3,962,187
CURRENT ASSETS		
Prepayments, other receivables and other assets	32,535	3,350
Due from related parties	40,515	—
Due from subsidiaries	2,167,521	2,216,834
Cash and bank deposits	2,667,847	2,397,227
Total current assets	4,908,418	4,617,411
CURRENT LIABILITIES		
Other payables and accruals	12,747	21,029
Due to an associate	12,088	10,863
Lease liabilities	306	625
Due to subsidiaries	950,770	982,326
Income tax payable	12,346	12,346
Liability component of convertible bonds	2,589,698	—
Total current liabilities	3,577,955	1,027,189
NET CURRENT ASSETS	1,330,463	3,590,222
TOTAL ASSETS LESS CURRENT LIABILITIES	5,704,495	7,552,409
NON-CURRENT LIABILITIES		
Lease liabilities	—	215
Liability component of convertible bonds	—	2,248,587
Total non-current liabilities	—	2,248,802
Net assets	5,704,495	5,303,607
EQUITY		
Issued capital	5,281	5,308
Share premium account	2,213,361	2,490,650
Treasury shares	(29,059)	(15,259)
Equity component of convertible bonds	468,700	468,700
Other reserves	3,046,212	2,354,208
TOTAL EQUITY	5,704,495	5,303,607

NOTES TO FINANCIAL STATEMENTS (continued)

Year ended 31 December 2022

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

A summary of the Company's reserves is as follows:

	SHARE PREMIUM ACCOUNT RMB'000	TREASURY SHARES RMB'000	EQUITY COMPONENT OF CONVERTIBLE BONDS RMB'000	SHARE-BASED COMPENSATION RESERVE RMB'000	FOREIGN CURRENCY TRANSLATION RESERVE RMB'000	OTHER RETAINED PROFITS RESERVE RMB'000	OTHER CAPITAL RESERVE RMB'000	TOTAL RMB'000
BALANCE AT 1 JANUARY 2021	2,762,242	(11,181)	468,700	229,303	(68,742)	2,420,151	28,531	5,829,004
Total comprehensive loss for the year	—	—	—	—	(154,010)	(97,238)	—	(251,248)
Share-based compensation costs	—	—	—	31,829	—	—	—	31,829
Final 2020 dividend declared	(227,736)	—	—	—	—	—	—	(227,736)
Exercise of share options	37,905	—	—	(13,477)	—	—	—	24,428
Vesting of awarded shares	18,848	3,291	—	(22,139)	—	—	—	—
Shares repurchased	(100,609)	(7,369)	—	—	—	—	—	(107,978)
AT 31 DECEMBER 2021 AND 1 JANUARY 2022	2,490,650	(15,259)	468,700	225,516[#]	(222,752)[#]	2,322,913[#]	28,531[#]	5,298,299
Total comprehensive income for the year	—	—	—	—	467,098	171,439	—	638,537
Share-based compensation costs	—	—	—	66,427	—	—	—	66,427
Final 2021 dividend declared	(139,925)	—	—	—	—	—	—	(139,925)
Vesting of awarded shares	11,012	1,948	—	(12,960)	—	—	—	—
Shares repurchased for share award scheme	—	(23,117)	—	—	—	—	—	(23,117)
Shares repurchased and cancelled	(148,376)	7,369	—	—	—	—	—	(141,007)
At 31 December 2022	2,213,361	(29,059)	468,700	278,983[#]	244,346[#]	2,494,352[#]	28,531[#]	5,699,214

[#] These reserve accounts comprise other reserves of RMB3,046,212,000 (2021: RMB2,354,208,000) in the statement of financial position of the Company.

The Company operates two share option schemes and a share award scheme as part of the benefits to its employees during the year ended 31 December 2022. The share-based compensation reserve comprises the fair value of share options and awarded shares granted which are yet to be exercised or vested, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be transferred to the share premium account and treasury shares when the related share options are exercised or the related awarded shares are vested.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2023.

TERMS AND GLOSSARIES

"2011 Share Option Scheme"	the share option scheme adopted by the Company on 9 December 2011
"2020 Convertible Bonds"	the convertible bonds issued by the Company on 29 April 2020
"2021 Kingsoft Office Share Award Scheme"	the share award scheme adopted by Kingsoft Office on 2 June 2021
"2021 Share Option Scheme"	the share option scheme adopted by the Company on 9 December 2021
"2022 Kingsoft Office Share Award Scheme"	the share award scheme adopted by Kingsoft Office on 28 April 2022
"AI"	artificial intelligence
"Articles of Association"	the articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Beijing Digital Entertainment"	Beijing Kingsoft Digital Entertainment Technology Co., Ltd.* (北京金山數字娛樂科技有限公司)
"Beijing Kingsoft"	Beijing Kingsoft Software Co., Ltd.* (北京金山軟件有限公司), a subsidiary of the Company
"Beijing Kingsoft Qiwen"	Beijing Kingsoft Qiwen Enterprise Management Consulting Company Limited* (北京金山奇文企業管理諮詢有限責任公司), a company wholly owned by Mr. Jun LEI
"Board"	the board of directors of the Company
"Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Cheetah Mobile"	Cheetah Mobile Inc., an associated corporation of the Company and was listed on NYSE in May 2014
"Chengdu Digital Entertainment"	Chengdu Kingsoft Digital Entertainment Technology Co., Ltd.* (成都金山數字娛樂科技有限公司)
"Chengdu Interactive Entertainment"	Chengdu Kingsoft Interactive Entertainment Co., Ltd.* (成都金山互動娛樂科技有限公司)
"Chengdu Season Shiyou"	Chengdu Season Shiyou Technology Co., Ltd.* (成都西山居世遊科技有限公司)
"Class A Cheetah Shares"	the class A ordinary shares of Cheetah Mobile, par value US\$0.000025 per share
"Company" or "Kingsoft"	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its shares listed on the Stock Exchange (stock code: 03888)
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong

TERMS AND GLOSSARIES (continued)

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IAS”	International Accounting Standard issued by the International Accounting Standards Board
“IFRSs”	International Financial Reporting Standards
“Kingsoft Cloud”	Kingsoft Cloud Holdings Limited, a subsidiary of the Company until its separate listing on NASDAQ in May 2020
“Kingsoft Cloud Group”	Kingsoft Cloud and its subsidiaries
“Kingsoft Office”	Beijing Kingsoft Office Software, Inc., a subsidiary of the Company and was listed on the STAR Market of Shanghai Stock Exchange in November 2019
“Kingsoft Office Group”	Kingsoft Office and its subsidiaries
“Kingsoft Office Share Award Schemes”	the share award schemes adopted by Kingsoft Office on 2 June 2021 and 28 April 2022
“Kingsoft Qijian”	Beijing Kingsoft Qijian Digital Technology Co., Ltd.* (北京金山奇劍數碼科技有限公司)
“Kingsoft Shiyou Holdings”	Kingsoft Shiyou Holdings Limited, a subsidiary of the Company
“Kingsoft Shiyou Holdings Share Award Scheme”	The share award scheme adopted by Kingsoft Shiyou Holding on 13 April 2022
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“NASDAQ”	National Association of Securities Dealers Automated Quotations
“NYSE”	New York Stock Exchange
“PRC”, “China” or “Chinese Mainland”	the People’s Republic of China excluding, for the purpose of this annual report only, Hong Kong, the Macau Special Administrative Region and Taiwan
“Qiwen Entities”	nine limited partnerships established in PRC, being the employee stock ownership platforms of KSO namely, Tianjin Qiwen Yiwei Enterprises Consulting Partnership (Limited Partnership)* (天津奇文一維企業管理諮詢合夥企業 (有限合夥)), Tianjin Qiwen Erwei Enterprises Consulting Partnership (Limited Partnership)* (天津奇文二維企業管理諮詢合夥企業 (有限合夥)), Tianjin Qiwen Sanwei Enterprises Consulting Partnership (Limited Partnership)* (天津奇文三維企業管理諮詢合夥企業 (有限合夥)), Tianjin Qiwen Siwei Enterprises Consulting Partnership (Limited Partnership)* (天津奇文四維企業管理諮詢合夥企業 (有限合夥)), Tianjin Qiwen Wuwei Enterprises Consulting Partnership (Limited Partnership)* (天津奇文五維企業管理諮詢合夥企業 (有限合夥)), Tianjin Qiwen Liuwei Enterprises Consulting Partnership (Limited Partnership)* (天津奇文六維企業管理諮詢合夥企業 (有限合夥)), Tianjin Qiwen Qiwei Enterprises Consulting Partnership (Limited Partnership)* (天津奇文七維企業管理諮詢合夥企業 (有限合夥)), Tianjin Qiwen Jiuwei Enterprises Consulting Partnership (Limited Partnership)* (天津奇文九維企業管理諮詢合夥企業 (有限合夥)) and Tianjin Qiwen Shiwei Enterprises Consulting Partnership (Limited Partnership)* (天津奇文十維企業管理諮詢合夥企業 (有限合夥))

TERMS AND GLOSSARIES (continued)

“R&D”	research and development
“Reporting Period”	the year ended 31 December 2022
“RMB”	the lawful currency of the PRC
“Seasun Holdings”	Seasun Holdings Limited, a subsidiary of the Company
“Seasun Holdings Share Award Scheme”	the General Share Award Scheme, the Special Share Award Scheme (A) and the Special Share Award Scheme (B) approved and adopted by the shareholders and directors of Seasun Holdings on 21 March 2017
“Seasun Holdings Share Option Scheme”	the share option scheme of Seasun Holdings approved and adopted by the shareholders of the Company and Seasun Holdings on 27 June 2013
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share Award Scheme”	the share award scheme of the Company adopted by the Board on 31 March 2008
“Shiyou Wuhan”	Kingsoft Shiyou (Wuhan) Network Technology Co., Ltd.* (金山世遊(武漢)網絡科技有限公司)
“Shiyou Zhuhai”	Zhuhai Kingsoft Shiyou Technology Co., Ltd.* (珠海金山世遊科技有限公司)
“SSE STAR Market”	the science and technology innovation board of the Shanghai Stock Exchange
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“Wuhan Campus”	the campus of Wuhan headquarters
“Wuhan Kingsoft”	Wuhan Kingsoft Office Software Co., Ltd.* (武漢金山辦公軟件有限公司), a subsidiary of KSO
“Xiaomi”	Xiaomi Corporation (Stock Code: 1810), a limited liability company organized under the laws of Cayman Islands and listed on the Stock Exchange
“Xiaomi Group”	Xiaomi and its subsidiaries
“Zhuhai Qingzhu”	Zhuhai Qingzhu Management Services Co., Ltd.* (珠海青竹管理服務有限公司), a subsidiary of the Company
“Zhuhai Seasun Shiyou”	Zhuhai Seasun Shiyou Technology Co., Ltd.* (珠海西山居世遊科技有限公司)
“Zhuhai Software”	Zhuhai Kingsoft Software Co., Ltd.* (珠海金山軟件有限公司)
“%”	percent