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Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

(Convertible Bonds Code: 40210)

ANNOUNCEMENT OF THE RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2023

The board (“**Board**”) of directors (the “**Directors**”) of Kingsoft Corporation Limited (the “**Company**”) announces the unaudited results of the Company and its subsidiaries (the “**Group**” or “**Kingsoft**”) for the three months ended 31 March 2023.

FINANCIAL HIGHLIGHTS

	For the three months ended			Year-on-year Change %	Quarter-on- quarter Change %
	31 March 2023 RMB'000 (Unaudited)	31 March 2022 RMB'000 (Unaudited) (Restated)	31 December 2022 RMB'000 (Unaudited) (Restated)		
Revenue	1,970,307	1,853,015	2,112,449	6	(7)
Operating profit	460,302	499,451	618,733	(8)	(26)
Profit attributable to owners of the parent	192,343	98,142	47,569	96	304
	RMB (Unaudited)	RMB (Unaudited) (Restated)	RMB (Unaudited) (Restated)		
Basic earnings per share	0.14	0.07	0.03	100	367
Diluted earnings per share	0.14	0.06	0.03	133	367

OPERATIONAL HIGHLIGHTS

	In March 2023	In March 2022	In December 2022	Year-on-year Change %	Quarter-on-quarter Change %
Office Software					
Monthly Active Devices of the key products* (Million)	<u>589</u>	<u>572</u>	<u>573</u>	3	3
			As at 31 December 2022	As at 31 December 2021	Year-on-year Change %
Accumulated paying subscribers** (Million)			<u>29.97</u>	<u>25.37</u>	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.

The unaudited condensed consolidated statements of profit or loss, comprehensive income, financial position and cash flows of the Group are listed below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	For the three months ended		
	31 March 2023 RMB'000 (Unaudited)	31 March 2022 RMB'000 (Unaudited) (Restated)	31 December 2022 RMB'000 (Unaudited) (Restated)
Revenue			
Office software and services	1,051,652	871,118	1,090,168
Online games and others	918,655	981,897	1,022,281
	<u>1,970,307</u>	<u>1,853,015</u>	<u>2,112,449</u>
Cost of revenue	<u>(344,914)</u>	<u>(350,684)</u>	<u>(371,609)</u>
Gross profit	1,625,393	1,502,331	1,740,840
Research and development costs	(661,059)	(608,259)	(660,562)
Selling and distribution expenses	(351,154)	(269,066)	(334,842)
Administrative expenses	(149,788)	(147,245)	(162,478)
Share-based compensation costs	(72,786)	(74,204)	(60,190)
Other income	94,707	99,680	111,636
Other expenses	<u>(25,011)</u>	<u>(3,786)</u>	<u>(15,671)</u>
Operating profit	460,302	499,451	618,733
Other gains/(losses), net	44,044	23,027	(41,997)
Finance income	134,829	115,021	117,679
Finance costs	(40,758)	(36,997)	(41,997)
Share of profits and losses of:			
Joint ventures	(3,809)	(3,042)	(13,042)
Associates	<u>(230,757)</u>	<u>(274,650)</u>	<u>(255,516)</u>
Profit before tax	363,851	322,810	383,860
Income tax expense	<u>(25,903)</u>	<u>(34,915)</u>	<u>(144,348)</u>
Profit for the period	<u>337,948</u>	<u>287,895</u>	<u>239,512</u>
Attributable to:			
Owners of the parent	192,343	98,142	47,569
Non-controlling interests	<u>145,605</u>	<u>189,753</u>	<u>191,943</u>
	<u>337,948</u>	<u>287,895</u>	<u>239,512</u>
	RMB (Unaudited)	RMB (Unaudited) (Restated)	RMB (Unaudited) (Restated)
Earnings per share attributable to ordinary equity holders of the parent			
Basic	<u>0.14</u>	<u>0.07</u>	<u>0.03</u>
Diluted	<u>0.14</u>	<u>0.06</u>	<u>0.03</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	31 March 2023 RMB'000 (Unaudited)	31 March 2022 RMB'000 (Unaudited) (Restated)	31 December 2022 RMB'000 (Unaudited) (Restated)
PROFIT FOR THE PERIOD	337,948	287,895	239,512
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	104,769	27,685	44,448
Reclassification adjustments for disposal of a subsidiary	(11,309)	—	—
Reclassification adjustments for deemed disposal of associates	49	534	65
Share of other comprehensive loss of associates	(32,026)	(9,668)	(101,752)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	61,483	18,551	(57,239)
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	(115,965)	(41,174)	(67,528)
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value, net of tax	—	—	(145)
Share of other comprehensive income/(loss) of an associate	(1,440)	—	2,047
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(117,405)	(41,174)	(65,626)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(55,922)	(22,623)	(122,865)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	282,026	265,272	116,647
Attributable to:			
Owners of the parent	138,568	78,253	(70,383)
Non-controlling interests	143,458	187,019	187,030
	282,026	265,272	116,647

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2023 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2022 <i>RMB'000</i> <i>(Audited)</i> <i>(Restated)</i>
NON-CURRENT ASSETS		
Property, plant and equipment	1,578,323	1,551,294
Investment properties	190,122	190,911
Right-of-use assets	417,408	470,245
Goodwill	185,564	185,564
Other intangible assets	100,334	109,992
Investments in joint ventures	137,356	141,165
Investments in associates	5,088,497	5,347,967
Equity investments designated at fair value through other comprehensive income	18,273	18,273
Financial assets at fair value through profit or loss	208,818	211,353
Deferred tax assets	115,504	93,316
Other non-current assets	27,573	28,044
Total non-current assets	<u>8,067,772</u>	<u>8,348,124</u>
CURRENT ASSETS		
Inventories	18,077	18,335
Trade receivables	853,320	860,597
Prepayments, other receivables and other assets	1,349,978	1,331,934
Financial assets at fair value through profit or loss	5,822,879	3,125,099
Restricted cash	2,356	2,456
Cash and bank deposits	15,703,435	18,201,410
Total current assets	<u>23,750,045</u>	<u>23,539,831</u>
CURRENT LIABILITIES		
Trade payables	456,309	452,672
Other payables and accruals	1,084,973	1,347,722
Lease liabilities	85,480	100,538
Contract liabilities	2,272,157	2,186,742
Income tax payable	251,758	210,903
Liability component of convertible bonds	—	2,589,698
Total current liabilities	<u>4,150,677</u>	<u>6,888,275</u>
NET CURRENT ASSETS	<u>19,599,368</u>	<u>16,651,556</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>27,667,140</u>	<u>24,999,680</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31 March 2023 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2022 <i>RMB'000</i> <i>(Audited)</i> <i>(Restated)</i>
NON-CURRENT LIABILITIES		
Contract liabilities	289,129	308,723
Deferred tax liabilities	294,842	355,785
Lease liabilities	76,269	104,962
Liability component of convertible bonds	2,571,500	—
Other non-current liabilities	68,375	67,128
Derivative financial instrument	6,615	6,615
	3,306,730	843,213
Total non-current liabilities		
	24,360,410	24,156,467
NET ASSETS		
EQUITY		
Equity attributable to owners of the parent		
Issued capital	5,283	5,281
Share premium account	2,232,037	2,213,361
Treasury shares	(29,048)	(29,059)
Equity component of convertible bonds	468,700	468,700
Other reserves	17,028,239	16,843,213
	19,705,211	19,501,496
Non-controlling interests	4,655,199	4,654,971
TOTAL EQUITY	24,360,410	24,156,467

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	31 March 2023 <i>RMB'000</i> <i>(Unaudited)</i>	31 March 2022 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2022 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash flows from operating activities	362,580	188,616	1,231,974
Net cash flows (used in)/from investing activities	(3,078,881)	(227,744)	6,287,683
Net cash flows used in financing activities	<u>(116,880)</u>	<u>(109,399)</u>	<u>(73,770)</u>
Net (decrease)/increase in cash and cash equivalents	(2,833,181)	(148,527)	7,445,887
Cash and cash equivalents at beginning of the period	11,018,882	4,553,428	3,606,565
Effect of foreign exchange rate changes, net	<u>(21,108)</u>	<u>(11,206)</u>	<u>(33,570)</u>
Cash and cash equivalents at end of the period	8,164,593	4,393,695	11,018,882
Non-pledged time deposits with original maturity of over three months when acquired	7,538,842	5,121,144	7,182,528
Principal protected structure deposits with original maturity of over three months when acquired	<u>—</u>	<u>4,844,190</u>	<u>—</u>
Cash and bank deposits as stated in the condensed consolidated statement of financial position	<u>15,703,435</u>	<u>14,359,029</u>	<u>18,201,410</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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 Cayman Islands. The Company's shares (the "**Shares**") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 9 October 2007.

The Group is principally engaged in the following 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.

The interim condensed consolidated financial statements for the three months ended 31 March 2023 were approved and authorized for issue in accordance with a resolution of the Board on 23 May 2023.

2. Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, issued by International Accounting Standards Board ("**IASB**").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2022.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of preparation and significant accounting policies (continued)

Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), except for the adoption of new standards and interpretations effective as at 1 January 2023.

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

IFRS 17	<i>Insurance Contracts</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>

Other than as explained below regarding the impact of amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, the adoption of the above new and revised standards has had no significant financial effect on these 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. 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 applied by the Group retrospectively to transactions related to leases at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits at that date. Accordingly, the Group restated comparative information and recognised 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 the impact to the consolidated statement of financial position as at 31 December 2022 is the decrease in deferred tax assets of RMB94,000 and decrease in deferred tax liabilities of RMB1,571,000. Besides, the impact to the consolidated statement of the profit or loss is the increase in tax expense and decrease in the profit for the period for the three months ended 31 March 2022 by RMB1,179,000 and the decrease in tax expense and increase in the profit for the period for the three months ended 31 December 2022 by RMB1,166,000, respectively.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended 31 March 2023

Revenue

Revenue for the first quarter of 2023 increased 6% year-on-year and decreased 7% quarter-on-quarter to RMB1,970.3 million. Revenue from the office software and services, and online games and others represented 53% and 47% of the Group's total revenue for the first quarter of 2023, respectively.

Revenue from the office software and services business for the first quarter of 2023 increased 21% year-on-year and decreased 4% quarter-on-quarter to RMB1,051.7 million. The year-on-year increase was mainly due to the robust growth of domestic individual office subscription business, and rapid growth of domestic institutional subscription business of Beijing Kingsoft Office Software, Inc. (“**Kingsoft Office**”) and its subsidiaries (collectively, “**Kingsoft Office Group**”), partially offset by the decrease in domestic institutional licensing business. The solid growth of domestic individual office subscription business was primarily attributed to the continuous optimization of cloud and collaboration user experience. The fast growth of domestic institutional subscription business was mainly driven by the continuous upgrades of digital office solutions and service quality, as well as the ongoing process of promoting cloud integration and collaborative office in government and enterprises. The decrease in domestic institutional licensing business was mainly due to the relatively high base in the first quarter of 2022 and reduction in new purchase orders on localization solutions in the current quarter. The slight quarter-on-quarter decrease was mainly due to declined internet advertisement promotion business.

Revenue from the online games and others business for the first quarter of 2023 decreased 6% year-on-year and 10% quarter-on-quarter to RMB918.7 million. The year-on-year decrease was primarily due to a natural decline in revenue from the mobile games such as JX World III and JX I: Gui Lai, which had a relatively high revenue base in the first quarter of 2022. The decrease was partially offset by the revenue growth from JX Online III, which was attributed to our continuous efforts in enhancing user engagement and in-game consumption through game content updates and operations optimization. The quarter-on-quarter decrease mainly reflected the natural decline of certain existing games.

Cost of Revenue and Gross Profit

Cost of revenue for the first quarter of 2023 decreased 2% year-on-year and 7% quarter-on-quarter to RMB344.9 million. The quarter-on-quarter decrease was mainly due to reduced purchasing costs of products and services of Kingsoft Office Group.

Gross profit for the first quarter of 2023 increased 8% year-on-year and decreased 7% quarter-on-quarter to RMB1,625.4 million. The Group's gross profit margin increased by one percentage point year-on-year and kept flat quarter-on-quarter to 82%.

Research and Development (“R&D”) Costs

R&D costs for the first quarter of 2023 increased 9% year-on-year and kept flat quarter-on-quarter to RMB661.1 million. The year-on-year increase was mainly attributable to higher personnel-related expenses of Kingsoft Office Group.

Selling and Distribution Expenses

Selling and distribution expenses for the first quarter of 2023 increased 31% year-on-year and 5% quarter-on-quarter to RMB351.2 million. The year-on-year increase mainly reflected greater marketing spending of Kingsoft Office Group to expand its presence in the domestic enterprise and government market. The quarter-on-quarter increase was mainly due to higher promotional spending on mobile games.

Administrative Expenses

Administrative expenses for the first quarter of 2023 increased 2% year-on-year and decreased 8% quarter-on-quarter to RMB149.8 million. The quarter-on-quarter decrease was mainly due to the reduction in professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the first quarter of 2023 decreased 2% year-on-year and increased 21% quarter-on-quarter to RMB72.8 million. The quarter-on-quarter increase was mainly due to the grants of awarded shares to the selected employees of certain subsidiaries of the Company.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first quarter of 2023 decreased 7% year-on-year and 21% quarter-on-quarter to RMB533.1 million.

Other Gains/(Losses), net

Net other gains for the first quarter of 2023 were RMB44.0 million, compared with gains of RMB23.0 million for the first quarter of 2022 and losses of RMB42.0 million for the fourth quarter of 2022, respectively.

Share of Profits and Losses of Associates

Share of losses of associates of RMB230.8 million were recorded for the first quarter of 2023, compared with losses of RMB274.7 million and RMB255.5 million for the first and the fourth quarter of 2022, respectively.

Income Tax Expense

Income tax expense for the first quarter of 2023 decreased 26% year-on-year and 82% quarter-on-quarter to RMB25.9 million.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent for the first quarter of 2023 was RMB192.3 million, compared with profit of RMB98.1 million and RMB47.6 million for the first and the fourth quarter of 2022, respectively.

Profit Attributable to Owners of the Parent before Share-based Compensation Costs

Profit attributable to owners of the parent before share-based compensation costs is profit attributable to owners of the parent excluding the effect of share-based compensation costs attributable to owners of the parent.

We believe that the profit attributable to owners of the parent before share-based compensation costs will enable the investor to better understand the Group's overall operating performance. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our profit or any other operating performance measure that is calculated in accordance with IFRSs. In addition, our profit attributable to owners of the parent before share-based compensation costs may not be comparable to similarly titled measures utilized by other companies.

Profit attributable to owners of the parent before share-based compensation costs for the first quarter of 2023 was RMB235.5 million, compared with profit of RMB142.2 million and RMB82.6 million for the first and the fourth quarter of 2022, respectively. The net profit margin excluding the effect of share-based compensation costs was 12%, 8% and 4% for the three months ended 31 March 2023, 31 March 2022 and 31 December 2022, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 March 2023, the Group had major financial resources in the forms of cash and bank deposits and restricted cash amounting to RMB15,703.4 million and RMB2.4 million, respectively, which together represented 49% of the Group's total assets.

As at 31 March 2023, the Group's gearing ratio, representing total liabilities divided by total assets, was 23%, compared with 24% as at 31 December 2022.

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 March 2023, the aggregate amount of cash resources of the Group was RMB21,510.4 million.

Foreign Currency Risk Management

As at 31 March 2023, RMB2,933.2 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 for the three-month period mentioned above, as the case maybe, 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 RMB362.6 million, RMB188.6 million and RMB1,232.0 million for the three months ended 31 March 2023, 31 March 2022 and 31 December 2022, respectively.

Capital Expenditures

Capital expenditures represent cash payments for fixed assets, investment properties and intangible assets. Cash used for capital expenditures was RMB79.6 million, RMB85.1 million and RMB205.9 million for the three months ended 31 March 2023, 31 March 2022 and 31 December 2022, respectively.

MANAGEMENT COMMENTS

Mr. Jun LEI, Chairman of the Company, commented, “We had a good start in the first quarter of 2023. Kingsoft Office Group actively explores and promotes the practical application of artificial intelligence (“AI”) technology, invests in related R&D, and continues to empower the digital transformation of institutional and individual users. Online games business further enhances the value of original IPs and remains committed to the strategy of developing premium games.”

Mr. Tao ZOU, Chief Executive Officer of the Company, added, “The Group’s businesses remained steady in this quarter, with total revenue reaching RMB1,970.3 million, increasing by 6% year-on-year. Revenue from office software and services business reached RMB1,051.7 million, up 21% year-on-year. Both domestic individual office subscription and institutional subscription businesses experienced robust growth during this quarter, demonstrating the significant effect of the subscription transformation.

In face of the technological transformation brought about by generative AI and large language models, Kingsoft Office Group focuses on the AI field, collaborates with companies engaged in the large language models and concentrates on core businesses to excel in the application layer. Centering on the needs of organizational users, we continue to leverage the advantages of the digital office platform, actively promote the digital transformation and upgrading for organizations of all sizes, and empower their digital construction. In April 2023, we launched WPS 365, a comprehensive package of office software suitable for a wide range of institutional users, which includes powerful office software and collaboration management capabilities aiming to improve their work efficiency. In order to achieve high-quality development of individual office subscription business, we consistently enhanced the user experience of our products in cross-platform scenarios like cloud and collaboration and reconstructed the membership system in April.

Online games business made progress in iterating core IPs. Based on the high-quality expansion pack launched in the fourth quarter of 2022, our flagship JX Online III achieved an increase in new users, expanding the user base. At the same time, the number of daily active users and revenue of JX Online III increased year-on-year in the first quarter of 2023. At the end of February 2023, a new expansion pack of JX World III mobile game released, together with effective marketing and promotions, stimulated the game’s vitality and improved user experience. At the end of March 2023, World of Sword Origin (劍俠世界：起源) mobile game was initially launched in Vietnam. Upon its launch, it topped both the free and grossing charts in local iOS and Android stores. Our anime mobile games, Snowbreak: Containment Zone (塵白禁區) and The Other Shore (彼界), are scheduled for launch in the second half of 2023.”

Mr. Jun LEI concluded, “We adhere to technology-driven business. Looking forward, Kingsoft Office Group will continue to cultivate in AI, fully leveraging new technologies to drive the reconstruction and pattern innovation of office products and services. Online games business will continuously adjust and optimize products and services in response to user needs, improve games’ reputation, introduce more unique gameplay and content, and further strengthen users’ recognition and confidence in our core IPs. We are committed to creating long-term value for our shareholders by enhancing our core competencies.”

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 23 May 2023

As at the date of this announcement, the Executive Director is Mr. Tao ZOU; the Non-executive Directors are Messrs. Jun LEI, Pak Kwan KAU and Leiwen YAO; the Independent Non-executive Directors are Messrs. Shun Tak WONG, Zuo tao CHEN, and Ms. Wenjie WU.