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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 2022

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 2022.

FINANCIAL HIGHLIGHTS

	For the three months ended			Year-on-year Change %	Quarter-on- quarter Change %
	31 March 2022 RMB'000 (Unaudited)	31 March 2021 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Unaudited)		
Revenue	1,853,015	1,559,607	1,822,110	19	2
Operating profit	499,451	512,061	331,399	(2)	51
Profit/(loss) attributable to owners of the parent	99,386	116,572	(335,102)	(15)	Not applicable
	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)		
Basic earnings/(loss) per share	0.07	0.09	(0.24)	(22)	Not applicable
Diluted earnings/(loss) per share	0.06	0.08	(0.25)	(25)	Not applicable

OPERATIONAL HIGHLIGHTS

	In March 2022	In March 2021	In December 2021	Year-on-year Change %	Quarter-on-quarter Change %
Office Software					
Monthly Active Devices of the key products* (Million)	<u>572</u>	<u>498</u>	<u>544</u>	15	5
			As at 31 December 2021	As at 31 December 2020	Year-on-year Change %
Accumulated paying subscribers** (Million)			<u>25.37</u>	<u>19.62</u>	29

* Monthly Active Devices of the key products are defined as the aggregate Monthly Active Devices of 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 statement 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 2022 <i>RMB'000</i> <i>(Unaudited)</i>	31 March 2021 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2021 <i>RMB'000</i> <i>(Unaudited)</i>
Revenue			
Office software and services	871,118	770,992	903,901
Online games and others	981,897	788,615	918,209
	<u>1,853,015</u>	<u>1,559,607</u>	<u>1,822,110</u>
Cost of revenue	<u>(350,684)</u>	<u>(243,742)</u>	<u>(372,524)</u>
Gross profit	1,502,331	1,315,865	1,449,586
Research and development costs	(608,259)	(491,002)	(684,258)
Selling and distribution expenses	(269,066)	(204,527)	(307,777)
Administrative expenses	(147,245)	(147,618)	(155,461)
Share-based compensation costs	(74,204)	(31,730)	(73,094)
Other income	99,680	90,726	108,399
Other expenses	<u>(3,786)</u>	<u>(19,653)</u>	<u>(5,996)</u>
Operating profit	499,451	512,061	331,399
Other gains, net	23,027	32,992	27,676
Finance income	115,021	90,030	114,868
Finance costs	(36,997)	(35,158)	(35,545)
Share of profits and losses of:			
Joint ventures	(3,042)	(9,100)	(9,507)
Associates	<u>(274,650)</u>	<u>(224,920)</u>	<u>(579,869)</u>
Profit/(loss) before tax	322,810	365,905	(150,978)
Income tax expense	<u>(33,736)</u>	<u>(66,131)</u>	<u>(52,685)</u>
Profit/(loss) for the period	<u>289,074</u>	<u>299,774</u>	<u>(203,663)</u>
Attributable to:			
Owners of the parent	99,386	116,572	(335,102)
Non-controlling interests	<u>189,688</u>	<u>183,202</u>	<u>131,439</u>
	<u>289,074</u>	<u>299,774</u>	<u>(203,663)</u>
	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>	<i>RMB</i> <i>(Unaudited)</i>
Earnings/(loss) per share attributable to ordinary equity holders of the parent			
Basic	<u>0.07</u>	<u>0.09</u>	<u>(0.24)</u>
Diluted	<u>0.06</u>	<u>0.08</u>	<u>(0.25)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	31 March 2022 RMB'000 (Unaudited)	31 March 2021 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	289,074	299,774	(203,663)
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	27,685	(28,475)	68,500
Reclassification adjustments for deemed disposal of an associate	534	687	1,712
Share of other comprehensive income/(loss) of associates	(9,668)	42,489	(72,981)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	18,551	14,701	(2,769)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation into presentation currency	(41,174)	23,854	(95,910)
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value, net of tax	—	—	(2,307)
Share of other comprehensive income of an associate	—	21,057	16,286
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	(41,174)	44,911	(81,931)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(22,623)	59,612	(84,700)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	266,451	359,386	(288,363)
Attributable to:			
Owners of the parent	79,497	175,561	(414,260)
Non-controlling interests	186,954	183,825	125,897
	266,451	359,386	(288,363)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 March 2022 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2021 <i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT ASSETS		
Property, plant and equipment	1,278,448	1,258,503
Investment properties	161,818	157,111
Right-of-use assets	521,304	488,728
Goodwill	185,564	185,564
Other intangible assets	117,164	121,859
Investments in joint ventures	143,079	146,121
Investments in associates	12,106,924	12,130,558
Equity investments designated at fair value through other comprehensive income	8,418	8,418
Financial assets at fair value through profit or loss	226,436	226,969
Deferred tax assets	123,471	124,674
Other non-current assets	39,845	35,098
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Total non-current assets	14,912,471	14,883,603
CURRENT ASSETS		
Inventories	17,987	18,577
Trade receivables	881,404	839,268
Prepayments, other receivables and other assets	1,850,715	1,691,939
Financial assets at fair value through profit or loss	4,421,493	2,902,205
Restricted cash	2,502	9,382
Cash and bank deposits	14,359,029	16,190,138
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Total current assets	21,533,130	21,651,509
CURRENT LIABILITIES		
Trade payables	459,307	423,400
Other payables and accruals	868,990	1,426,585
Lease liabilities	78,529	50,804
Contract liabilities	2,114,925	2,003,324
Income tax payable	183,171	192,071
	<hr/>	<hr/>
Total current liabilities	3,704,922	4,096,184
NET CURRENT ASSETS	<hr/>	<hr/>
	17,828,208	17,555,325
TOTAL ASSETS LESS CURRENT LIABILITIES	<hr/>	<hr/>
	32,740,679	32,438,928

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 31 March 2022 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2021 <i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT LIABILITIES		
Contract liabilities	135,374	143,807
Deferred tax liabilities	1,003,619	1,029,633
Lease liabilities	158,770	154,455
Liability component of convertible bonds	2,259,850	2,248,587
Other non-current liabilities	64,516	63,830
Derivative financial instrument	6,426	6,426
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Total non-current liabilities	3,628,555	3,646,738
	<hr/>	<hr/>
NET ASSETS	29,112,124	28,792,190
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EQUITY		
Equity attributable to owners of the parent		
Issued capital	5,308	5,308
Share premium account	2,493,500	2,490,650
Treasury shares	(55,019)	(15,259)
Equity component of convertible bonds	468,700	468,700
Other reserves	21,974,214	21,834,670
	<hr/>	<hr/>
	24,886,703	24,784,069
Non-controlling interests	4,225,421	4,008,121
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TOTAL EQUITY	29,112,124	28,792,190
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	31 March 2022 RMB'000 (Unaudited)	31 March 2021 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Unaudited)
Net cash flows from operating activities	188,616	238,250	861,240
Net cash flows used in investing activities	(227,744)	(791,474)	(1,326,964)
Net cash flows used in financing activities	(109,399)	(476)	(3,003)
	<hr/>	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(148,527)	(553,700)	(468,727)
Cash and cash equivalents at beginning of the period	4,553,428	4,455,271	5,052,618
Effect of foreign exchange rate changes, net	(11,206)	1,812	(30,463)
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of the period	4,393,695	3,903,383	4,553,428
Non-pledged time deposits with original maturity of over three months when acquired	5,121,144	4,865,167	4,997,482
Principal protected structure deposits with original maturity of over three months when acquired	4,844,190	5,815,168	6,639,228
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Cash and bank deposits as stated in the condensed consolidated statement of financial position	14,359,029	14,583,718	16,190,138
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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 2022 were approved and authorized for issue in accordance with a resolution of the Board on 24 May 2022.

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 consolidated financial statements as at 31 December 2021.

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 2021, 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 2022.

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 IFRS Standards 2018–2020</i>	Amendments to IFRS 1, IFRS 9 and IAS 41

None of the above amendments to IFRSs has had a significant financial effect on the Group.

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 2022

Revenue

Revenue for the first quarter of 2022 increased 19% year-on-year and 2% quarter-on-quarter to RMB1,853.0 million. Revenue from the office software and services, and online games and others represented 47% and 53% of the Group's total revenue for the first quarter of 2022, respectively.

Revenue from the office software and services business for the first quarter of 2022 increased 13% year-on-year and decreased 4% quarter-on-quarter to RMB871.1 million. The year-on-year increase was mainly due to the continued growth of individual and institutional subscription business, partially offset by the decrease in institutional licensing and internet advertising business of Beijing Kingsoft Office Software, Inc. (“**Kingsoft Office**”) and its subsidiaries (collectively, “**Kingsoft Office Group**”). The growth of individual subscription business was mainly driven by the increases in the user base and the proportion of long-term paying users. The increase in institutional subscription business was largely driven by increased cloud office migration of government and enterprise users and increased market penetration. The decrease in institutional licensing business was largely due to the relatively high base of localization in the first quarter of 2021. The decrease in internet advertising business was the result of strategic contraction for the purpose of user experience's enhancement. The quarter-on-quarter decrease was mainly due to lower internet advertising revenue.

Revenue from the online games and others business for the first quarter of 2022 increased 25% year-on-year and 7% quarter-on-quarter to RMB981.9 million. The increases were mainly due to the successful launch of several mobile games which broadened our games portfolio in the fourth quarter of 2021, partially offset by decreased revenue from existing games.

Cost of Revenue and Gross Profit

Cost of revenue for the first quarter of 2022 increased 44% year-on-year and decreased 6% quarter-on-quarter to RMB350.7 million. The year-on-year increase was mainly due to: i) greater channel costs and increased personnel-related expenses of online games business; and ii) increases in server and bandwidth costs, purchasing costs of services and products, and channel costs of Kingsoft Office Group. The quarter-on-quarter decrease was largely due to decreased channel costs of Kingsoft Office Group.

Gross profit for the first quarter of 2022 increased 14% year-on-year and 4% quarter-on-quarter to RMB1,502.3 million. The Group's gross profit margin decreased by three percentage points year-on-year and increased by one percentage point quarter-on-quarter to 81%.

Research and Development (“R&D”) Costs

R&D costs for the first quarter of 2022 increased 24% year-on-year and decreased 11% quarter-on-quarter to RMB608.3 million. The year-on-year increase was mainly attributable to increased headcount as well as personnel-related expenses as our continued investments in research and innovation aiming to create value for our users. The quarter-on-quarter decrease was largely attributable to decreased accrued bonuses of Kingsoft Office Group.

Selling and Distribution Expenses

Selling and distribution expenses for the first quarter of 2022 increased 32% year-on-year and decreased 13% quarter-on-quarter to RMB269.1 million. The year-on-year increase was mainly due to greater marketing spending on mobile games, as well as increased personnel-related expenses of Kingsoft Office Group aiming to expand its presence in enterprise and government market. The quarter-on-quarter decrease mainly reflected less marketing spending on mobile games, partially offset by increased personnel-related expenses of Kingsoft Office Group.

Administrative Expenses

Administrative expenses for the first quarter of 2022 kept flat year-on-year and decreased 5% quarter-on-quarter to RMB147.2 million. The quarter-on-quarter decrease was largely due to decreased personnel-related expenses.

Share-based Compensation Costs

Share-based compensation costs for the first quarter of 2022 increased 134% year-on-year and 2% quarter-on-quarter to RMB74.2 million. The year-on-year increase was mainly due to the grants of awarded shares to the selected employees of certain subsidiaries of the Company in June 2021.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first quarter of 2022 increased 5% year-on-year and 42% quarter-on-quarter to RMB573.7 million.

Other Gains, net

Net other gains for the first quarter of 2022 were RMB23.0 million, compared with net other gains of RMB33.0 million and RMB27.7 million for the first and the fourth quarter of 2021, respectively.

Share of Profits and Losses of Associates

Share of losses of associates of RMB274.7 million were recorded for the first quarter of 2022, compared with share of losses of RMB224.9 million and RMB579.9 million for the first and the fourth quarter of 2021, respectively.

Income Tax Expense

Income tax expense for the first quarter of 2022 decreased 49% year-on-year and 36% quarter-to-quarter to RMB33.7 million.

Profit/(Loss) 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 2022 was RMB99.4 million, compared with profit of RMB116.6 million for the first quarter of 2021 and loss of RMB335.1 million for the fourth quarter of 2021.

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 is profit/(loss) 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/(loss) attributable to owners of the parent before share-based compensation costs will enable the investors 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/(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.

Profit attributable to owners of the parent before share-based compensation costs for the first quarter of 2022 was RMB143.4 million, compared with profit of RMB139.6 million for the first quarter of 2021 and loss of RMB292.4 million for the fourth quarter of 2021. The net profit/(loss) margin excluding the effect of share-based compensation costs was 8%, 9% and (16%) for the three months ended 31 March 2022, 31 March 2021 and 31 December 2021, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 31 March 2022, the Group had major financial resources in the forms of cash and bank deposits and restricted cash amounting to RMB14,359.0 million and RMB2.5 million, respectively, which together represented 39% of the Group's total assets.

As at 31 March 2022, the Group's gearing ratio, which represents total liabilities divided by total assets, was 20%, 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 of loss. As at 31 March 2022, the aggregate amount of cash resources of the Group was RMB18,751.9 million.

Foreign Currency Risk Management

As at 31 March 2022, RMB2,821.1 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 three-month period mentioned above, 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 RMB188.6 million, RMB238.3 million and RMB861.2 million for the three months ended 31 March 2022, 31 March 2021 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 RMB85.1 million, RMB75.1 million and RMB78.4 million for the three months ended 31 March 2022, 31 March 2021 and 31 December 2021, respectively.

MANAGEMENT COMMENTS

Mr. Jun LEI, Chairman of the Company, commented, “Amidst the evolving market and new challenges, we have successfully seized the opportunity for digital transformation and achieved a decent start in our core businesses. During the first quarter, Kingsoft Office Group continued to pursue the strategy of ‘multi-screen, cloud, content, artificial intelligence (“AI”) and collaboration’, upgrade its cloud office services and solutions, expand its user base and enhance market penetration. In the online games business, we continued to focus on the R&D of premium games, promote the long-term development of core games and the overseas market expansion.”

Mr. Tao ZOU, Chief Executive Officer of the Company, added, “The Group maintained steady performance across all businesses in the first quarter with total revenue reaching RMB1,853.0 million, increasing by 19% year-on-year. Driven by the continued growth of subscription revenue from individual and institutional users, our office software and services business in the first quarter increased by 13% year-on-year. With the contribution of our new mobile games launched in the fourth quarter of 2021, our online games and others business in the first quarter increased by 25% year-on-year.

During the quarter, the robust year-on-year growth of domestic individual subscription business was primarily driven by the ongoing user base expansion and growth in the number of long-term paying users. Meanwhile, during the COVID-19 pandemic, the highly effective collaboration functions of WPS Docs facilitated information sharing and drove a continuous increase in the number of uploaded cloud documents. Regarding the government and enterprise market, Kingsoft Office Group continued to enhance the solution quality of cloud and collaboration, bring brand-new experiences to users, and further promote cloud office migration and penetration. Kingsoft Office Group continued to optimize its solutions, enhance the eco-system construction and channel capabilities, and seize new opportunities arising from digital government and the industry digital transformation.

JX World III, which was launched at the end of 2021, achieved an excellent performance in the quarter, and further demonstrated our strengths in R&D and operation of premium games. Meanwhile, we continued to optimize our newly launched titles. In April 2022, we have received the license approval for JX Online III Origin (劍網3緣起), and launched its open beta in May. In view of the globalization, we strive to increase our product presence in international arenas. As such, JX World III was launched in Southeast Asia in March 2022, and Wu Lin Xian Xia (武林閑俠) was launch in Hong Kong, Macao and Taiwan in April 2022, and will also be released in South Korea in the third quarter of the year.”

Mr. Jun LEI concluded: “The results we achieved in the first quarter lays a solid foundation for the year of 2022. Looking ahead, the Group will continue to adhere to technological empowerment and keep investing in R&D. We will also strengthen our products and services, optimize user experience and strive to build a brighter future together with our users and partners.”

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 24 May 2022

As at the date of this announcement, the Executive Directors are Messrs. Tao ZOU and Yuk Keung NG; the Non-executive Directors are Messrs. Jun LEI, Pak Kwan KAU and Chi Ping LAU; the Independent Non-executive Directors are Messrs. Shun Tak WONG, David Yuen Kwan TANG, and Ms. Wenjie WU.