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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 30 SEPTEMBER 2024

The board (the “**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 30 September 2024.

FINANCIAL HIGHLIGHTS

	For the three months ended			Year-on-year Change %	Quarter-on- quarter Change %
	30 September 2024 RMB'000 (Unaudited)	30 September 2023 RMB'000 (Unaudited)	30 June 2024 RMB'000 (Unaudited)		
Revenue	2,914,785	2,059,679	2,473,766	42	18
Operating profit	1,144,118	376,073	794,037	204	44
Profit attributable to owners of the parent	413,449	28,492	393,353	1,351	5
	RMB (Unaudited)	RMB (Unaudited)	RMB (Unaudited)		
Basic earnings per share	0.31	0.02	0.29	1,450	7
Diluted earnings per share	0.29	0.02	0.28	1,350	4

OPERATIONAL HIGHLIGHTS

	In September 2024	In September 2023	In June 2024	Year-on-year Change %	Quarter-on-quarter Change %
Office Software					
Monthly Active Devices of the key products* (Million)	<u>618</u>	<u>589</u>	<u>602</u>	5	3
			As at 30 June 2024	As at 30 June 2023	Year-on-year Change %
Accumulated paying subscribers** (Million)			<u>38.15</u>	<u>33.24</u>	15

* 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		
	30 September 2024	30 September 2023	30 June 2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue			
Office software and services	1,206,815	1,098,325	1,187,730
Online games and others	1,707,970	961,354	1,286,036
	<u>2,914,785</u>	<u>2,059,679</u>	<u>2,473,766</u>
Cost of revenue	<u>(460,341)</u>	<u>(382,825)</u>	<u>(431,731)</u>
Gross profit	2,454,444	1,676,854	2,042,035
Research and development costs	(860,931)	(671,960)	(741,263)
Selling and distribution expenses	(364,929)	(441,064)	(379,407)
Administrative expenses	(165,961)	(187,138)	(155,353)
Share-based compensation costs	(58,291)	(72,819)	(81,794)
Other income	142,106	69,151	106,230
Other expenses	<u>(2,320)</u>	<u>3,049</u>	<u>3,589</u>
Operating profit	1,144,118	376,073	794,037
Other gains/(losses), net	(63,490)	18,100	(12,273)
Finance income	183,930	176,045	162,564
Finance costs	(44,416)	(43,066)	(44,738)
Share of profits and losses of:			
Joint ventures	(9,366)	(4,517)	(5,485)
Associates	<u>(427,564)</u>	<u>(306,903)</u>	<u>(169,192)</u>
Profit before tax	783,212	215,732	724,913
Income tax expense	<u>(31,231)</u>	<u>(43,825)</u>	<u>(48,372)</u>
Profit for the period	<u>751,981</u>	<u>171,907</u>	<u>676,541</u>
Attributable to:			
Owners of the parent	413,449	28,492	393,353
Non-controlling interests	<u>338,532</u>	<u>143,415</u>	<u>283,188</u>
	<u>751,981</u>	<u>171,907</u>	<u>676,541</u>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Earnings per share attributable to ordinary equity holders of the parent			
Basic	<u>0.31</u>	<u>0.02</u>	<u>0.29</u>
Diluted	<u>0.29</u>	<u>0.02</u>	<u>0.28</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		
	30 September 2024 RMB'000 (Unaudited)	30 September 2023 RMB'000 (Unaudited)	30 June 2024 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	751,981	171,907	676,541
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	62,050	6,862	(35,301)
Reclassification to profit or loss for deemed disposal of associates	(2,883)	401	(1,619)
Share of other comprehensive loss of associates	(57,873)	(22,469)	(1,541)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	1,294	(15,206)	(38,461)
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	(76,498)	(27,405)	42,946
Share of other comprehensive loss of an associate	(5,046)	(980)	(584)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	(81,544)	(28,385)	42,362
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(80,250)	(43,591)	3,901
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	671,731	128,316	680,442
Attributable to:			
Owners of the parent	336,354	(13,030)	394,830
Non-controlling interests	335,377	141,346	285,612
	671,731	128,316	680,442

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September 2024 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2023 <i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT ASSETS		
Property, plant and equipment	2,059,694	1,983,123
Investment properties	165,521	169,831
Right-of-use assets	345,157	376,936
Goodwill	185,564	185,564
Other intangible assets	82,968	93,393
Investments in joint ventures	796,754	461,220
Investments in associates	3,606,486	4,475,829
Equity investments designated at fair value through other comprehensive income	18,468	18,468
Financial assets at fair value through profit or loss	553,126	406,196
Deferred tax assets	152,012	106,920
Other non-current assets	327,169	24,018
	<u>8,292,919</u>	<u>8,301,498</u>
CURRENT ASSETS		
Inventories	14,782	15,626
Trade receivables	820,410	785,231
Prepayments, other receivables and other assets	2,511,083	2,224,334
Financial assets at fair value through profit or loss	4,310,859	3,591,493
Restricted cash	3,179	5,337
Cash and bank deposits	20,483,139	20,271,193
	<u>28,143,452</u>	<u>26,893,214</u>
CURRENT LIABILITIES		
Trade payables	500,162	533,499
Other payables and accruals	1,552,014	1,617,145
Lease liabilities	28,687	37,512
Contract liabilities	2,656,065	2,429,120
Income tax payable	213,272	263,162
Liability component of convertible bonds	2,869,129	—
	<u>7,819,329</u>	<u>4,880,438</u>
NET CURRENT ASSETS	<u>20,324,123</u>	<u>22,012,776</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>28,617,042</u>	<u>30,314,274</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	As at 30 September 2024 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2023 <i>RMB'000</i> <i>(Audited)</i>
NON-CURRENT LIABILITIES		
Contract liabilities	671,764	574,547
Deferred tax liabilities	185,229	294,448
Lease liabilities	14,763	29,496
Liability component of convertible bonds	—	2,770,192
Other non-current liabilities	69,509	65,506
Derivative financial instrument	6,828	6,828
	<hr/>	<hr/>
Total non-current liabilities	948,093	3,741,017
	<hr/>	<hr/>
NET ASSETS	27,668,949	26,573,257
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	5,187	5,292
Share premium account	1,438,289	2,187,981
Treasury shares	(137,497)	(306,558)
Equity component of convertible bonds	468,700	468,700
Other reserves	20,055,270	18,933,618
	<hr/>	<hr/>
	21,829,949	21,289,033
	<hr/>	<hr/>
Non-controlling interests	5,839,000	5,284,224
	<hr/>	<hr/>
TOTAL EQUITY	27,668,949	26,573,257
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended		
	30 September 2024 <i>RMB'000</i> <i>(Unaudited)</i>	30 September 2023 <i>RMB'000</i> <i>(Unaudited)</i>	30 June 2024 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash flows from/(used in) operating activities	1,387,306	(552,445)	1,045,225
Net cash flows used in investing activities	(1,402,903)	(3,530,178)	(5,474,934)
Net cash flows used in financing activities	<u>(191,779)</u>	<u>(50,911)</u>	<u>(512,117)</u>
Net decrease in cash and cash equivalents	(207,376)	(4,133,534)	(4,941,826)
Cash and cash equivalents at beginning of the period	2,430,983	12,892,696	7,372,164
Effect of foreign exchange rate changes, net	<u>(21,124)</u>	<u>(16,537)</u>	<u>645</u>
Cash and cash equivalents at end of the period	2,202,483	8,742,625	2,430,983
Non-pledged time deposits with original maturity of over three months when acquired	<u>18,280,656</u>	<u>11,005,092</u>	<u>17,282,896</u>
Cash and bank deposits as stated in the condensed consolidated statement of financial position	<u><u>20,483,139</u></u>	<u><u>19,747,717</u></u>	<u><u>19,713,879</u></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 the 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 30 September 2024 were approved and authorized for issue in accordance with a resolution of the Board on 19 November 2024.

2. Basis of preparation and material 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 2023.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Material 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 consolidated financial statements for the year ended 31 December 2023, 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 2024.

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

Amendments to IFRS 16	<i>Lease liability in a Sale and Leaseback</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i>

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 30 September 2024

Revenue

Revenue for the third quarter of 2024 increased 42% year-on-year and 18% quarter-on-quarter to RMB2,914.8 million. Revenue from the office software and services, and online games and others represented 41% and 59% of the Group's total revenue for the third quarter of 2024, respectively.

Revenue from the office software and services business for the third quarter of 2024 increased 10% year-on-year and 2% quarter-on-quarter to RMB1,206.8 million. The year-on-year increase was mainly due to the increased domestic individual office subscription business of Beijing Kingsoft Office Software, Inc. (“**Kingsoft Office**”) and its subsidiaries (collectively, “**Kingsoft Office Group**”), which was primarily attributed to increased user stickiness and conversion rates, supported by the introduction of WPS AI 2.0 with four new assistants in this quarter that provided more efficient creative experience.

Revenue from the online games and others business for the third quarter of 2024 increased 78% year-on-year and 33% quarter-on-quarter to RMB1,708.0 million. The remarkable year-on-year and quarter-on-quarter increases were largely attributable to: i) the outstanding performance of JX3 Online, and the successful launch of JX3 Ultimate (劍網3無界) further boosting the game popularity; and ii) the active operation and enhanced experience of other games.

Cost of Revenue and Gross Profit

Cost of revenue for the third quarter of 2024 increased 20% year-on-year and 7% quarter-on-quarter to RMB460.3 million. The increases were primarily due to greater channel costs along with the revenue growth of online games, as well as higher personnel-related expenses of online games business.

Gross profit for the third quarter of 2024 increased 46% year-on-year and 20% quarter-on-quarter to RMB2,454.4 million. The Group's gross profit margin increased by three percentage points year-on-year and one percentage point quarter-on-quarter to 84%, which were mainly due to the changes in revenue mix.

Research and Development (“R&D”) Costs

R&D costs for the third quarter of 2024 increased 28% year-on-year and 16% quarter-on-quarter to RMB860.9 million. The increases were mainly due to increased headcount to support the development of artificial intelligence (“**AI**”) and collaboration products, as well as higher accrued performance-based bonus.

Selling and Distribution Expenses

Selling and distribution expenses for the third quarter of 2024 decreased 17% year-on-year and 4% quarter-on-quarter to RMB364.9 million. The year-on-year decrease was largely due to the high base in the third quarter of 2023 with the promotional and advertising activities for the launch of new games.

Administrative Expenses

Administrative expenses for the third quarter of 2024 decreased 11% year-on-year and increased 7% quarter-on-quarter to RMB166.0 million.

Share-based Compensation Costs

Share-based compensation costs for the third quarter of 2024 decreased 20% year-on-year and 29% quarter-on-quarter to RMB58.3 million.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the third quarter of 2024 increased 168% year-on-year and 37% quarter-on-quarter to RMB1,202.4 million.

Other Gains/(Losses), net

Net other losses for the third quarter of 2024 were RMB63.5 million, compared with gains of RMB18.1 million and losses of RMB12.3 million for the third quarter of 2023 and the second quarter of 2024, respectively.

Share of Profits and Losses of Associates

We recorded share of losses of associates of RMB427.6 million for the third quarter of 2024, compared with share of losses of RMB306.9 million and RMB169.2 million for the third quarter of 2023 and the second quarter of 2024, respectively.

Income Tax Expense

Income tax expense for the third quarter of 2024 was RMB31.2 million, compared with income tax expense of RMB43.8 million and RMB48.4 million for the third quarter of 2023 and the second quarter of 2024, respectively.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent was RMB413.4 million for the third quarter of 2024, compared with profit of RMB28.5 million and RMB393.4 million for the third quarter of 2023 and the second quarter of 2024, 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 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 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 was RMB453.2 million for the third quarter of 2024, compared with profit of RMB68.8 million and RMB440.9 million for the third quarter of 2023 and the second quarter of 2024, respectively. The net profit margin excluding the effect of share-based compensation costs was 16%, 3% and 18% for the three months ended 30 September 2024, 30 September 2023 and 30 June 2024, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 30 September 2024, the Group had major financial resources in the forms of cash and bank deposits and restricted cash amounting to RMB20,483.1 million and RMB3.2 million, respectively, which together represented 56% of the Group's total assets.

As at 30 September 2024, the Group's gearing ratio, representing total liabilities divided by total assets, was 24%, which kept flat with that of 31 December 2023.

Note:

The cash resources which the Group considered in cash management including but not limited to cash and bank deposits, restricted cash and financial assets at fair value through profit or loss. As at 30 September 2024, the aggregate amount of cash resources of the Group was RMB24,777.4 million.

Foreign Currency Risk Management

As at 30 September 2024, RMB4,618.8 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/(Used in) Operating Activities

Net cash generated from/(used in) our operating activities reflected the Group's profit for the three months period mentioned above, as the case may be, as adjusted for non-cash items, such as share of profits and losses of associates, finance income, 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 RMB1,387.3 million for the three months ended 30 September 2024, net cash used in operating activities was RMB552.4 million for the three months ended 30 September 2023, and net cash generated from operating activities was RMB1,045.2 million for the three months ended 30 June 2024.

Capital Expenditures

Capital expenditures represent cash payments for property, plant and equipment, investment properties and other intangible assets. Cash used for capital expenditures was RMB108.6 million, RMB159.7 million and RMB49.7 million for the three months ended 30 September 2024, 30 September 2023 and 30 June 2024, respectively.

MANAGEMENT COMMENTS

Mr. Jun LEI, Chairman of the Company, commented, “In the third quarter, our core businesses made steady progress, further solidifying our market presence. Kingsoft Office Group remains dedicated to R&D of AI and collaboration, empowering individual and institutional customers with technological innovation, bringing users one-stop AI-empowered office experience, and promoting the application of new productive forces within the office services sector. With respect to online games business, we continue to refine our classic JX online series and actively expand into new game genres.”

Mr. Tao ZOU, Chief Executive Officer of the Company, added, “In the third quarter, fueled by the robust performance of our game products, the Group achieved significant growth in both total revenue and operating profit, both reaching a record high. Total revenue amounted to RMB2,914.8 million, representing year-on-year and quarter-on-quarter increases of 42% and 18% respectively. Revenue from online games and others business reached RMB1,708.0 million, representing a notable year-on-year increase of 78% and a quarter-on-quarter increase of 33%. Revenue from the office software and services business amounted to RMB1,206.8 million, representing a year-on-year increase of 10% and a quarter-on-quarter growth of 2%. The operating profit of the Group surged to RMB1,144.1 million, demonstrating a substantial 204% year-on-year and a 44% quarter-on-quarter growth.

In the domestic individual office subscription business, Kingsoft Office Group continued to optimize the features of WPS AI, providing users with more convenient and efficient creative experience, further enhancing user stickiness and conversion rates. Our domestic institutional subscription business, leveraging the continuous improvement of the WPS 365, steadily advanced its SaaS transformation, and expanded its customer base among large and medium-sized private enterprises and local state-owned enterprises. Overseas business also maintained healthy growth. With respect to AI application innovation, we launched a series of core capabilities and solutions, including AI Co-writing, AI Docs (intelligent document library), Kingsoft Government Office Model, and the AI assistant — WPS Lingxi. We also released the WPS HarmonyOS NEXT, further promoting the development of the AI office ecosystem.

For the online games business, JX3 Online continues to demonstrate remarkable resilience. JX3 Ultimate has performed outstandingly since its launch, and the number of returning players has exceeded expectations. In October, JX3 Online released its annual expansion pack, featuring a new class, increased level cap, and innovative gameplay, further enhancing players’ emotional engagement and activity. The sci-fi mecha game Mecha BREAK (解限機) completed its first public beta test in August, with player enthusiasm exceeding expectations, sparking widespread attention globally. The game has garnered nearly 3 million global pre-registrations and peaked at 17th on the Steam Global Wishlist. Furthermore, the mobile game The Fate of Sword: Zero (劍俠情緣•零) has received license approval and is scheduled to launch next year.”

Mr. Jun LEI concluded, “In the third quarter, we focused on refining and optimizing our core products and services to lay a solid foundation for future development. Kingsoft Office Group will continue its long-term investment in AI and collaboration to address users’ office needs across various scenarios and deliver more intelligent and efficient office experience. Meanwhile, our online games business will remain dedicated to ongoing innovation and quality enhancement, offering exceptional gaming experience and rich content to global players.”

By Order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 19 November 2024

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, Zuotao CHEN, and Ms. Wenjie WU.