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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 AND SIX MONTHS ENDED 30 JUNE 2021**

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 and six months ended 30 June 2021. These interim results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three and six months ended 30 June 2021

| | Notes | For the three months ended 30 June | | For the six months ended 30 June | |
|---|-------|---------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
| CONTINUING OPERATIONS | | | | | |
| Revenue | | | | | |
| Online games and others | | 693,308 | 884,007 | 1,481,923 | 1,677,743 |
| Office software and services | | 786,218 | 536,111 | 1,557,210 | 913,700 |
| | | <u>1,479,526</u> | <u>1,420,118</u> | <u>3,039,133</u> | <u>2,591,443</u> |
| Cost of revenue | | (271,659) | (217,922) | (515,401) | (419,099) |
| | | <u>1,207,867</u> | <u>1,202,196</u> | <u>2,523,732</u> | <u>2,172,344</u> |
| Gross profit | | | | | |
| Research and development costs | | (531,911) | (390,265) | (1,022,913) | (745,289) |
| Selling and distribution expenses | | (310,073) | (192,909) | (514,600) | (339,654) |
| Administrative expenses | | (133,330) | (101,418) | (280,948) | (194,671) |
| Share-based compensation costs | | (40,664) | (36,559) | (72,394) | (67,479) |
| Other income | | 65,856 | 65,979 | 156,582 | 112,860 |
| Other expenses | | (27,921) | 1,705 | (47,574) | (4,223) |
| | | <u>229,824</u> | <u>548,729</u> | <u>741,885</u> | <u>933,888</u> |
| Operating profit | | | | | |
| Other gains/(losses), net | | 47,793 | (104,743) | 80,785 | (101,425) |
| Finance income | | 102,719 | 110,400 | 192,749 | 208,089 |
| Finance costs | | (36,013) | (28,387) | (71,171) | (34,129) |
| Share of profits and losses of: | | | | | |
| Joint ventures | | (6,737) | 3,764 | (15,837) | 11,121 |
| Associates | | (210,777) | (172,697) | (435,697) | (236,706) |
| | | <u>229,824</u> | <u>548,729</u> | <u>741,885</u> | <u>933,888</u> |
| Profit before tax from continuing operations | | | | | |
| | 4 | 126,809 | 357,066 | 492,714 | 780,838 |
| Income tax credit/(expense) | 5 | 25,971 | (83,121) | (40,160) | (147,176) |
| | | <u>152,780</u> | <u>273,945</u> | <u>452,554</u> | <u>633,662</u> |
| Profit for the period from continuing operations | | | | | |
| | | <u>152,780</u> | <u>273,945</u> | <u>452,554</u> | <u>633,662</u> |
| DISCONTINUED OPERATION | | | | | |
| Profit for the period from a discontinued operation | | — | 8,927,436 | — | 8,446,504 |
| | | <u>—</u> | <u>8,927,436</u> | <u>—</u> | <u>8,446,504</u> |
| Profit for the period | | <u>152,780</u> | <u>9,201,381</u> | <u>452,554</u> | <u>9,080,166</u> |
| Attributable to: | | | | | |
| Owners of the parent | | 48,664 | 9,151,331 | 165,236 | 9,157,588 |
| Non-controlling interests | | 104,116 | 50,050 | 287,318 | (77,422) |
| | | <u>152,780</u> | <u>9,201,381</u> | <u>452,554</u> | <u>9,080,166</u> |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the three and six months ended 30 June 2021

| | Notes | For the three months ended 30 June | | For the six months ended 30 June | |
|--|-------|---------------------------------------|--------------------|-------------------------------------|--------------------|
| | | 2021 | 2020 | 2021 | 2020 |
| | | RMB (Unaudited) | RMB (Unaudited) | RMB (Unaudited) | RMB (Unaudited) |
| Earnings per share | | | | | |
| attributable to ordinary equity holders of the parent | 7 | | | | |
| Basic | | | | | |
| — For profit for the period | | <u>0.04</u> | <u>6.69</u> | <u>0.12</u> | <u>6.70</u> |
| — For profit from continuing operations | | <u>0.04</u> | <u>0.10</u> | <u>0.12</u> | <u>0.29</u> |
| Diluted | | | | | |
| — For profit for the period | | <u>0.03</u> | <u>6.67</u> | <u>0.12</u> | <u>6.67</u> |
| — For profit from continuing operations | | <u>0.03</u> | <u>0.10</u> | <u>0.12</u> | <u>0.28</u> |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 June 2021

| | For the three months ended 30 June | | For the six months ended 30 June | |
|--|---------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
| PROFIT FOR THE PERIOD | 152,780 | 9,201,381 | 452,554 | 9,080,166 |
| 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 | 64,482 | (14,022) | 36,007 | (83,082) |
| Reclassification adjustments for deemed disposal of a subsidiary | — | 64,475 | — | 64,475 |
| Reclassification adjustments for deemed disposal of associates | 501 | — | 1,188 | — |
| Share of other comprehensive income/(loss) of associates | (87,692) | 2,084 | (45,203) | 26,987 |
| Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods | (22,709) | 52,537 | (8,008) | 8,380 |
| 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 | (87,346) | (3,533) | (63,492) | 76,449 |
| Equity investments designated at fair value through other comprehensive income: | | | | |
| Changes in fair value, net of tax | — | 457,340 | — | 816,507 |
| Share of other comprehensive income of associates | 3,233 | 17,738 | 24,290 | 11,731 |
| Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods | (84,113) | 471,545 | (39,202) | 904,687 |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX | (106,822) | 524,082 | (47,210) | 913,067 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 45,958 | 9,725,463 | 405,344 | 9,993,233 |
| Attributable to: | | | | |
| Owners of the parent | (54,311) | 9,669,404 | 121,250 | 10,086,254 |
| Non-controlling interests | 100,269 | 56,059 | 284,094 | (93,021) |
| | 45,958 | 9,725,463 | 405,344 | 9,993,233 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

| | As at 30 June 2021 <i>RMB'000</i> <i>(Unaudited)</i> | As at 31 December 2020 <i>RMB'000</i> <i>(Audited)</i> |
|--|--|--|
| | <i>Notes</i> | |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 1,220,587 | 1,184,902 |
| Investment properties | 63,236 | 64,003 |
| Right-of-use assets | 462,823 | 504,971 |
| Goodwill | 185,564 | 185,564 |
| Other intangible assets | 64,487 | 67,175 |
| Investments in joint ventures | 165,278 | 180,920 |
| Investments in associates | 12,288,932 | 12,752,057 |
| Equity investment designated at fair value through other comprehensive income | 10,725 | 10,725 |
| Financial assets at fair value through profit or loss | 216,573 | 198,953 |
| Deferred tax assets | 99,174 | 116,981 |
| Other non-current assets | 51,025 | 46,301 |
| | <hr/> | <hr/> |
| Total non-current assets | 14,828,404 | 15,312,552 |
| CURRENT ASSETS | | |
| Inventories | 18,901 | 19,085 |
| Trade receivables | 8 732,528 | 772,485 |
| Prepayments, other receivables and other assets | 1,018,748 | 967,372 |
| Financial assets at fair value through profit or loss | 3,224,393 | 3,910,553 |
| Restricted cash | 3,403 | 13,079 |
| Cash and bank deposits | 15,247,156 | 14,049,069 |
| | <hr/> | <hr/> |
| Total current assets | 20,245,129 | 19,731,643 |
| CURRENT LIABILITIES | | |
| Trade payables | 9 313,419 | 290,855 |
| Other payables and accruals | 1,334,331 | 1,328,005 |
| Lease liabilities | 41,762 | 52,758 |
| Deferred revenue | 1,461,648 | 1,306,207 |
| Income tax payable | 149,921 | 265,823 |
| | <hr/> | <hr/> |
| Total current liabilities | 3,301,081 | 3,243,648 |
| | <hr/> | <hr/> |
| NET CURRENT ASSETS | 16,944,048 | 16,487,995 |
| | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 31,772,452 | 31,800,547 |
| | <hr/> | <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2021

| | | As at 30 June 2021 <i>RMB'000</i> <i>(Unaudited)</i> | As at 31 December 2020 <i>RMB'000</i> <i>(Audited)</i> |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| NON-CURRENT LIABILITIES | | | |
| Deferred revenue | | 131,278 | 147,193 |
| Deferred tax liabilities | | 979,789 | 1,059,090 |
| Lease liabilities | | 166,492 | 169,759 |
| Liability component of convertible bonds | 10 | <u>2,229,266</u> | <u>2,196,595</u> |
| Total non-current liabilities | | <u>3,506,825</u> | <u>3,572,637</u> |
| NET ASSETS | | <u>28,265,627</u> | <u>28,227,910</u> |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | | 5,316 | 5,316 |
| Share premium account | | 2,540,693 | 2,762,242 |
| Treasury shares | | (10,091) | (11,181) |
| Equity component of convertible bonds | 10 | 468,700 | 468,700 |
| Other reserves | | <u>21,597,526</u> | <u>21,439,482</u> |
| | | 24,602,144 | 24,664,559 |
| Non-controlling interests | | <u>3,663,483</u> | <u>3,563,351</u> |
| TOTAL EQUITY | | <u>28,265,627</u> | <u>28,227,910</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

Attributable to owners of the parent

| | Attributable to owners of the parent | | | | | | | | | | | | |
|---|--------------------------------------|---------------|-----------------|---------------------------------------|--------------------|----------------------------------|-----------------------|---|--------------------------------------|------------------|-------------|---------------------------|--------------|
| | Issued capital | Share premium | Treasury shares | Equity component of convertible bonds | Statutory reserves | Share-based compensation reserve | Other capital reserve | Fair value reserve of financial assets at fair value through other comprehensive income | Foreign currency translation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | 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 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| 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 period | — | — | — | — | — | — | — | — | — | 165,236 | 165,236 | 287,318 | 452,554 |
| Other comprehensive income/(loss) for the period: | | | | | | | | | | | | | |
| Exchange differences on translation into presentation currency | — | — | — | — | — | — | — | — | (24,261) | — | (24,261) | (3,224) | (27,485) |
| Reclassification adjustments for deemed disposal of associates | — | — | — | — | — | — | — | — | 1,188 | — | 1,188 | — | 1,188 |
| Share of other comprehensive income/(loss) of associates | — | — | — | — | — | — | — | 24,290 | (45,203) | — | (20,913) | — | (20,913) |
| Total comprehensive income/(loss) for the period | — | — | — | — | — | — | — | 24,290 | (68,276) | 165,236 | 121,250 | 284,094 | 405,344 |
| Dividends paid to non-controlling interests | — | — | — | — | — | — | — | — | — | — | — | (207,867) | (207,867) |
| Final 2020 dividend declared | — | (227,736) | — | — | — | — | — | — | — | — | (227,736) | — | (227,736) |
| Share-based compensation costs | — | — | — | — | — | 46,899 | — | — | — | — | 46,899 | 26,244 | 73,143 |
| Vesting and settlement of share-based awards | — | 6,187 | 1,090 | — | — | (7,277) | — | — | — | — | — | — | — |
| Exercise and vesting of share-based awards issued by subsidiaries | — | — | — | — | — | (1,102) | (3,159) | — | — | — | (4,261) | (1,688) | (5,949) |
| Share of reserves of associates | — | — | — | — | — | — | 782 | — | — | — | 782 | — | 782 |
| Changes in the ownership interests in subsidiaries | — | — | — | — | — | — | 651 | — | — | — | 651 | (651) | — |
| At 30 June 2021 | 5,316 | 2,540,693 | (10,091) | 468,700 | 443,939* | 582,052* | 3,841,025* | 15,958* | (173,981)* | 16,888,533* | 24,602,144 | 3,663,483 | 28,265,627 |

* These reserve accounts comprise the consolidated other reserves of RMB21,597,526,000 (31 December 2020: RMB21,439,482,000) in the interim condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2020

| | Attributable to owners of the parent | | | | | | | | | | | | |
|---|--------------------------------------|-----------------------|-----------------|---------------------|--------------------|----------------------------------|-----------------------|--|------------------------------------|--------------------------------------|-------------------|---------------------------|-------------------|
| | Issued capital | Share premium account | Treasury share | Equity component of | | Share-based compensation reserve | Other capital reserve | Fair value reserve of financial assets | | Foreign currency translation reserve | Retained profits | Non-controlling interests | Total equity |
| | | | | convertible bonds | Statutory reserves | | | at fair value through other comprehensive income | through other comprehensive income | | | | |
| | | | | RMB'000 | RMB'000 | | | RMB'000 | RMB'000 | | | | |
| (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | | |
| At 1 January 2020 | 5,316 | 2,995,605 | (14,631) | — | 348,987 | 556,591 | 4,008,820 | (1,072,927) | 391,892 | 6,577,495 | 13,797,148 | 1,812,233 | 15,609,381 |
| Profit/(loss) for the period | — | — | — | — | — | — | — | — | — | 9,157,588 | 9,157,588 | (77,422) | 9,080,166 |
| Other comprehensive income/(loss) for the period: | | | | | | | | | | | | | |
| Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax | — | — | — | — | — | — | — | 816,507 | — | — | 816,507 | — | 816,507 |
| Exchange differences on translation into presentation currency | — | — | — | — | — | — | — | — | 8,966 | — | 8,966 | (15,599) | (6,633) |
| Reclassification adjustments for deemed disposal of a subsidiary | — | — | — | — | — | — | — | — | 64,475 | — | 64,475 | — | 64,475 |
| Share of other comprehensive income of associates | — | — | — | — | — | — | — | 11,731 | 26,987 | — | 38,718 | — | 38,718 |
| Total comprehensive income/(loss) for the period | — | — | — | — | — | — | — | 828,238 | 100,428 | 9,157,588 | 10,086,254 | (93,021) | 9,993,233 |
| Dividends paid to non-controlling interests | — | — | — | — | — | — | — | — | — | — | — | (155,057) | (155,057) |
| Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income | — | — | — | — | — | — | — | 465,906 | — | (465,906) | — | — | — |
| Final 2019 dividend declared | — | (124,861) | — | — | — | — | — | — | — | — | (124,861) | — | (124,861) |
| Distribution in specie | — | (130,033) | — | — | — | — | — | — | — | — | (130,033) | — | (130,033) |
| Issue of convertible bonds | — | — | — | 468,700 | — | — | — | — | — | — | 468,700 | — | 468,700 |
| Share-based compensation costs | — | — | — | — | — | 91,920 | — | — | — | — | 91,920 | 37,582 | 129,502 |
| Vesting and settlement of share-based awards | — | 6,933 | 1,088 | — | — | (24,004) | 17,949 | — | — | — | 1,966 | 1,590 | 3,556 |
| Share of reserves of associates | — | — | — | — | — | — | 28,781 | — | — | — | 28,781 | — | 28,781 |
| Changes in the ownership interests in subsidiaries | — | — | — | — | — | — | (5,619) | — | — | — | (5,619) | (26,351) | (31,970) |
| Deemed disposal of a subsidiary | — | — | — | — | (7,571) | (96,782) | (195,714) | — | — | 300,067 | — | 1,693,847 | 1,693,847 |
| At 30 June 2020 | <u>5,316</u> | <u>2,747,644</u> | <u>(13,543)</u> | <u>468,700</u> | <u>341,416</u> | <u>527,725</u> | <u>3,854,217</u> | <u>221,217</u> | <u>492,320</u> | <u>15,569,244</u> | <u>24,214,256</u> | <u>3,270,823</u> | <u>27,485,079</u> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

| | For the six months ended 30 June | |
|---|-------------------------------------|-------------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Net cash flows from operating activities | 868,981 | 1,308,058 |
| Net cash flows used in investing activities | (108,969) | (6,276,640) |
| Net cash flows (used in)/from financing activities | <u>(412,514)</u> | <u>1,954,215</u> |
| Net increase/(decrease) in cash and cash equivalents | 347,498 | (3,014,367) |
| Cash and cash equivalents at beginning of the period | 4,455,271 | 7,329,845 |
| Effect of foreign exchange rate changes, net | <u>(10,938)</u> | <u>5,350</u> |
| Cash and cash equivalents at end of the period | 4,791,831 | 4,320,828 |
| Non-pledged time deposits with original maturity of over three months when acquired | 5,170,654 | 2,476,926 |
| Principal protected structure deposits with original maturity of over three months when acquired | <u>5,284,671</u> | <u>7,990,772</u> |
| Cash and bank deposits as stated in the condensed consolidated statement of financial position | <u>15,247,156</u> | <u>14,788,526</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 was principally involved in the following activities:

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

The interim condensed consolidated financial statements for the three months and six months ended 30 June 2021 were approved and authorized for issue in accordance with a resolution of the Board on 24 August 2021.

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 2020.

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 consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period's financial information.

Amendments to IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16

Interest Rate Benchmark Reform — Phase 2

Amendment to IFRS 16

*Covid-19-Related Rent Concessions beyond
30 June 2021 (early adopted)*

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. Certain comparative amounts have been reclassified to conform with the current year's presentation.

3. Operating segments

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 entertainment software and others segment engages in the research and development of games, and the provision of online games, mobile games and casual game services; and
- (b) 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.

3. Operating segments (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 before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations 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.

| | Entertainment software and others | Office software and services | Total |
|---|--|---|-----------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| <i>For the six months ended 30 June 2021</i> | | | |
| Segment revenue: | | | |
| Sales | <u>1,481,923</u> | <u>1,557,210</u> | <u>3,039,133</u> |
| Segment results | 236,842 | 499,518 | 736,360 |
| <i>Reconciliation:</i> | | | |
| Other gains, net | | | 80,785 |
| Finance income | | | 192,749 |
| Finance costs (other than interest on lease liabilities) | | | (65,646) |
| Share of losses of: | | | |
| Joint ventures | | | (15,837) |
| Associates | | | <u>(435,697)</u> |
| Profit before tax from continuing operations | | | <u><u>492,714</u></u> |

3. Operating segments (continued)

| | Entertainment software and others RMB'000 (Unaudited) | Office software and services RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|--|---|--|
| <i>For the six months ended 30 June 2020</i> | | | |
| Segment revenue: | | | |
| Sales | 1,677,743 | 913,700 | 2,591,443 |
| Segment results | 668,715 | 260,077 | 928,792 |
| <i>Reconciliation:</i> | | | |
| Other losses, net | | | (101,425) |
| Finance income | | | 208,089 |
| Finance costs (other than interest on lease liabilities) | | | (29,033) |
| Share of profits and losses of: | | | |
| Joint ventures | | | 11,121 |
| Associates | | | (236,706) |
| Profit before tax from continuing operations | | | <u><u>780,838</u></u> |

4. Profit before tax from continuing operations

The Group's profit before tax from continuing operations is arrived at after charging:

| | For the six months ended 30 June | |
|--|-------------------------------------|--------------------------------|
| | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
| Employee benefit expenses | 1,358,113 | 911,754 |
| Depreciation of property, plant and equipment | 59,362 | 53,442 |
| Depreciation of investment properties | 766 | 750 |
| Depreciation of right-of-use assets | 28,237 | 30,220 |
| Amortisation of other intangible assets | 15,839 | 6,273 |
| Interest on bank loans, lease liabilities and convertible bonds | 71,171 | 34,129 |
| Impairment of trade and other receivables | 45,426 | 38 |
| Impairment of investments in an associate | — | 3,932 |
| Impairment of loans to an associate | — | 38,517 |

5. Income tax expense

| | For the six months ended 30 June | |
|--|-------------------------------------|--------------------------------|
| | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
| Current income tax | 101,780 | 190,258 |
| Deferred income tax | (61,620) | (43,082) |
| Total tax charge for the period from continuing operations | 40,160 | 147,176 |
| Total tax charge for the period from a discontinued operation | — | 1,076,585 |
| | <u>40,160</u> | <u>1,223,761</u> |

6. Dividends

A final 2020 dividend of HK\$0.20 per ordinary share for 2020 proposed by the Board was approved by the shareholders of the Company (the “**Shareholders**”) on 26 May 2021. The actual 2020 final dividend paid was HK\$273.7 million (equivalent to RMB227.7 million) in June 2021.

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

7. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,368,375,045 (six months ended 30 June 2020: 1,366,890,596) in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the share option schemes and the award share schemes adopted by the Group’s subsidiaries. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings 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. No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2021 in respect of the convertible bonds outstanding as the impact was anti-dilutive.

7. Earnings per share attributable to ordinary equity holders of the parent (continued)

The calculations of basic and diluted earnings per share are based on:

| | For the six months ended 30 June | |
|---|---|--------------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation: | | |
| From continuing operations | 165,236 | 392,889 |
| From a discontinued operation | — | 8,764,699 |
| | 165,236 | 9,157,588 |
| Decrease in earnings adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries | (4,496) | (10,790) |
| | 160,740 | 9,146,798 |
| Attributable to: | | |
| Continuing operations | 160,740 | 382,099 |
| Discontinued operation | — | 8,764,699 |
| | 160,740 | 9,146,798 |
| Number of shares for the six months ended 30 June | | |
| | 2021 | 2020 |
| | (Unaudited) | (Unaudited) |
| Weighted average number of ordinary shares in issue less shares held for the share award schemes during the period used in the basic earnings per share calculation | 1,368,375,045 | 1,366,890,596 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| Share options | 2,896,088 | 834,941 |
| Awarded shares | 2,228,972 | 2,994,821 |
| | 1,373,500,105 | 1,370,720,358 |

8. Trade receivables

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

| | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|--------------|---|---|
| 0–30 days | 381,372 | 339,534 |
| 31–60 days | 62,359 | 127,072 |
| 61–90 days | 78,001 | 58,415 |
| 91–365 days | 145,654 | 187,915 |
| 1 to 2 years | 45,354 | 48,627 |
| Over 2 years | 19,788 | 10,922 |
| | <u>732,528</u> | <u>772,485</u> |

9. 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:

| | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|---------------|---|---|
| 0–30 days | 161,621 | 105,679 |
| 31–60 days | 41,399 | 60,335 |
| 61–90 days | 24,533 | 60,342 |
| 91–365 days | 79,659 | 44,696 |
| Over one year | 6,207 | 19,803 |
| | <u>313,419</u> | <u>290,855</u> |

10. Convertible bonds

On 29 April 2020, the Company issued five-year convertible bonds in the principal amount of HK\$3,100 million 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 Shares from 9 June 2020 to 3:00 p.m. on 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 early redemption 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.

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 (“**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, and 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, 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 six months ended 30 June 2021.

OPERATIONAL HIGHLIGHTS

| | In June 2021 | In June 2020 | In March 2021 | Year-on- year Change % | Quarter-on- quarter Change % |
|---|-----------------|-----------------|-----------------------------------|-----------------------------------|---------------------------------------|
| Office Software | | | | | |
| Monthly Active Users (“MAU”) of the key products* (Million) | <u>501</u> | <u>454</u> | <u>494</u> | 10 | 1 |
| | | | As at 30 June 2021 | As at 30 June 2020 | Year-on- year Change % |
| Accumulated paying subscribers** (Million) | | | <u>21.88</u> | <u>16.81</u> | 30 |
| | | | As at 30 June 2021 | As at 30 June 2020 | Year-on- year Change % |
| Total number of documents uploaded in the cloud platform*** (Billion) | | | <u>108.5</u> | <u>69.1</u> | 57 |

* MAU of the key products are defined as the aggregate MAU of both WPS Office and Kingsoft Powerword across all platforms.

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

*** Total number of documents uploaded in the cloud platform do not include the repetitive editing process and historical versions.

FINANCIAL HIGHLIGHTS

| | For the three months ended | | |
|---|---|---|--|
| | 30 June 2021 RMB'000 (Unaudited) | 30 June 2020 RMB'000 (Unaudited) | 31 March 2021 RMB'000 (Unaudited) |
| CONTINUING OPERATIONS | | | |
| Revenue | | | |
| Online games and others | 693,308 | 884,007 | 788,615 |
| Office software and services | 786,218 | 536,111 | 770,992 |
| | <u>1,479,526</u> | <u>1,420,118</u> | <u>1,559,607</u> |
| Cost of revenue | (271,659) | (217,922) | (243,742) |
| | <u>1,207,867</u> | <u>1,202,196</u> | <u>1,315,865</u> |
| Gross profit | | | |
| Research and development costs | (531,911) | (390,265) | (491,002) |
| Selling and distribution expenses | (310,073) | (192,909) | (204,527) |
| Administrative expenses | (133,330) | (101,418) | (147,618) |
| Share-based compensation costs | (40,664) | (36,559) | (31,730) |
| Other income | 65,856 | 65,979 | 90,726 |
| Other expenses | (27,921) | 1,705 | (19,653) |
| | <u>229,824</u> | <u>548,729</u> | <u>512,061</u> |
| Operating profit | | | |
| Other gains/(losses), net | 47,793 | (104,743) | 32,992 |
| Finance income | 102,719 | 110,400 | 90,030 |
| Finance costs | (36,013) | (28,387) | (35,158) |
| Share of profits and losses of: | | | |
| Joint ventures | (6,737) | 3,764 | (9,100) |
| Associates | (210,777) | (172,697) | (224,920) |
| | <u>126,809</u> | <u>357,066</u> | <u>365,905</u> |
| Profit before tax from continuing operations | | | |
| Income tax credit/(expense) | 25,971 | (83,121) | (66,131) |
| | <u>152,780</u> | <u>273,945</u> | <u>299,774</u> |
| Profit for the period from continuing operations | | | |
| DISCONTINUED OPERATION | | | |
| Profit for the period from a discontinued operation | — | 8,927,436 | — |
| | <u>152,780</u> | <u>9,201,381</u> | <u>299,774</u> |
| Profit for the period | | | |
| Attributable to: | | | |
| Owners of the parent | 48,664 | 9,151,331 | 116,572 |
| Non-controlling interests | 104,116 | 50,050 | 183,202 |
| | <u>152,780</u> | <u>9,201,381</u> | <u>299,774</u> |

FINANCIAL HIGHLIGHTS (CONTINUED)

| | For the three months ended | | |
|---|----------------------------|--------------------|--------------------|
| | 30 June | 30 June | 31 March |
| | 2021 | 2020 | 2021 |
| | <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 | | | |
| — For profit for the period | <u><u>0.04</u></u> | <u><u>6.69</u></u> | <u><u>0.09</u></u> |
| — For profit from continuing operations | <u><u>0.04</u></u> | <u><u>0.10</u></u> | <u><u>0.09</u></u> |
| Diluted | | | |
| — For profit for the period | <u><u>0.03</u></u> | <u><u>6.67</u></u> | <u><u>0.08</u></u> |
| — For profit from continuing operations | <u><u>0.03</u></u> | <u><u>0.10</u></u> | <u><u>0.08</u></u> |

FINANCIAL HIGHLIGHTS (CONTINUED)

| | For the six months ended | |
|---|--------------------------------------|--------------------------------------|
| | 30 June 2021 | 30 June 2020 |
| | <i>RMB'000</i> <i>(Unaudited)</i> | <i>RMB'000</i> <i>(Unaudited)</i> |
| CONTINUING OPERATIONS | | |
| Revenue | | |
| Online games and others | 1,481,923 | 1,677,743 |
| Office software and services | 1,557,210 | 913,700 |
| | <u>3,039,133</u> | <u>2,591,443</u> |
| Cost of revenue | <u>(515,401)</u> | <u>(419,099)</u> |
| Gross profit | 2,523,732 | 2,172,344 |
| Research and development costs | (1,022,913) | (745,289) |
| Selling and distribution expenses | (514,600) | (339,654) |
| Administrative expenses | (280,948) | (194,671) |
| Share-based compensation costs | (72,394) | (67,479) |
| Other income | 156,582 | 112,860 |
| Other expenses | <u>(47,574)</u> | <u>(4,223)</u> |
| Operating profit | 741,885 | 933,888 |
| Other gains/(losses), net | 80,785 | (101,425) |
| Finance income | 192,749 | 208,089 |
| Finance costs | (71,171) | (34,129) |
| Share of profits and losses of: | | |
| Joint ventures | (15,837) | 11,121 |
| Associates | <u>(435,697)</u> | <u>(236,706)</u> |
| Profit before tax from continuing operations | 492,714 | 780,838 |
| Income tax expense | <u>(40,160)</u> | <u>(147,176)</u> |
| Profit for the period from continuing operations | 452,554 | 633,662 |
| DISCONTINUED OPERATION | | |
| Profit for the period from a discontinued operation | <u>—</u> | <u>8,446,504</u> |
| Profit for the period | 452,554 | 9,080,166 |
| Attributable to: | | |
| Owners of the parent | 165,236 | 9,157,588 |
| Non-controlling interests | <u>287,318</u> | <u>(77,422)</u> |
| | <u>452,554</u> | <u>9,080,166</u> |

FINANCIAL HIGHLIGHTS (CONTINUED)

| | For the six months ended | |
|---|---------------------------------------|---------------------------------------|
| | 30 June 2021 RMB (Unaudited) | 30 June 2020 RMB (Unaudited) |
| Earnings per share attributable to ordinary equity holders of the parent | | |
| Basic | | |
| — For profit for the period | <u>0.12</u> | <u>6.70</u> |
| — For profit from continuing operations | <u>0.12</u> | <u>0.29</u> |
| Diluted | | |
| — For profit for the period | <u>0.12</u> | <u>6.67</u> |
| — For profit from continuing operations | <u>0.12</u> | <u>0.28</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2021 Compared with Second Quarter of 2020 and First Quarter of 2021

Revenue

Revenue for the second quarter of 2021 increased 4% year-on-year and decreased 5% quarter-on-quarter to RMB1,479.5 million. Revenue from the online games and others, and office software and services represented 47% and 53% of the Group's total revenue for the second quarter of 2021, respectively.

Revenue from the online games and others business for the second quarter of 2021 decreased 22% year-on-year and 12% quarter-on-quarter to RMB693.3 million. The year-on-year decrease was mainly due to declined revenue from JX Online III as a large-scale expansion pack successfully launched and a relatively high base following the increase caused by the pandemic in the second quarter of 2020. The quarter-on-quarter decrease was largely due to decreased revenue from existing games, partially offset by the revenue contribution from new launched mobile games.

Revenue from the office software and services business for the second quarter of 2021 increased 47% year-on-year and 2% quarter-on-quarter to RMB786.2 million. The year-on-year increase was largely due to both strong growth of licensing business and sustainable growth of subscription services business. The revenue growth of licensing business was driven primarily by increasing demand for localization, as well as cloud and collaboration services from government and enterprises. The increase in subscription services business was mainly due to growing demand for cloud and collaboration services and enhancement of user stickiness from personal users.

Cost of Revenue and Gross Profit

Cost of revenue for the second quarter of 2021 increased 25% year-on-year and 11% quarter-on-quarter to RMB271.7 million. The increases were mainly due to greater server and bandwidth costs, as well as purchasing costs of services and products, in line with the expanding business of Beijing Kingsoft Office Software, Inc. (“**Kingsoft Office**”) and its subsidiaries (collectively, “**Kingsoft Office Group**”).

Gross profit for the second quarter of 2021 kept flat year-on-year and decreased 8% quarter-on-quarter to RMB1,207.9 million. The Group's gross profit margin decreased by three percentage points year-on-year and two percentage points quarter-on-quarter to 82%.

Research and Development (“R&D”) Costs

R&D costs for the second quarter of 2021 increased 36% year-on-year and 8% quarter-on-quarter to RMB531.9 million. The increases were mainly attributable to increased personnel-related expenses.

Selling and Distribution Expenses

Selling and distribution expenses for the second quarter of 2021 increased 61% year-on-year and 52% quarter-on-quarter to RMB310.1 million. The increases were mainly due to higher personnel-related expenses and an increase in marketing and promotional spending.

Administrative Expenses

Administrative expenses for the second quarter of 2021 increased 31% year-on-year and decreased 10% quarter-on-quarter to RMB133.3 million. The year-on-year increase was primarily due to an increase in personnel-related expenses. The quarter-on-quarter decrease was primarily attributable to a decrease in professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the second quarter of 2021 increased 11% year-on-year and 28% quarter-on-quarter to RMB40.7 million. The increases were primarily reflected the new grants in awarded shares to the selected employees of certain subsidiaries of the Company in the second quarter of 2021.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the second quarter of 2021 decreased 54% year-on-year and 50% quarter-on-quarter to RMB270.5 million.

Other Gains/(Losses), net

Net other gains for the second quarter of 2021 were RMB47.8 million, compared with losses of RMB104.7 million in the corresponding period of last year, and gains of RMB33.0 million in the first quarter of 2021. The gains in the second quarter of 2021 were mainly due to fair value gains on financial instruments at fair value through profit or loss. The losses in the second quarter of 2020 were primarily due to loss on deemed disposal of an associate and impairment provisions of certain investee companies.

Share of Profits and Losses of Associates

We recorded share of losses of associates of RMB210.8 million for the second quarter of 2021, compared with share of losses of RMB172.7 million for the second quarter of 2020 and share of losses of RMB224.9 million for the first quarter of 2021. The losses in the second quarter of 2021 were mainly due to the losses recognized in Kingsoft Cloud and Cheetah Mobile Inc. (“**Cheetah Mobile**”). The losses in the second quarter of 2020 and the first quarter of 2021 were mainly due to the losses recognized in Kingsoft Cloud in these quarters.

Income Tax Credit/(Expense)

Income tax credit for the second quarter of 2021 was RMB26.0 million, compared with income tax expense of RMB83.1 million for the second quarter of 2020 and RMB66.1 million for the first quarter of 2021. The significant decreases were mainly attributable to the combined effects in the second quarter of 2021: i) the recognition of tax credits as certain subsidiaries were qualified as national key software enterprises for the year 2020; ii) the decrease in profits of online games business; iii) the specific deferred tax effects.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent (including that from continuing operations and a discontinued operation) was RMB48.7 million for the three months ended 30 June 2021, compared with profit of RMB9,151.3 million and profit of RMB116.6 million for the three months ended 30 June 2020 and 31 March 2021, 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 (including that from continuing operations and a discontinued operation) was RMB71.8 million for the three months ended 30 June 2021, compared with profit of RMB9,193.7 million and profit of RMB139.6 million for the three months ended 30 June 2020 and 31 March 2021, respectively. The net profit margin excluding the effect of share-based compensation costs was 5%, 500% and 9% for the three months ended 30 June 2021, 30 June 2020 and 31 March 2021, respectively.

First Half of 2021 Compared with First Half of 2020

Revenue

Revenue for the first half of 2021 increased 17% year-on-year to RMB3,039.1 million. Revenue from the online games and others and office software and services represented 49% and 51% of the Group's total revenue for the first half of 2021.

Revenue from the online games and others business for the first half of 2021 decreased 12% year-on-year to RMB1,481.9 million. The decrease was mainly due to the decreased revenue from JX Online III, as well as natural declining life cycles of existing mobile games.

Revenue from office software and services business for the first half of 2021 increased 70% year-on-year to RMB1,557.2 million. The remarkable year-on-year increase was largely due to both robust growth of licensing business and sustainable growth of subscription services business. The revenue growth of licensing business was driven primarily by increasing demand for localization, as well as cloud and collaboration services from government and enterprises. The increase in subscription services business was mainly due to growing demand for cloud and collaboration services and enhancement of user stickiness from personal users.

Cost of Revenue and Gross Profit

Cost of revenue for the first half of 2021 increased 23% year-on-year to RMB515.4 million. The year-on-year increase was primarily due to higher server and bandwidth costs, as well as purchasing costs of services and products, in line with the expanding business of Kingsoft Office Group.

Gross profit for the first half of 2021 increased 16% year-on-year to RMB2,523.7 million. The Group's gross profit margin decreased by one percentage point year-on-year to 83%.

R&D Costs

R&D costs for the first half of 2021 increased 37% year-on-year to RMB1,022.9 million. The increase was primarily related to increased personnel-related expenses.

Selling and Distribution Expenses

Selling and distribution expenses for the first half of 2021 increased 52% year-on-year to RMB514.6 million. The increase was primarily due to increased personnel-related expenses and promotional spending.

Administrative Expenses

Administrative expenses for the first half of 2021 increased 44% year-on-year to RMB280.9 million. The year-on-year increase was mainly due to the increased personnel-related expenses.

Share-based Compensation Costs

Share-based compensation costs for the first half of 2021 increased 7% year-on-year to RMB72.4 million.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the first half of 2021 decreased 19% to RMB814.3 million.

Other Gains/(Losses), net

Net other gains for the first half of 2021 was RMB80.8 million, compared with losses of RMB101.4 million in the same period of last year. The gains in the first half of 2021 were mainly due to fair value gains on financial instruments at fair value through profit or loss. The losses in the first half of 2020 were mainly due to loss on deemed disposal of an associate and impairment provisions for investee companies.

Finance Costs

Finance costs for the first half of 2021 increased 109% to RMB71.2 million. The increase was mainly due to the convertible bonds issued at the end of April 2020 with the interest rate of an equivalent market interest rate for a similar bond in the accounting treatment, instead of the actual yield to maturity, which would not result in cash outflow.

Share of Profits and Losses of Associates

We recorded share of losses of associates of RMB435.7 million for the first half of 2021, compared with share of losses of RMB236.7 million for the first half of 2020. The losses were mainly due to the losses recognized in Kingsoft Cloud and Cheetah Mobile.

Income Tax Expense

Income tax expense was RMB40.2 million and RMB147.2 million for the first half of 2021 and 2020, respectively.

Profit Attributable to Owners of the Parent

As a result of the reasons discussed above, profit attributable to owners of the parent (including that from continuing operations and a discontinued operation) was RMB165.2 million for the first half of 2021, compared with profit of RMB9,157.6 million in the same period last year.

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

Profit attributable to owners of the parent before share-based compensation costs for the first half of 2021 (including that from continuing operations and a discontinued operation) was RMB211.4 million, compared with profit of RMB9,248.9 million in the prior year period. The net profit margin excluding the effect of share-based compensation costs was 7% and 211% for the six months ended 30 June 2021 and 30 June 2020, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of the reporting period. As at 30 June 2021, the Group had major financial resources in the forms of cash and bank deposits and restricted cash amounting to RMB15,247.2 million and RMB3.4 million, respectively, which totally represented 43% of the Group's total assets.

As at 30 June 2021, the Group's gearing ratio, which represents total liabilities divided by total assets, was 19%, compared with 19% as at 31 December 2020.

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 30 June 2021, the aggregate amount of cash resources of the Group was RMB18,442.6 million.

Foreign Currency Risk Management

As at 30 June 2021, RMB3,089.3 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 our operating activities reflected our profit for the six months period, 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 deferred revenue, other payables and accruals.

Net cash generated from operating activities (including that from continuing operations and a discontinued operation) was RMB869.0 million and RMB1,308.1 million for the six months ended 30 June 2021 and 30 June 2020, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fix assets and intangible assets. Cash used for capital expenditures (including that from continuing operations and a discontinued operation) was RMB120.8 million and RMB404.4 million for the six months ended 30 June 2021 and 30 June 2020, respectively.

BUSINESS REVIEW AND OUTLOOK

Mr. Jun LEI, Chairman of the Company, commented, “We maintained a steady performance in all businesses in the first half of 2021. Kingsoft Office Group seized the opportunity for digital transformation and will continue to pursue the strategy of “multi-screen, cloud, content, artificial intelligence (“AI”) and collaboration”. In the online games business, we continued to focus our strategy on premium games, increase our investment in R&D, and continuously expand new game genres.”

Mr. Tao ZOU, Chief Executive Officer of the Company, added, “In the first half of 2021, our total revenue came in at RMB3,039.1 million, up 17% year-on-year, and our office software and services business recorded a strong year-on-year growth of 70%. With the robust revenue growth of office software and services business, our total revenue in the second quarter was RMB1,479.5 million, up 4% year-on-year.

Kingsoft Office Group achieved outstanding performance during the second quarter. As the localization project has entered a mature period and customer demand increased significantly, Kingsoft Office Group continued to witness a strong revenue growth from localization project during the quarter. With the enhanced synergy between the subsidiary, Beijing Suwell Technology Co., Ltd. (北京數科網維技術有限責任公司), and Kingsoft Office Group, the fixed-layout document format standards have been increasingly adopted by the market, thus further optimizing the localization business ecosystem. As a premium service provider of cloud and collaboration office solutions, we effectively promoted the cloud office migration and penetration in the government and enterprise market and it brought us strong year-on-year revenue growth for the sustainable licensing business. Kingsoft Office Group has also continued to develop the micro, small and medium-sized enterprise market. As of 30 June 2021, over 1 million micro, small and medium-sized enterprises covering 19 industries are registered users of WPS+. Kingsoft Office Group organized the 2021 Office Application Developer Conference in July and launched Document Open Platform, our first product enabling global office application developers to facilitate a digital office as well as digital transformation in the government and enterprise market in China.

Meanwhile, Kingsoft Office Group has continued to optimize the user experience and improve its customer loyalty through the application of cloud and collaboration services. We continued to enhance the penetration within the public cloud market and promote the growth of the subscription services business. During the quarter, Kingsoft Office Group launched various new functions for the WPS membership services and further optimized the user experience. In April, Kingsoft Office Group organized a content ecosystem conference in Wuhan and strived to promote the transformation of our core WPS products from office tools to office services.

In the first half of 2021, Kingsoft Office Group began the transformation of internet advertising business. We took the initiative to further adjust the advertising strategy to reduce interruptions from advertisements to users and enhance users’ cross-platform collaboration experience. During the second quarter of 2021, the internet advertising and promotion services business maintained a steady year-on-year growth with the increase in user base, while its proportion in office software and services business revenue continued to decline.

In the second quarter, the online games business continued to enhance the IP value of the JX series and expand the development of new game genres. In April, the JX I Pocket mobile game was successfully released in Vietnam. Among all Role Playing Games, the JX I Pocket mobile game ranked first on both iOS and Android download charts in the first month of its debut. In May, the First-Person Shooting game Bullet Angel was first released in Southeast Asia and got recommended by Google Play. In June, War of the Visions: Final Fantasy Brave Exvius, the latest game of the Final Fantasy Brave Exvius series developed by SQUARE ENIX, was released in China and was recommended by Apple Store.

In the coming quarters, the online games business will continue to focus on the long-term development of classic IPs and promote the launch of new games. We will celebrate the 12th anniversary of JX Online III PC game and launch a new expansion pack to further strengthen the longevity and vitality of our core IP. In addition, the JX World III mobile game will be launched within this year with a comprehensive upgrade in its visual design and gameplay.”

Mr. Jun LEI concluded, “In the first half of 2021, we achieved a stable performance of our core businesses. Looking forward to the coming quarters, we will continue to invest in R&D and technological innovation, enhance technological capabilities, and develop new products and services. We will strive to bring the best experience to our users and customers. We are committed to the sustainable growth of our business, bringing long-term value in terms of returns to our shareholders and achieving a win-win situation for our partners.”

OTHER INFORMATION

Employee and Remuneration Policies

As at 30 June 2021, the Group had 6,300 full-time employees (30 June 2020: 5,543), inclusive of all its staff in Mainland China and overseas offices, most of whom are based in Beijing and Zhuhai, the PRC. The number of employees employed by the Group varies from time to time depending on business needs. Employee remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. The remuneration policy and package of the Group's employees are periodically reviewed. Apart from pension funds, in-house training programs, discretionary bonuses, medical insurance and mandatory provident fund, share awards and share options may be granted to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the six months ended 30 June 2021 was RMB1,358.1 million (for the six months ended 30 June 2020: RMB911.8 million).

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

None of the Company and its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the six months ended 30 June 2021.

Review by Audit Committee

The Audit Committee of the Company has been established since year 2007 with responsibility of assisting the Board in providing an independent review of the financial statements and internal control system. It acts in accordance with its terms of reference which clearly defines its membership, authority, duties and frequency of meetings. It meets regularly with our management, external auditor and internal audit personnel to discuss accounting principles and practices adopted by the Group and internal control and financial reporting matters. The Audit Committee is comprised of three independent non-executive Directors, namely Ms. Wenjie WU (chairman), Mr. Shun Tak WONG and Mr. David Yuen Kwan TANG.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with our external auditors has reviewed the Group's unaudited interim financial information for the six months ended 30 June 2021.

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry to all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2021.

Corporate Governance Code

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 the Corporate Governance Code contained in Appendix 14 to the Listing Rules except for the code provisions A.6.7 and C.1.2 of the Corporate Governance Code.

The code provision A.6.7 of the CG Code is regarding non-executive directors’ attendance at general meetings. Non-executive Director Mr. Chi Ping LAU did not attend the annual general meeting of the Company held on 26 May 2021 due to pre-arranged engagements. The code provision C.1.2 of the CG 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 among 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.

Appreciation

On behalf of the Board, I would like to express our sincere thanks to our shareholders and investors for their continuous support and confidence in us. I would like to thank our employees for their hard work and valuable contributions which are the core elements of the Company’s success.

By Order of the Board
Kingsoft Corporation Limited
Jun Lei
Chairman

Hong Kong, 24 August 2021

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.