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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 YEAR ENDED 31 DECEMBER 2020

The board (“**Board**”) of directors (the “**Directors**”) of Kingsoft Corporation Limited (the “**Company**”) hereby announces the audited results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020. The results have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> <i>(Restated)*</i>	Year-on-year Change %
Revenue	5,594,243	4,371,087	28%
Operating profit	1,855,134	1,012,806	83%
Operating profit before share-based compensation costs	2,034,506	1,161,518	75%
Profit/(loss) attributable to owners of the parent**	10,045,043	(1,546,385)	Not Applicable
	<i>RMB</i>	<i>RMB</i> <i>(Restated)*</i>	
Basic earnings/(loss) per share			
— For profit/(loss) for the year	7.35	(1.13)	Not applicable
— For profit/(loss) from continuing operations	0.94	(0.56)	Not applicable
Diluted earnings/(loss) per share			
— For profit/(loss) for the year	7.32	(1.15)	Not applicable
— For profit/(loss) from continuing operations	0.92	(0.57)	Not applicable

* The comparative figures are restated to reflect the reclassification between continuing operations and a discontinued operation of the Group. The operating results of Kingsoft Cloud Holdings Limited (“**Kingsoft Cloud**”) and its subsidiaries (collectively, “**Kingsoft Cloud Group**”) before the deemed disposal have been presented as a discontinued operation of the Group.

** Profit attributable to owners of the parent before the effect of share-based compensation costs (including that from continuing operations and a discontinued operation) is RMB10,201.3 million (2019: loss of RMB1,380.7 million) for the year ended 31 December 2020.

DIVIDEND

The Board has recommended the payment of a final dividend of HK\$0.20 per share for the year ended 31 December 2020 (2019: HK\$0.10 per share). The final dividend, subject to the approval of the shareholders at the forthcoming annual general meeting (the “AGM”) of the Company, is expected to be paid on 18 June 2021.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

		As at 31 December	
		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,184,902	2,913,460
Investment properties		64,003	62,504
Right-of-use assets		504,971	403,737
Goodwill		185,564	—
Other intangible assets		67,175	30,938
Investments in joint ventures		180,920	270,303
Investments in associates		12,752,057	2,437,522
Equity investments designated at fair value through other comprehensive income		10,725	746,992
Financial assets at fair value through profit or loss		198,953	49,314
Deferred tax assets		116,981	107,038
Other non-current assets		46,301	47,276
		<hr/>	<hr/>
Total non-current assets		15,312,552	7,069,084
CURRENT ASSETS			
Inventories		19,085	16,378
Trade receivables	10	772,485	2,059,031
Prepayments, other receivables and other assets		967,372	1,365,093
Equity investments designated at fair value through other comprehensive income		—	10,000
Financial assets at fair value through profit or loss		3,910,553	89,920
Restricted cash		13,079	—
Cash and bank deposits		14,049,069	13,792,117
		<hr/>	<hr/>
Total current assets		19,731,643	17,332,539

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2020**

		As at 31 December	
	<i>Notes</i>	2020	2019
		RMB'000	RMB'000
CURRENT LIABILITIES			
Trade payables	11	290,855	1,501,604
Other payables and accruals		1,328,005	1,690,263
Interest-bearing bank loans	12	—	623,215
Lease liabilities		52,758	18,260
Deferred revenue		1,306,207	879,440
Income tax payable		265,823	93,430
Derivative financial instruments		—	128,236
		<hr/>	<hr/>
Total current liabilities		3,243,648	4,934,448
		<hr/>	<hr/>
NET CURRENT ASSETS		16,487,995	12,398,091
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		31,800,547	19,467,175
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Deferred revenue		147,193	51,944
Deferred tax liabilities		1,059,090	50,691
Interest-bearing bank loans	12	—	74,351
Lease liabilities		169,759	97,789
Liability component of convertible bonds	13	2,196,595	—
Liability component of redeemable convertible preferred shares		—	3,583,019
		<hr/>	<hr/>
Total non-current liabilities		3,572,637	3,857,794
		<hr/>	<hr/>
NET ASSETS		28,227,910	15,609,381
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EQUITY			
Equity attributable to owners of the parent			
Issued capital		5,316	5,316
Share premium account		2,762,242	2,995,605
Treasury shares		(11,181)	(14,631)
Equity component of convertible bonds	13	468,700	—
Other reserves		21,439,482	10,810,858
		<hr/>	<hr/>
Non-controlling interests		24,664,559	13,797,148
		3,563,351	1,812,233
		<hr/>	<hr/>
TOTAL EQUITY		28,227,910	15,609,381
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

		Year ended 31 December	
	<i>Notes</i>	2020	2019
		RMB'000	RMB'000
			<i>(Restated)</i>
CONTINUING OPERATIONS			
Revenue			
Online games and others		3,337,066	2,796,309
Office software and services		2,257,177	1,574,778
		<hr/>	<hr/>
		5,594,243	4,371,087
Cost of revenue		(917,281)	(810,147)
		<hr/>	<hr/>
Gross profit		4,676,962	3,560,940
Research and development costs, net		(1,656,067)	(1,538,529)
Selling and distribution expenses		(838,482)	(708,992)
Administrative expenses		(453,809)	(376,897)
Share-based compensation costs	6	(179,372)	(148,712)
Other income		310,789	239,396
Other expenses		(4,887)	(14,400)
		<hr/>	<hr/>
Operating profit		1,855,134	1,012,806
Other gains/(losses), net	5	154,739	(1,236,554)
Finance income		437,997	220,532
Finance costs		(107,514)	(19,672)
Share of profits and losses of:			
Joint ventures		(25,929)	17,524
Associates		(245,067)	(409,874)
		<hr/>	<hr/>
Profit/(loss) before tax from continuing operations	4	2,069,360	(415,238)
Income tax expense	7	(270,924)	(152,537)
		<hr/>	<hr/>
Profit/(loss) for the year from continuing operations		1,798,436	(567,775)
		<hr/>	<hr/>
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation		8,446,504	(1,514,924)
		<hr/>	<hr/>
Profit/(loss) for the year		10,244,940	(2,082,699)
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Owners of the parent		10,045,043	(1,546,385)
Non-controlling interests		199,897	(536,314)
		<hr/>	<hr/>
		10,244,940	(2,082,699)
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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Year ended 31 December	
	2020	2019
	RMB	RMB
		<i>(Restated)</i>
Earnings/(loss) per share attributable to ordinary equity holders of the parent		
Basic		
— For profit/(loss) for the year	<u>7.35</u>	<u>(1.13)</u>
— For profit/(loss) from continuing operations	<u>0.94</u>	<u>(0.56)</u>
Diluted		
— For profit/(loss) for the year	<u>7.32</u>	<u>(1.15)</u>
— For profit/(loss) from continuing operations	<u>0.92</u>	<u>(0.57)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
PROFIT/(LOSS) FOR THE YEAR	10,244,940	(2,082,699)
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 of foreign operations	(275,950)	32,139
Reclassification adjustments for deemed disposal of a subsidiary	64,475	—
Reclassification adjustments for partial disposal and deemed disposal of associates	9,002	—
Share of other comprehensive income/(loss) of associates	<u>(324,056)</u>	<u>34,555</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>(526,529)</u>	<u>66,694</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value, net of tax	959,391	(14,026)
Share of other comprehensive income/(loss) of associates	<u>8,419</u>	<u>(14,211)</u>
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	<u>967,810</u>	<u>(28,237)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>441,281</u>	<u>38,457</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u><u>10,686,221</u></u>	<u><u>(2,044,242)</u></u>
Attributable to:		
Owners of the parent	10,515,256	(1,493,652)
Non-controlling interests	<u>170,965</u>	<u>(550,590)</u>
	<u><u>10,686,221</u></u>	<u><u>(2,044,242)</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Attributable to owners of the parent												
	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000	Equity component of convertible bonds RMB'000	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Other capital reserve RMB'000	Fair value reserve RMB'000	Foreign currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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 for the year	—	—	—	—	—	—	—	—	—	10,045,043	10,045,043	199,897	10,244,940
Other comprehensive income/(loss) for the year:													
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	959,391	—	—	959,391	—	959,391
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(247,018)	—	—	(247,018)	(28,932)	(275,950)
Reclassification adjustments for deemed disposal of a subsidiary	—	—	—	—	—	—	—	64,475	—	—	64,475	—	64,475
Reclassification adjustments for partial disposal and deemed disposal of associates	—	—	—	—	—	—	—	9,002	—	—	9,002	—	9,002
Share of other comprehensive income/(loss) of associates	—	—	—	—	—	—	—	8,419	(324,056)	—	(315,637)	—	(315,637)
Total comprehensive income/(loss) for the year	—	—	—	—	—	—	—	967,810	(497,597)	10,045,043	10,515,256	170,965	10,686,221
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(226,555)	(226,555)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	—	—	—	—	—	—	—	96,785	—	(96,785)	—	—	—
Final 2019 dividend declared	—	(124,861)	—	—	—	—	—	—	—	—	(124,861)	—	(124,861)
Other distributions	—	(130,033)	—	—	—	—	—	—	—	—	(130,033)	—	(130,033)
Issue of convertible bonds	—	—	—	468,700	—	—	—	—	—	—	468,700	—	468,700
Share-based compensation costs	—	—	—	—	—	158,323	—	—	—	—	158,323	84,590	242,913
Vesting and settlement of awarded shares	—	21,531	3,450	—	—	(24,981)	—	—	—	—	—	—	—
Exercise and vesting of share-based awards issued by subsidiaries	—	—	—	—	—	(49,619)	51,358	—	—	—	1,739	1,500	3,239
Share of reserves of associates	—	—	—	—	—	—	6,918	—	—	—	6,918	—	6,918
Profit appropriation	—	—	—	—	102,523	—	—	—	—	(102,523)	—	—	—
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(28,631)	—	—	—	(28,631)	(3,337)	(31,968)
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	30,108	30,108
Deemed disposal of a subsidiary	—	—	—	—	(7,571)	(96,782)	(195,714)	—	—	300,067	—	1,693,847	1,693,847
At 31 December 2020	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

* These reserve accounts comprise the consolidated other reserves of RMB21,439,482,000 (2019: RMB10,810,858,000) in the consolidated statement of financial position.

	Attributable to owners of the parent												
	Issued capital RMB'000	Share premium account RMB'000	Treasury shares RMB'000	Equity component of convertible bonds RMB'000	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Other capital reserve RMB'000	Fair value reserve RMB'000	Foreign currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	5,316	2,972,969	(18,089)	1,274	275,986	471,326	1,857,341	(1,044,690)	311,094	8,205,312	13,037,839	(116,240)	12,921,599
Effect of adoption of IFRS 16	—	—	—	—	—	—	—	—	—	(8,431)	(8,431)	—	(8,431)
At 1 January 2019 (restated)	5,316	2,972,969	(18,089)	1,274	275,986	471,326	1,857,341	(1,044,690)	311,094	8,196,881	13,029,408	(116,240)	12,913,168
Loss for the year	—	—	—	—	—	—	—	—	—	(1,546,385)	(1,546,385)	(536,314)	(2,082,699)
Other comprehensive income/(loss) for the year:													
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	—	46,415	—	46,415	(14,276)	32,139
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	—	—	—	—	—	—	—	(14,026)	—	—	(14,026)	—	(14,026)
Share of other comprehensive income/(loss) of associates	—	—	—	—	—	—	—	(14,211)	34,555	—	20,344	—	20,344
Total comprehensive income/(loss) for the year	—	—	—	—	—	—	—	(28,237)	80,970	(1,546,385)	(1,493,652)	(550,590)	(2,044,242)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(13,996)	(13,996)
Share-based compensation costs	—	—	—	—	—	165,791	—	—	—	—	165,791	79,148	244,939
Vesting and settlement of awarded shares	—	22,636	3,458	—	—	(26,460)	366	—	—	—	—	—	—
Share of reserves of associates	—	—	—	—	—	—	(17,710)	—	—	—	(17,710)	—	(17,710)
Redemption of convertible bonds	—	—	—	(1,274)	—	—	1,446	—	(172)	—	—	—	—
Profit appropriation	—	—	—	—	73,001	—	—	—	—	(73,001)	—	—	—
Exercise and vesting of share-based awards issued by subsidiaries	—	—	—	—	—	(54,066)	66,325	—	—	—	12,259	8,640	20,899
Issue of shares by a subsidiary	—	—	—	—	—	—	2,478,570	—	—	—	2,478,570	1,996,235	4,474,805
Changes in the ownership interests in subsidiaries	—	—	—	—	—	—	(377,518)	—	—	—	(377,518)	409,036	31,518
At 31 December 2019	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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Net cash flows from operating activities	2,991,073	824,968
Net cash flows used in investing activities	(7,574,945)	(2,219,766)
Net cash flows from financing activities	1,876,271	4,169,622
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(2,707,601)	2,774,824
Cash and cash equivalents at beginning of the year	7,329,845	4,544,784
Effect of foreign exchange rate changes, net	(166,973)	10,237
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	4,455,271	7,329,845
Non-pledged time deposits with original maturity of over three months when acquired	2,749,999	264,788
Principal protected structure deposits with original maturity of over three months when acquired	6,843,799	6,197,484
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Cash and bank deposits as stated in the consolidated statement of financial position	14,049,069	13,792,117
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NOTES TO 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.

During the year, there were no material changes in the principal activities of the Group, except that the operation of Kingsoft Cloud Group before the deemed disposal has been reclassified as a discontinued operation of the Group. The continuing operations of the Group comprised the following principal 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 office software products and services of WPS Office.

The discontinued operation of the Group was involved in the provision of cloud services including cloud computing, storage and delivery, and comprehensive cloud-based solutions through Kingsoft Cloud Group.

2. Basis of preparation and significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, equity investments and certain other financial assets which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

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

Discontinued operation

On 20 March 2020, the shareholders of the Company approved the proposed spin-off and separate listing of Kingsoft Cloud. On 8 May 2020 (New York time), the listing was completed and the trading in the American depositary shares ("**ADSs**") of Kingsoft Cloud on National Association of Securities Dealers Automated Quotations commenced. As a result, the Group lost control over Kingsoft Cloud, which was changed from the subsidiary to the associate of the Company.

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

Discontinued operation (continued)

Kingsoft Cloud Group carries out the “cloud services segment” of the Group. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the operating results of Kingsoft Cloud Group before the deemed disposal have been presented as a discontinued operation in the consolidated statement of profit or loss. The comparative figures for the consolidated statement of profit or loss are restated to reflect the reclassification between continuing operations and a discontinued operation of the Group accordingly.

Significant accounting policies

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year’s financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</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.

3. Operating segments information

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

- (a) the 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.

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/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group’s profit/(loss) 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.

3. Operating segments information (continued)

The operating results of Kingsoft Cloud Group before the deemed disposal were classified as a discontinued operation of the Group and were excluded from the segment information for the year of 2020. For the purpose of making decisions about resources allocation and performance assessment after the deemed disposal of Kingsoft Cloud, the directors of the Company decided to make some reclassification among the remaining business units, the comparative figures of segment information for the year ended 31 December 2019 were restated accordingly.

Year ended 31 December 2020	Entertainment software and others RMB'000	Office software and services RMB'000	Total RMB'000
Segment revenue:			
Sales	3,337,066	2,257,177	5,594,243
Segment results	1,107,937	735,832	1,843,769
<i>Reconciliation:</i>			
Other gains, net			154,739
Finance income			437,997
Finance costs (other than interest on lease liabilities)			(96,149)
Share of profits and losses of:			
Joint ventures			(25,929)
Associates			(245,067)
Profit before tax from continuing operations			<u>2,069,360</u>

3. Operating segments information (continued)

Year ended 31 December 2019	Entertainment software and others <i>RMB'000</i> <i>(Restated)</i>	Office software and services <i>RMB'000</i> <i>(Restated)</i>	Total <i>RMB'000</i> <i>(Restated)</i>
Segment revenue:			
Sales	2,796,309	1,574,778	4,371,087
Segment results	686,089	325,799	1,011,888
<i>Reconciliation:</i>			
Other losses, net			(1,236,554)
Finance income			220,532
Finance costs (other than interest on lease liabilities)			(18,754)
Share of profits and losses of:			
Joint ventures			17,524
Associates			(409,874)
Loss before tax from continuing operations			<u><u>(415,238)</u></u>

4. Profit/(loss) before tax from continuing operations

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

	2020	2019
	RMB'000	<i>RMB'000</i>
		<i>(Restated)</i>
Employee benefit expenses (including directors' remuneration):		
Wages and salaries	1,630,802	1,323,724
Social insurance costs and staff welfare	237,738	222,259
Share-based compensation costs	179,372	148,712
Pension plan contributions*	57,148	125,664
	2,105,060	1,820,359
Loss on disposal of items of property, plant and equipment	36	15
Lease payments not included in the measurement of lease liabilities	18,734	24,390
Cost of inventories sold	2,747	6,961
Cost of services provided	783,226	703,051
Depreciation of property, plant and equipment	111,297	91,760
Depreciation of right-of-use assets	58,274	21,261
Depreciation of investment properties	1,517	1,439
Amortisation of other intangible assets	12,620	24,885
Impairment of trade and other receivables**	2,293	12,426
Impairment of property, plant and equipment**	—	2,432
Impairment of right-of-use assets**	—	3,054
Donations**	1,672	470

* As at 31 December 2020, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2019: nil).

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

5. Other gains/(losses), net

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> <i>(Restated)</i>
Gain/(loss) on deemed disposal of associates	159,494	(14,850)
Gain on deemed disposal of a joint venture	—	1,161
Gain on partial disposal of an associate	—	2,018
Gain on deemed disposal of a subsidiary	—	61,706
Gain on previously held equity investment remeasured at acquisition date fair value	81,341	—
Impairment of investments in joint ventures	(48,098)	—
Impairment of investments in associates	(3,932)	(1,300,000)*
Impairment of loans to a joint venture	(7,200)	—
Impairment of loans to an associate	(38,517)	—
Gain on distribution in specie	3,688	—
Loss on exchange for equity investments	(676)	—
Foreign exchange differences, net	40,378	193
Fair value gains on financial instruments at fair value through profit or loss, net	(31,739)	18,831
Others	—	(5,613)
	154,739	(1,236,554)

* As at 31 December 2019, the Group held certain ordinary shares in Cheetah Mobile Inc. (“**Cheetah Mobile**”) which is listed on the New York Stock Exchange in the form of ADSs. As Cheetah Mobile’s share price has been struggled with sluggish performance, the Group performed an impairment assessment during the year ended 31 December 2019 and made an impairment loss of approximately RMB1,300 million, being the difference of carrying amount in excess of the fair value of the investment in Cheetah Mobile.

6. Share-based compensation costs

(a) Share option schemes

2011 Share Option Scheme

The Company operates the 2011 Share Option Scheme (the “**2011 Scheme**”) for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the 2011 Scheme include the Group’s executive directors (exclusive of any non-executive director) and other employees of the Group. The 2011 Scheme became effective on 9 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The following share options were outstanding under the 2011 Scheme during the years ended 31 December 2020 and 2019, and their weighted average exercise prices (“**WAEP**”) are also listed as below:

	2020	2020	2019	2019
	Number of	WAEP HK\$	Number of	WAEP HK\$
	share options	per share	share options	per share
Outstanding at 1 January and 31 December	<u>4,600,000</u>	20.58	<u>4,600,000</u>	20.58
Exercisable at 31 December	<u>3,560,000</u>	20.50	<u>2,640,000</u>	20.48

(b) Share Award Scheme

On 31 March 2008, the directors of the Company approved and adopted the Share Award Scheme in which selected employees of the Group are entitled to participate. Unless early terminated by the directors of the Company, the Share Award Scheme is valid and effective for a term of five years commencing from 31 March 2008. On 25 November 2010, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2013 to 30 March 2017. On 19 November 2016, the directors of the Company resolved to extend the termination date of the Share Award Scheme from 30 March 2017 to 30 March 2022. The directors will not grant any awarded shares which would result in the total number of shares (but not counting those which have lapsed or have been forfeited), in aggregate, over 10% of the issued shares of the Company as at the date of such grant.

6. Share-based compensation costs (continued)

(b) Share Award Scheme (continued)

The following awarded shares were outstanding under the Share Award Scheme during the years ended 31 December 2020 and 2019:

	2020 Number of awarded Shares	2019 Number of awarded Shares
Outstanding as at 1 January	3,462,200	4,372,900
Granted during the year	810,000	600,000
Forfeited during the year	(46,960)	(22,900)
Vested during the year	<u>(1,489,960)</u>	<u>(1,487,800)</u>
Outstanding as at 31 December	<u><u>2,735,280</u></u>	<u><u>3,462,200</u></u>

7. Income tax

The People's Republic of China (the "PRC") corporate income tax represents the tax charged on the estimated assessable profits of entities within the Group established in the Mainland China. In general, the PRC subsidiaries of the Group are subject to the PRC corporate income tax rate of 25% except for certain PRC subsidiaries which are entitled to tax holiday and preferential tax rates.

Hong Kong profits tax has been provided at the rate of 16.5% (2019:16.5%) on estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (2019: 8.25%) and the remaining assessable profits are taxed at 16.5% (2019: 16.5%).

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i> (Restated)
Current — Mainland China	326,690	112,113
Current — Hong Kong	11,011	18,346
Current — Elsewhere	11,492	1,217
Deferred	<u>(78,269)</u>	<u>20,861</u>
Total tax charge for the year from continuing operations	270,924	152,537
Total tax charge for the year from a discontinued operation	<u>1,076,585</u>	<u>8,917</u>
	<u><u>1,347,509</u></u>	<u><u>161,454</u></u>

8. Dividends

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Proposed final dividend (note (a)): HK\$0.20 (2019: HK\$ 0.10) per share based on issued share capital as at year end	231,058	122,966
Less: Dividend for shares held for share award scheme as at year end	<u>(789)</u>	<u>(553)</u>
	<u>230,269</u>	<u>122,413</u>

(a) The proposed final dividend for the year is subject to the approval of the shareholders of the Company at the forthcoming AGM.

Other distributions

On 8 May 2020, Kingsoft Cloud completed its initial public offering on National Association of Securities Dealers Automated Quotations.

In order to give due regard to the interests of its shareholders, the Company has provided the shareholders with the choice of distribution in specie of ADSs of Kingsoft Cloud, or cash payment in lieu, with value of each ADS to be HK\$131.75, based on Kingsoft Cloud initial public offering price of US\$17 per ADS translated into HK\$ at the exchange rate of US\$1 to HK\$7.75.

The total amount of cash payments distributed to the Company's shareholders is HK\$124.0 million (equivalent to RMB113.1 million), and the total number of ADSs distributed to the Company's shareholders is 110,265 ADSs, equivalent to RMB16.9 million at the date of distribution.

9. Earnings/(loss) per share attributable to ordinary equity holders of the parent

The calculation of basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,367,090,890 (2019: 1,365,661,224) in issue during the year.

The calculation of diluted earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, adjusted to reflect the impact on earnings arising from the share option schemes and the share award schemes adopted by the Group's subsidiaries and associates. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. No adjustment has been made to the basic earnings per share amount presented for the year of 2020 in respect of the convertible bonds outstanding as the impact was anti-dilutive.

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

	2020	2019
	RMB'000	RMB'000
		<i>(Restated)</i>
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation:		
From continuing operations	1,280,344	(766,444)
From a discontinued operation	8,764,699	(779,941)
	10,045,043	(1,546,385)
Decrease in earnings/increase in loss adjusted for the share option schemes and the share award schemes adopted by the Group's subsidiaries and associate	(16,869)	(18,759)
	10,028,174	(1,565,144)
Attributable to:		
Continuing operations	1,263,475	(785,203)
Discontinued operation	8,764,699	(779,941)
	10,028,174	(1,565,144)

9. Earnings/(loss) per share attributable to ordinary equity holders of the parent (continued)

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue less shares held for the share award schemes during the year used in the basic earnings/(loss) per share calculation	1,367,090,890	1,365,661,224
Effect of dilution — weighted average number of ordinary shares:		
Share options	1,726,557	—
Awarded shares	2,055,482	—
	<u>1,370,872,929</u>	<u>1,365,661,224</u>

10. 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 provisions, is as follows:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
0–30 days	339,534	817,869
31–60 days	127,072	377,336
61–90 days	58,415	154,914
91–365 days	187,915	631,294
1 to 2 years	48,627	47,683
Over 2 years	10,922	29,935
	<u>772,485</u>	<u>2,059,031</u>

11. 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:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
0–30 days	105,679	829,998
31–60 days	60,335	295,064
61–90 days	60,342	106,092
91–365 days	44,696	167,157
Over one year	19,803	103,293
	<u>290,855</u>	<u>1,501,604</u>

12. Interest-bearing bank loans

	Maturity	Principal amount <i>RMB'000</i>
At 31 December 2019		
Current		
Bank loans — unsecured	2020	523,215
Current portion of long-term bank loans — unsecured	2020	<u>100,000</u>
		623,215
Non-current		
Bank loans — unsecured	2021	<u>74,351</u>
		<u><u>697,566</u></u>
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Analysed into:		
Within one year or on demand	—	623,215
In the second year	—	<u>74,351</u>
	—	<u><u>697,566</u></u>

For the outstanding balance of interest-bearing bank loans as at 31 December 2019, the portion related to continuing operations was fully repaid during 2020 and the portion related to the discontinued operation was deemed disposed of on 8 May 2020.

13. 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 prior notice of not less than 30 days nor more than 60 days. On the maturity date, any of the 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. There was no conversion or redemption of the 2020 Convertible Bonds during the year of 2020.

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.

OPERATIONAL HIGHLIGHTS

	In December 2020	In September 2020	In June 2020	In March 2020	In December 2019
Office Software					
Monthly Active Users* (“MAU”) of the key products (Million)	<u>474</u>	<u>457</u>	<u>454</u>	<u>447</u>	<u>411</u>
		As at 31 December 2020	As at 30 June 2020	As at 31 December 2019	As at 30 June 2019
Accumulated paying subscribers** (Million)		<u>19.62</u>	<u>16.81</u>	<u>12.02</u>	<u>8.47</u>
			As at 31 December 2020	As at 31 December 2019	As at 31 December 2018
Total number of documents uploaded in the cloud platform*** (Billion)			<u>89.8</u>	<u>50.1</u>	<u>17.5</u>

* Monthly Active Users 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 one-time purchase). We disclose these figures on a semi-annual basis.

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

FINANCIAL HIGHLIGHTS

	Three months ended		
	31 December 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Unaudited) (Restated)	30 September 2020 RMB'000 (Unaudited)
CONTINUING OPERATIONS			
Revenue			
Online games and others	849,037	931,992	810,286
Office software and services	756,473	549,422	587,004
	<u>1,605,510</u>	<u>1,481,414</u>	<u>1,397,290</u>
Cost of revenue	<u>(258,643)</u>	<u>(233,242)</u>	<u>(239,539)</u>
Gross profit	1,346,867	1,248,172	1,157,751
Research and development costs, net	(426,767)	(407,859)	(484,011)
Selling and distribution expenses	(277,508)	(228,219)	(221,320)
Administrative expenses	(141,665)	(130,110)	(117,473)
Share-based compensation costs	(80,750)	(38,997)	(31,143)
Other income	137,122	83,424	60,807
Other expenses	2,468	(14,499)	(3,132)
	<u>559,767</u>	<u>511,912</u>	<u>361,479</u>
Operating profit	559,767	511,912	361,479
Other gains/(losses), net	(111,436)	47,866	367,600
Finance income	112,753	65,293	117,155
Finance costs	(35,984)	(4,148)	(37,401)
Share of profits and losses of:			
Joint ventures	(39,009)	(2,924)	1,959
Associates	(20,695)	(401,708)	12,334
	<u>465,396</u>	<u>216,291</u>	<u>823,126</u>
Profit before tax from continuing operations	465,396	216,291	823,126
Income tax expense	(113,986)	(78,126)	(9,762)
	<u>351,410</u>	<u>138,165</u>	<u>813,364</u>
Profit for the period from continuing operations	351,410	138,165	813,364
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	—	(333,215)	—
	<u>351,410</u>	<u>(195,050)</u>	<u>813,364</u>
Profit/(loss) for the period	351,410	(195,050)	813,364
Attributable to:			
Owners of the parent	220,562	(99,477)	666,893
Non-controlling interests	130,848	(95,573)	146,471
	<u>351,410</u>	<u>(195,050)</u>	<u>813,364</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	Three months ended		
	31 December 2020 RMB (Unaudited)	31 December 2019 RMB (Unaudited) (Restated)	30 September 2020 RMB (Unaudited)
Earnings/(loss) per share attributable to ordinary equity holders of the parent			
Basic			
— For profit/(loss) for the period	<u><u>0.16</u></u>	<u><u>(0.07)</u></u>	<u><u>0.49</u></u>
— For profit from continuing operations	<u><u>0.16</u></u>	<u><u>0.02</u></u>	<u><u>0.49</u></u>
Diluted			
— For profit/(loss) for the period	<u><u>0.16</u></u>	<u><u>(0.08)</u></u>	<u><u>0.48</u></u>
— For profit from continuing operations	<u><u>0.16</u></u>	<u><u>0.01</u></u>	<u><u>0.48</u></u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
		(Restated)
CONTINUING OPERATIONS		
Revenue		
Online games and others	3,337,066	2,796,309
Office software and services	2,257,177	1,574,778
	<u>5,594,243</u>	<u>4,371,087</u>
Cost of revenue	(917,281)	(810,147)
	<u>4,676,962</u>	<u>3,560,940</u>
Gross profit		
Research and development costs, net	(1,656,067)	(1,538,529)
Selling and distribution expenses	(838,482)	(708,992)
Administrative expenses	(453,809)	(376,897)
Share-based compensation costs	(179,372)	(148,712)
Other income	310,789	239,396
Other expenses	(4,887)	(14,400)
	<u>1,855,134</u>	<u>1,012,806</u>
Operating profit		
Other gains/(losses), net	154,739	(1,236,554)
Finance income	437,997	220,532
Finance costs	(107,514)	(19,672)
Share of profits and losses of:		
Joint ventures	(25,929)	17,524
Associates	(245,067)	(409,874)
	<u>2,069,360</u>	<u>(415,238)</u>
Profit/(loss) before tax from continuing operations		
Income tax expense	(270,924)	(152,537)
	<u>1,798,436</u>	<u>(567,775)</u>
Profit/(loss) for the year from continuing operations		
DISCONTINUED OPERATION		
Profit/(loss) for the year from a discontinued operation	8,446,504	(1,514,924)
	<u>10,244,940</u>	<u>(2,082,699)</u>
Profit/(loss) for the year		
Attributable to:		
Owners of the parent	10,045,043	(1,546,385)
Non-controlling interests	199,897	(536,314)
	<u>10,244,940</u>	<u>(2,082,699)</u>

FINANCIAL HIGHLIGHTS (CONTINUED)

	Year ended 31 December	
	2020 <i>RMB</i>	2019 <i>RMB</i> <i>(Restated)</i>
Earnings/(loss) per share attributable to ordinary equity holders of the parent		
Basic		
— For profit/(loss) for the year	<u><u>7.35</u></u>	<u><u>(1.13)</u></u>
— For profit/(loss) from continuing operations	<u><u>0.94</u></u>	<u><u>(0.56)</u></u>
Diluted		
— For profit/(loss) for the year	<u><u>7.32</u></u>	<u><u>(1.15)</u></u>
— For profit/(loss) from continuing operations	<u><u>0.92</u></u>	<u><u>(0.57)</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Fourth Quarter of 2020 Compared to Fourth Quarter of 2019 and Third Quarter of 2020

Revenue

Revenue for the fourth quarter of 2020 increased 8% year-on-year and 15% quarter-on-quarter to RMB1,605.5 million. Revenue from the online games and others, and office software and services represented 53% and 47% of the Group's total revenue for the fourth quarter of 2020.

Revenue from the online games and others business for the fourth quarter of 2020 decreased 9% year-on-year and increased 5% quarter-on-quarter to RMB849.0 million. The year-on-year decrease was mainly due to declined revenue from JX Online III as a large-scale expansion pack being successfully launched in the fourth quarter of 2019. The quarter-on-quarter increase was mainly due to the healthy growth of JX Online III, partially offset by the decreased revenue of mobile games.

Revenue from the office software and services business for the fourth quarter of 2020 increased 38% year-on-year and 29% quarter-on-quarter to RMB756.5 million. The year-on-year increase was primarily due to: i) the rapid growth of institutional licensing from enterprise and government users; ii) solid growth of individual subscription services driven by the increasing demand for remote working and cloud collaboration. The sequential increase was mainly due to strong revenue growth from the licensing business and subscription services.

Cost of Revenue and Gross Profit

Cost of revenue for the fourth quarter of 2020 increased 11% year-on-year and 8% quarter-on-quarter to RMB258.6 million. The year-on-year increase was mainly due to higher server and data storage costs associated with increased users, as well as greater content costs associated with increased personal subscription services of Beijing Kingsoft Office Software, Inc. ("**Kingsoft Office**") and its subsidiaries (collectively, "**Kingsoft Office Group**"). The quarter-on-quarter increase was mainly due to greater channel costs associated with increased revenue of licensed games.

Gross profit for the fourth quarter of 2020 increased 8% year-on-year and 16% quarter-on-quarter to RMB1,346.9 million. The Group's gross profit margin kept flat with the fourth quarter of 2019 and increased by one percentage point quarter-on-quarter.

Research and Development ("**R&D**") Costs, net

R&D costs, net for the fourth quarter of 2020 increased 5% year-on-year and decreased 12% quarter-on-quarter to RMB426.8 million. The year-on-year increase was mainly attributable to increased personnel related expenses. The quarter-on-quarter decrease was primarily due to the accrued bonuses.

Selling and Distribution Expenses

Selling and distribution expenses for the fourth quarter of 2020 increased 22% year-on-year and 25% quarter-on-quarter to RMB277.5 million. The increases were primarily due to an increase in marketing and promotional spending of Kingsoft Office Group in expanding the enterprise and government market.

Administrative Expenses

Administrative expenses for the fourth quarter of 2020 increased 9% year-on-year and 21% quarter-on-quarter to RMB141.7 million. The increases were largely due to increased staff-related costs and professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the fourth quarter of 2020 increased 107% year-on-year and 159% quarter-on-quarter to RMB80.8 million. The increases were primarily due to the new grants of awarded shares to the selected employees of certain subsidiaries of the Company.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the fourth quarter of 2020 increased 16% year-on-year and 63% quarter-to-quarter to RMB640.5 million.

Other Gains/(Losses), net

Net other losses for the fourth quarter of 2020 were RMB111.4 million, compared to net other gains of RMB47.9 million in the corresponding period last year, and net other gains of RMB367.6 million in the third quarter of 2020. The net other losses in the fourth quarter of 2020 were mainly due to the recognition of a loss on deemed disposal of Kingsoft Cloud as a result of the dilution impact of the exercise of its employee options. The net other gains in the fourth quarter of 2019 were mainly due to the recognition of a gain on deemed disposal of partial interests in a subsidiary. The gains in the third quarter of 2020 were mainly due to that we recognized a gain on deemed disposal of Kingsoft Cloud of RMB301.1 million as a result of the dilution impact of issue of new shares of Kingsoft Cloud.

Finance Costs

Finance costs for the fourth quarter of 2020 was RMB36.0 million, compared with finance costs of RMB4.1 million and RMB37.4 million for the fourth quarter of 2019 and third quarter of 2020. The year-on-year increase was primarily due to issued convertible bonds in April 2020 with the interest rate of an equivalent market interest rate for a similar bond in the accounting treatment, which would not result in cash outflow, instead of the actual yield to maturity.

Share of Profits and Losses of Associates

We recorded share of losses of associates of RMB20.7 million for the fourth quarter of 2020, compared to share of losses of RMB401.7 million for the fourth quarter of 2019 and share of profits of RMB12.3 million for the third quarter of 2020. The losses in the fourth quarter of 2020 were mainly due to the losses recognized in Kingsoft Cloud, partially offset by the profits recognized in Cheetah Mobile. The losses in the fourth quarter of 2019 were mainly due to the losses recognized in Cheetah Mobile. The profits in the third quarter of 2020 were mainly attributable to the gains recognized in Cheetah Mobile, partially offset by the losses recognized in Kingsoft Cloud.

Income Tax Expense

Income tax expense for the fourth quarter of 2020 increased 46% year-on-year and 1,068% quarter-to-quarter to RMB114.0 million. The increases were mainly due to accrued withholding tax and higher operating profit we recognized in this quarter.

Profit/(Loss) 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) for the fourth quarter of 2020 was RMB220.6 million, compared to loss of RMB99.5 million in the corresponding period last year, and profit of RMB666.9 million in the third quarter of 2020.

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

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

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

Profit attributable to owners of the parent before share-based compensation costs (including that from continuing operations and a discontinued operation) for the fourth quarter of 2020 was RMB265.7 million, compared to loss of RMB55.9 million in the corresponding period last year, and profit of RMB686.7 million in the third quarter of 2020. The net profit/(loss) margin excluding the effect of share-based compensation costs was 17%, (2%) and 49% for the three months ended 31 December 2020, 31 December 2019 and 30 September 2020, respectively.

Year 2020 Compared to Year 2019

Revenue

Revenue for the year of 2020 increased 28% year-on-year to RMB5,594.2 million. Revenue from the online games and others, and office software and services represented 60% and 40% of the Group's total revenue for the year of 2020.

Revenue from the online games and others business for the year of 2020 increased 19% year-on-year to RMB3,337.1 million. The increase was primarily due to strong performance of JX Online III with sustained and growing popularity as the result of enriched content and enhanced user experience, and revenue contribution from the newly-launched mobile games, partially offset by the declined revenue from existing mobile games.

Revenue from the office software and services business for the year of 2020 increased 43% year-on-year to RMB2,257.2 million. The year-on-year increase was mainly attributable to strong revenue growth from the subscription services and licensing business, driven by the expansion of user base and increasing paid conversion rate.

Cost of Revenue and Gross Profit

Cost of revenue for the year of 2020 increased 13% year-on-year to RMB917.3 million. The year-on-year increase was primarily due to higher server and data storage costs associated with increased users.

Gross profit for the year of 2020 increased 31% year-on-year to RMB4,677.0 million. The Group's gross profit margin increased by three percentage points year-on-year to 84%.

R&D Costs, net

R&D costs, net for the year of 2020 increased 8% year-on-year to RMB1,656.1 million. The year-on-year increase was mainly due to increased personnel related expenses as we continued to invest in technological research and innovation, partially offset by temporary exemption or reduction of social and medical insurance premiums in 2020.

Selling and Distribution Expenses

Selling and distribution expenses for the year of 2020 increased 18% year-on-year to RMB838.5 million. The year-on-year increase mainly reflected greater spending of Kingsoft Office Group to expand its reach into enterprise and government markets.

Administrative Expenses

Administrative expenses for the year of 2020 increased 20% year-on-year to RMB453.8 million. The year-on-year increase was mainly due to increased staff-related costs and professional service fees.

Share-based Compensation Costs

Share-based compensation costs for the year of 2020 increased 21% year-on-year to RMB179.4 million. The increase was primarily due to the new grants of awarded shares to the selected employees of certain subsidiaries of the Company.

Operating Profit before Share-based Compensation Costs

Operating profit before share-based compensation costs for the year of 2020 increased 75% year-on-year to RMB2,034.5 million.

Other Gains/(Losses), net

Net other gains for 2020 were RMB154.7 million, compared to net other losses of RMB1,236.6 million for the last year. The net other gains of 2020 were mainly due to that we recognized a gain on deemed disposal of Kingsoft Cloud as a result of the dilution impact of issue of new shares of Kingsoft Cloud in the second half of 2020. The net other losses of 2019 primarily represented the provision for impairment on investment in Cheetah Mobile of RMB 1,300 million.

Finance Costs

Finance costs for 2020 was RMB107.5 million, compared with finance costs of RMB19.7 million for the last year. The year-on-year increase was primarily due to issued convertible bonds in April 2020 with the interest rate of an equivalent market interest rate for a similar bond in the accounting treatment, which would not result in cash outflow, instead of the actual yield to maturity.

Share of Profits and Losses of Associates

Share of losses of associates for 2020 were RMB245.1 million, compared to share of losses of RMB409.9 million for the last year. The losses in 2020 were mainly due to the losses recognized in Kingsoft Cloud partially offset by the profits recognized in Cheetah Mobile. The losses in 2019 were mainly due to the losses recognized in Cheetah Mobile.

Income Tax Expense

Income tax expense for the year of 2020 increased 78% year-on-year to RMB270.9 million.

Profit/(Loss) Attributable to Owners of the Parent

For the reasons described above, profit attributable to owners of the parent (including that from continuing operations and a discontinued operation) for the year of 2020 was RMB10,045.0 million, compared to loss of RMB1,546.4 million for the last year.

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

Profit attributable to owners of the parent before share-based compensation costs (including that from continuing operations and a discontinued operation) for the year of 2020 was RMB10,201.3 million, compared to loss of RMB1,380.7 million for the last year.

The net profit/(loss) margin excluding the effect of share-based compensation costs was 138% and (17%) for the year 2020 and 2019, respectively.

Liquidity and Financial Resource

The Group had a strong cash position towards the end of 2020. As at 31 December 2020, the Group had major financial resources in the forms of restricted cash and cash and bank deposits amounting to RMB13.1 million and RMB14,049.1 million, respectively, which totally represented 40% of the Group's total assets.

As at 31 December 2020, the Group's gearing ratio, which represents total liabilities divided by total assets, was 19%, as compared to 36% as at 31 December 2019.

Foreign Currency Risk Management

As at 31 December 2020, RMB4,763.2 million of the Group's financial assets were held in deposits denominated in non-RMB currencies. As there are no cost-effective hedges against the fluctuation of RMB, there is a risk that we may experience a loss as a result of any foreign currency exchange rate fluctuation in connection with our deposits and investments.

Net Cash Generated from Operating Activities

Net cash generated from the operating activities reflects the Group's profit/(loss) for the year, as the case may be, as adjusted for non-cash items, such as depreciation 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 RMB2,991.1 million and RMB825.0 million for the years ended 31 December 2020 and 31 December 2019, respectively.

Capital Expenditures

Capital expenditures represent cash payments for acquisition of business, fixed assets and intangible assets. Cash used for capital expenditures (including that from continuing operations and a discontinued operation) was RMB683.6 million and RMB1,361.8 million for the years ended 31 December 2020 and 31 December 2019, respectively.

BUSINESS REVIEW AND OUTLOOK

Mr. Jun LEI, Chairman of the Company, commented, “In a landmark year, we took advantage of the industry trend to expand our core businesses. Kingsoft Office Group seized the opportunity for online collaboration and brought high-quality products and services to a larger group of users. Meanwhile, online games business made continuous efforts to strengthen the R&D capabilities, maintaining longevity and vitality of core games and achieved steady growth. We believe that the efforts will lay a solid foundation for our further penetration in the office service market and online gaming market.”

Mr. Tao ZOU, Chief Executive Officer of the Company, added, “We achieved a solid growth in 2020, with our revenue up 28% year-on-year to RMB5,594.2 million. The momentum continued in both office software and services business as well as online games and others business, with revenue of the segments surging by 43% and 19% year-on-year, respectively. In tandem with our strong revenue growth, our operating profit increased 83% year-on-year to RMB1,855.1 million during the year.

Our office software and services business achieved outstanding performance, with revenue increasing significantly by 43% year-on-year during the year. For government and enterprise businesses, Kingsoft Office Group is committed to accelerate the development within the industry and has assisted in the formulation of certain office application and services standards. In addition, Kingsoft Office Group has completed product adaptation with its developer partners and consolidated co-operation with other core hardware and software suppliers, which further optimized the office ecosystem development.

Riding the wave of remote working, online collaboration has become the new core product strategy for Kingsoft Office Group, and a series of online collaboration products have been launched in 2020. In addition, Kingsoft Office Group has launched WPS+ for micro, small, and medium enterprises. As a beneficiary of rising demand due to increased remote working amid the pandemic, the market penetration and customer loyalty of WPS+ cloud office services have significantly improved.

Kingsoft Office Group’s personal subscription business achieved outstanding performance during the year, driven by rapid growth in the number of WPS members. Kingsoft Office Group focused on expanding content and resources to promote the organic growth of WPS members, and the key operational indicators of personal cloud services grew rapidly. Kingsoft Office Group also expanded channels for marketing to enhance the penetration rate of paying subscribers.

In addition, WPS Office will feature as one of the second-level examination subjects in the National Computer Rank Examination, demonstrating significant progress in terms of the awareness of our office software solutions in China.

Looking ahead, Kingsoft Office Group will continue to adhere to technological empowerment and user-oriented principles, aiming to drive office innovations for individual and enterprise users globally.

During the year, online games business delivered a steady year-on-year growth, mainly attributable to the focus in product development and the stable growth of core premium games. JX Online III and other PC games of the JX series have achieved double-digit growth during the year. In the fourth quarter, online games business launched Feng Tian Zheng Dao (奉天証道), the anniversary expansion pack for the JX Online III. Mobile games business recorded stable performance. Double Life World (雙生視界) was launched in South Korea this year, and it won Google Play's Best Innovative Games of 2020 award in South Korea.

Online games business continued to enhance the influence of JX IP and made strong efforts to expand its presence in the cultural and creative industries. JX Online III — The Adventure of Shen Jianxin in Chang'an (劍網3•俠肝義膽沈劍心之長漂), an animation series based on the JX Online III was released on Bilibili in October 2020 and was much welcomed by our gamers. Multiple film and television productions based on JX IP have been in process in 2020.

Looking forward to 2021, online games business will continue to place its emphasis on the JX series to drive sustained growth. Meanwhile, we are also committed to investment in R&D of new game genres and operation, aiming to enhance its competitiveness within the overall online gaming industry.”

Mr. Jun LEI concluded, “Amidst a turbulent economic environment and global COVID-19 pandemic in 2020, we still managed to achieve a solid performance. Looking ahead, we will continue to focus on our office software and service business, and continue to deepen our online collaborative and cloud office strategy, aiming to improve the industry's ecological development and our core competitive advantages. Regarding our online games business, we will continue to maintain the solid development of our core games while bringing new game genres to further strengthen our development in the online games business. We remain confident of a robust operational outlook and sustained growth for 2021.”

OTHER INFORMATION

Employee and Remuneration Policies

The Group upholds a high standard of business ethics and personal conduct of its employees. The Group strives to ensure that our staff enjoy a healthy, safe and inspiring environment which promotes them to work and interact with others. These were demonstrated by the Group organizing various kinds of outdoor trips as well as the provision of certain facilities such as indoor sports center and staff canteen in our headquarter.

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

As at 31 December 2020, the Group employed approximately 5,775 full-time employees (2019: 7,137) inclusive of all its staff in Mainland China and overseas offices, most of whom are based at the Company's offices in Beijing and Zhuhai. Since Kingsoft Cloud ceased to be a subsidiary of the Company with effect on 8 May 2020, the number of full-time employees of the Group as at 31 December 2020 did not include that of Kingsoft Cloud Group. The staff costs of the Group including Directors' and senior management's emoluments in 2020 and 2019 were approximately RMB2,105.1 million and RMB2,720.5 million, respectively.

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

For the year ended 31 December 2020, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

Code of Conduct Regarding Directors' Securities Transaction

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by Directors. Further to the specific enquiries made by the Company to all Directors, they have confirmed their compliance with the Model Code during their terms of services for the year ended 31 December 2020.

Closure of Register of Members

For the purposes of determining shareholders' eligibility to attend and vote at AGM and entitlement to the final dividend, the register of members of the Company will be closed. Details of such closures are set out below:

(i) *For determining eligibility to attend and vote at the AGM*

Latest time to lodge transfer documents for registration	4:30 p.m. on Thursday, 20 May 2021
Closure of the register of members of the Company	Friday, 21 May 2021 to Wednesday, 26 May 2021 (both dates inclusive)
Record date	Wednesday, 26 May 2021

(ii) *For determining entitlement to the final dividend*

Latest time to lodge transfer documents for registration	4:30 p.m. on Tuesday, 1 June 2021
Closure of the register of members of the Company	Wednesday, 2 June 2021 to Monday, 7 June 2021 (both dates inclusive)
Record date	Monday, 7 June 2021

During the above closure periods, no transfer of shares will be registered. In order to qualify for the proposed final dividend and the right to attend and vote at the forthcoming AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than the aforementioned latest time.

Review by Audit Committee

The Audit Committee of the Company has been established since 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. During the year ended 31 December 2020, our Audit Committee comprised of three independent non-executive Directors, namely Ms. Wenjie WU (chairman of the Audit Committee), Mr. David Yuen Kwan TANG, and Mr. Shun Tak WONG.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters with management.

The Audit Committee has reviewed the Group's audited financial statements for the year ended 31 December 2020, and is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

Code on Corporate Governance Practices

The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in Corporate Governance Code and Corporate Governance Report (the “**Code**”) contained in Appendix 14 to the Listing Rules, except for the code provision A.6.7 and C.1.2 of the Code.

The code provision A.6.7 of the Code is regarding the non-executive directors' attendance to general meetings. Non-executive Director, Mr. Chi Ping LAU, did not attend the annual general meeting of the Company held on 27 May 2020 due to pre-arranged engagements. Non-executive Directors, Mr. Jun LEI and Mr. Chi Ping LAU, did not attend the extraordinary general meeting of the Company held on 20 March 2020 due to pre-arranged engagements. The code provision C.1.2 of the Code requires management to provide all members of the board with monthly updates on the issuer's business. The management of the Company currently reports to the Board quarterly on the Group's performance, position and prospects. The Board believes that with the executive Directors overseeing the daily operation of the Group and the effective communication between the executive Directors, the management and the non-executive Directors (including the independent non-executive Directors) on the Group's affairs, the current practice is sufficient enough for the members of the Board to discharge their duties. The Board will continue to review this practice and shall make necessary changes when appropriate and report to the shareholders accordingly.

Forward Looking Statements

This announcement contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements are based upon current plans, estimates and projections and represent the Company's expectations or beliefs concerning future events, therefore, no undue reliance should be placed upon them.

Forward looking statements contain inherent risks and uncertainties. The Company warns that should any of these risks or uncertainties ever materialize or should any number of important factors or events occur or not occur, then the actual results of the Company may differ materially from those either expressed or implied in any of these forward looking statements.

Publication of the Annual Results, Annual Reports and Corporate Governance Report

All the financial and other related information of the Company required by the Listing Rules will be published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.kingsoft.com) in due course.

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 23 March 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.