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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)

CONNECTED TRANSACTION

PROPOSED DISPOSAL OF SHARES IN SEASUN TO TENCENT

On 21 April 2017, Kingsoft Entertainment (a wholly-owned subsidiary of the Company), Image Frame Investment (a wholly-owned subsidiary of Tencent), WestGame Holdings Limited, United Websoft Inc and Season entered into the Share Purchase Agreement, pursuant to which, amongst others, Kingsoft Entertainment agreed to sell and Image Frame Investment agreed to purchase 39,819,466 Season Shares, representing approximately 4.34% of the total issued shares of Season as at the date of this announcement, at a consideration of US\$62,617,989.29, subject to certain conditions.

Apart from the Proposed Disposal, Image Frame Investment also proposed to acquire Season Shares from other shareholders of Season, namely WestGame Holdings Limited, United Websoft Inc and Xiaomi Ventures Limited. WestGame Holdings Limited, United Websoft Inc and Xiaomi Ventures Limited proposed to sell approximately 4.14%, 0.03% and 1.39% of the total issued shares of Season as at the date of this announcement, respectively, in an aggregate consideration of approximately US\$80 million. The major commercial terms of such transactions are substantially the same as those in the Proposed Disposal.

Upon completion of such transactions, Image Frame Investment will hold a total of 90,896,795 Season Shares, representing approximately 9.90% of the total issued shares of Season assuming that there is no change in the share capital of Season from the date of this announcement to the completion date of such transactions.

Image Frame Investment is a wholly-owned subsidiary of Tencent. Tencent is a substantial shareholder of Cheetah Mobile Inc., a significant subsidiary of the Company. Therefore, Image Frame Investment is a connected person of the Company at the subsidiary level. As such, the Share Purchase Agreement entered into between Image Frame Investment and Kingsoft Entertainment and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Share Purchase Agreement exceeds 1%, the Share Purchase Agreement and the transactions contemplated thereunder are subject to reporting and announcement requirements, but exempted from the independent shareholders' approval requirement.

A. INTRODUCTION

The Board is pleased to announce that Kingsoft Entertainment (a wholly-owned subsidiary of the Company), Image Frame Investment (a wholly-owned subsidiary of Tencent), WestGame Holdings Limited, United Websoft Inc and Season entered into the Share Purchase Agreement on 21 April 2017, pursuant to which, amongst others, Kingsoft Entertainment agreed to sell and Image Frame Investment agreed to purchase 39,819,466 Season Shares, representing approximately 4.34% of the total issued shares of Season as at the date of this announcement, at a consideration of US\$62,617,989.29, subject to certain conditions.

Apart from the Proposed Disposal, Image Frame Investment also proposed to acquire Season Shares from other shareholders of Season, namely WestGame Holdings Limited, United Websoft Inc and Xiaomi Ventures Limited. WestGame Holdings Limited, United Websoft Inc and Xiaomi Ventures Limited proposed to sell approximately 4.14%, 0.03% and 1.39% of the total issued shares of Season as at the date of this announcement, respectively, in an aggregate consideration of approximately US\$80 million. The major commercial terms of such transactions are substantially the same as those in the Proposed Disposal.

Upon completion of such transactions, Image Frame Investment will hold a total of 90,896,795 Season Shares, representing approximately 9.90% of the total issued shares of Season assuming that there is no change in the share capital of Season from the date of this announcement to the completion date of such transactions.

B. THE SHARE PURCHASE AGREEMENT

The principle terms of the Share Purchase Agreement are summarized as follows:

- Date:** 21 April 2017
- Parties:**
- (i) Kingsoft Entertainment (as seller);
 - (ii) Image Frame Investment (as purchaser); and
 - (iii) WestGame Holdings Limited, United Websoft Inc and Season (each as warrantor)
- Subject matter:** Pursuant to the Share Purchase Agreement, amongst others, Kingsoft Entertainment agreed to sell and Image Frame Investment agreed to purchase 39,819,466 Season Shares held by Kingsoft Entertainment, representing approximately 4.34% of the total issued shares of Season as at the date of this announcement.

Consideration: The aggregate consideration payable by Image Frame Investment to Kingsoft Entertainment is US\$62,617,989.29. At the Closing, Image Frame Investment shall pay the consideration to Kingsoft Entertainment in a lump sum through wire transfer of funds.

The consideration was determined after arm's length negotiations between Kingsoft Entertainment and Image Frame Investment with reference to (i) the historical financial figures and performance of Season Group; (ii) the business potentials of Season Group; and (iii) the market conditions of the game industry.

The Board (including the independent non-executive Directors) is of the opinion that the consideration is fair and reasonable, on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

Closing: The Closing shall take place within 10 business days after the fulfilment or waiver of the conditions to the Closing as set forth in the Share Purchase Agreement (other than conditions which, by their nature, are to be satisfied at the Closing, but subject to the fulfilment or waiver of those conditions at the Closing), or such other time as Kingsoft Entertainment and Image Frame Investment may mutually agree upon.

Conditions precedent: *Conditions to Image Frame Investment's obligations at the Closing*

The obligations of Image Frame Investment to consummate the transactions contemplated by the Share Purchase Agreement at the Closing is subject to the fulfilment, or waiver by Image Frame Investment, of the following conditions precedent:

- (i) The representations and warranties made by the parties to the Share Purchase Agreement (excluding Image Frame Investment) shall be true and correct in all material respects (in the case of any representation or warranty not qualified by materiality or material adverse effect) or in all respects (in the case of any representation or warranty qualified by materiality or material adverse effect) as of the agreement date and as of the Closing Date with the same force and effect as if they had been made on and as of such date;
- (ii) All corporate and other proceedings in connection with the Share Purchase Agreement and the transactions contemplated thereunder have been consummated;

- (iii) The Business Cooperation Agreement and other transaction documents (such as the shareholders' agreement, and the third amended and restated memorandum and articles of association of Seasun) shall have been executed by each of the signatories thereto, other than Image Frame Investment; and
- (iv) Other customary conditions precedent.

Conditions to Kingsoft Entertainment's obligations at the Closing

The obligations of Kingsoft Entertainment to consummate the transactions contemplated by the Share Purchase Agreement at the Closing are subject to the fulfilment, or waiver by Kingsoft Entertainment, of the following conditions:

- (i) The representations and warranties of Image Frame Investment contained in the Share Purchase Agreement shall be true and correct in all material respects (in the case of any representation or warranty not qualified by materiality) or in all respects (in the case of any representation or warranty qualified by materiality) as of the agreement date and as of the Closing Date with the same force and effect as if they had been made on and as of such date;
- (ii) The Business Cooperation Agreement and other transaction agreements (such as the shareholders' agreement, and the third amended and restated memorandum and articles of association of Seasun) shall have been executed by each of the signatories thereto, other than Kingsoft Entertainment and the members of Seasun Group; and
- (iii) Other customary conditions precedent.

C. INFORMATION OF SEASUN GROUP

Seasun is a company incorporated under the laws of the Cayman. Seasun Group is mainly engaged in the research, development and operation of games.

The book value of the net assets of Seasun Group as at 31 December 2016 as shown in the unaudited accounts of Seasun Group prepared in accordance with the International Financial Reporting Standards was approximately RMB836 million. The profits of Seasun Group (before and after tax) for each of the financial years ended 31 December 2015 and 2016 are set out as follows:

	Year ended 31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	22,173	695,472
Profit after tax	1,627	628,230

D. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL AND USE OF PROCEEDS

Immediately after the Closing, the Company's equity interest in Seasun will decrease from 71.99% to 67.65%, and Seasun will continue to be a subsidiary of the Company. Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. As a result of the Proposed Disposal, no gain or loss will be recognised in the profit or loss by the Group, and the carrying amounts of the non-controlling interests of Seasun will be adjusted to reflect changes in their relative interests, and the difference between the amount by which the non-controlling interests will be adjusted and the fair value of the consideration will be received shall be recognised directly in equity, which is expected to be approximately RMB392 million with reference to the unaudited book value of the net assets of Seasun Group as at 31 December 2016. Such amount is a preliminary figure prepared by the Company and the actual amount shall be determined after the completion of the Proposed Disposal.

The Company intends to use the proceeds from the Proposed Disposal for general corporate purposes and future investments.

E. REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSAL

Seasun Group is primarily engaged in the research, development and operation of games. Tencent Group, as one of the leading providers of internet value-added services operating some of the most popular social platforms in the PRC, has rich experience in research and development of online games, advertising and operation of digital content business. Seasun Group has a well-established business relationship with Tencent Group for a period of time, especially in the joint operation of game.

By introducing Tencent Group as a strategic investor in Season, the Company believes that it will further strengthen the business cooperation in the game area between Season Group and Tencent Group in the future. The two parties will cooperate closely and jointly draw on their complementary strengths so as to provide better entertainment experience for more end users. Enjoying the resources advantage of Tencent Group, Season Group will continue to expand its core end users and increase its market share.

On or before the Closing, Season Group and Tencent Group will enter into the Business Cooperation Agreement, which is also a condition precedent to the Closing contemplated under the Share Purchase Agreement. Pursuant to the Business Cooperation Agreement, if Season Group decides not to distribute and operate its new games on its own, Tencent Group shall have the exclusive cooperation right of first refusal to distribute and operate the simplified Chinese version of such games in the PRC. Further, if Season Group proposes to dispose certain intellectual properties relating its own games to any external third party of Season Group, Tencent Group has the right of first refusal to purchase such intellectual properties under the equivalent terms and conditions. Such cooperation will expire when the then Season Shares held by Tencent Group is less than the half of the Season Shares held by Tencent Group immediately after the Closing.

The Share Purchase Agreement together with the Business Cooperation Agreement aligns Season Group and Tencent Group closely, which is expected to promote the business development and improve the market competitiveness for both parties so as to bring benefits to both Season Group and Tencent Group in a long term.

The Directors, including the independent non-executive Directors, consider that the terms of the Share Purchase Agreement are entered into on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

F. LISTING RULES IMPLICATIONS

Image Frame Investment is a wholly-owned subsidiary of Tencent. Tencent is a substantial shareholder of Cheetah Mobile Inc., a significant subsidiary of the Company. Therefore, Image Frame Investment is a connected person of the Company at the subsidiary level. As such, the Share Purchase Agreement entered into between Tencent and Kingsoft Entertainment and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Share Purchase Agreement exceeds 1%, the Share Purchase Agreement and the transactions contemplated thereunder are subject to reporting and announcement requirements, but exempted from the independent shareholders' approval requirement.

Given that Mr. Chi Ping LAU is a director of Tencent, he has, therefore, abstained from voting in respect of the relevant Board resolution approving the Share Purchase Agreement. Save as stated above, none of other Directors has a material interest in the Share Purchase Agreement nor has any of them abstained from voting in respect of the relevant Board resolution.

G. GENERAL INFORMATION

Kingsoft Entertainment is a wholly-owned subsidiary of the Company and is mainly engaged in investment holding.

The Group is principally engaged in research and development of games, and provision of online games, mobile games and casual game services; research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices; and provision of cloud storage and cloud computation services, research, development and distribution of office application software, provision of dictionary services across devices, and provision of online marketing services.

Image Frame Investment is a wholly-owned subsidiary of Tencent, whose principal business is investment holding. Tencent Group is principally engaged in the provision of internet value-added services, mobile and telecommunications value-added services, and on-line advertising services to users in the PRC.

Each of WestGame Holdings Limited and United Websoft Inc is a company incorporated under the law of the BVI, and serves as an investment holding vehicle.

H. DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings as set out below:

“Board”	the board of Directors
“Business Cooperation Agreement”	the business cooperation agreement to be entered into by Seasun Group and Tencent Group on or before the Closing
“BVI”	British Virgin Islands
“Cayman”	Cayman Islands
“Closing”	the closing of the Proposed Disposal under the Share Purchase Agreement
“Closing Date”	the date of Closing
“Company”	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the BVI on 20 March 1998 and discontinued in the BVI and continued into the Cayman on 15 November 2005, with its shares listed on the Hong Kong Stock Exchange

“connected person”	has the meaning as ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Image Frame Investment”	Image Frame Investment (HK) Limited, a company organized and existing under the laws of Hong Kong and a wholly-owned subsidiary of Tencent as at the date of this announcement
“Kingsoft Entertainment”	Kingsoft Entertainment Software Holdings Limited, a limited liability company incorporated under the laws of the Cayman and a wholly-owned subsidiary of the Company as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Disposal”	the proposed disposal of 39,819,466 Season Shares by Kingsoft Entertainment to Image Frame Investment under the Share Purchase Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Season”	Season Holdings Limited, a limited liability company incorporated under the laws of the Cayman and a non-wholly-owned subsidiary of the Company
“Season Group”	Season and its subsidiaries
“Season Share(s)”	the ordinary share(s) of Season
“Shareholder(s)”	holder(s) of the issued ordinary share(s) of the Company

“Share Purchase Agreement”	the share purchase agreement dated 21 April 2017 entered into among Kingsoft Entertainment, Image Frame Investment, WestGame Holdings Limited, United Websoft Inc and Season, pursuant to which, amongst others, Kingsoft Entertainment agreed to sell, and Image Frame Investment, agreed to purchase 39,819,466 Season Shares at a consideration of US\$62,617,989.29
“subsidiary”	has the meaning as ascribed thereto in the Listing Rules
“Tencent”	Tencent Holdings Limited, a limited liability company organized and existing under the laws of the Cayman and the shares of which are listed on the Hong Kong Stock Exchange and a substantial shareholder of Cheetah Mobile Inc. as at the date of this announcement
“Tencent Group”	Tencent and its subsidiaries
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	percent

By Order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 21 April 2017

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.