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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)

CONTINUING CONNECTED TRANSACTIONS THE FRAMEWORK AGREEMENT BETWEEN THE COMPANY AND KINGSOFT CLOUD

On 30 December 2014, in order to regulate the ongoing transactions between the Group (excluding Kingsoft Cloud Group) and Kingsoft Cloud Group, the Company and Kingsoft Cloud entered into the Previous Framework Agreement. The Previous Framework Agreement will expire on 31 December 2017.

In order to renew the transactions under the Previous Framework Agreement for the three years ending 31 December 2020, the Company and Kingsoft Cloud entered into the Framework Agreement on 1 December 2017. Pursuant to the Framework Agreement, (i) the Group (excluding Kingsoft Cloud Group) will provide the comprehensive leasing services to Kingsoft Cloud Group, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative support; and (ii) Kingsoft Cloud Group will provide cloud services to the Group (excluding Kingsoft Cloud Group), including but not limited to the cloud storage and cloud computing services, for a term of three years ending 31 December 2020.

Kingsoft Cloud is a subsidiary of the Company. As at the date of this announcement, Xiaomi, the associate of Mr. Jun LEI, holds more than 10% voting power in Kingsoft Cloud and Mr. Jun LEI is a substantial Shareholder. As such, Kingsoft Cloud is a connected subsidiary of the Company by virtue of Rule 14A.16 of the Listing Rules. Therefore, the entering into the Framework Agreement between the Company and Kingsoft Cloud and the transactions contemplated thereunder will become continuing connected transactions of the Company under the Listing Rules.

Each of the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the proposed annual caps for the transactions contemplated under the Framework Agreement exceeds 0.1% but is less than 5%, such transactions and their respective proposed annual caps are subject to the reporting, announcement and annual review requirements, but exempted from the independent Shareholders' approval under Chapter 14A of the Listing Rules.

Mr. Jun LEI, Mr. Tao ZOU and Mr. Yuk Keung NG have abstained from voting on the Board resolutions approving the Framework Agreement as they are the directors of Kingsoft Cloud. Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under the Framework Agreement and none of them has abstained from voting on the relevant Board resolutions.

1. BACKGROUND

Reference is made to the announcement of the Company dated 30 December 2014 in relation to the Previous Framework Agreement. On 30 December 2014, in order to regulate the ongoing transactions between the Group (excluding Kingsoft Cloud Group) and Kingsoft Cloud Group, the Company and Kingsoft Cloud entered into the Previous Framework Agreement. The Previous Framework Agreement will expire on 31 December 2017.

In order to renew the transactions under the Previous Framework Agreement for the three years ending 31 December 2020, the Company and Kingsoft Cloud entered into the Framework Agreement on 1 December 2017. Pursuant to the Framework Agreement, (i) the Group (excluding Kingsoft Cloud Group) will provide the comprehensive leasing services to Kingsoft Cloud Group, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative support; and (ii) Kingsoft Cloud Group will provide cloud services to the Group (excluding Kingsoft Cloud Group), including but not limited to the cloud storage and cloud computing services, for a term of three years ending 31 December 2020.

2. THE FRAMEWORK AGREEMENT

The principal terms of the Framework Agreement are summarized as follows:

| | |
|------------------------------|---|
| Date: | 1 December 2017 |
| Parties: | the Company; and Kingsoft Cloud |
| Terms: | three years from 1 January 2018 to 31 December 2020 |
| Scope of cooperation: | <i>(a). Provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group) to Kingsoft Cloud Group</i> |

The Group (excluding Kingsoft Cloud Group) will provide Kingsoft Cloud Group with comprehensive leasing services in return for service fees, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative support.

The fees for the comprehensive leasing services provided by the Group (excluding Kingsoft Cloud Group) shall be determined after arm's length negotiation between the parties with reference to the prevailing market price of the similar services, and such fees should not be more favourable to Kingsoft Cloud Group than those offered to an independent third party.

(b). Provision of cloud services by Kingsoft Cloud Group to the Group (excluding Kingsoft Cloud Group)

Kingsoft Cloud Group will provide cloud services to the Group (excluding Kingsoft Cloud Group) in return for service fees, including but not limited to the cloud storage and cloud computing services.

The fees for the cloud services provided by Kingsoft Cloud Group shall be determined based on the following principles:

- (i) the fees shall be determined upon arm's length negotiation between the Group (excluding Kingsoft Cloud Group) and Kingsoft Cloud Group after taking into account the costs for providing the services, the volume of the services rendered and a reasonable profit of Kingsoft Cloud Group; and
- (ii) the fees shall be no less favorable to the Group (excluding Kingsoft Cloud Group) than those provided to an independent third party for services rendered on similar technical specifications and volume.

Payment terms: The payment terms shall be based on the individual agreements with reference to similar transactions in the market.

Individual agreements: The Group (excluding Kingsoft Cloud Group) and Kingsoft Cloud Group may enter into individual agreements from time to time when necessary according to the principles and scope provided for under the Framework Agreement. Such individual agreements shall be entered into on normal commercial terms.

3. HISTORICAL AMOUNTS AND THE PROPOSED ANNUAL CAPS UNDER THE FRAMEWORK AGREEMENT

The table below sets out the historical amounts for the two years ended 31 December 2016 and the nine months ended 30 September 2017:

| | For the year ended 31 December 2015 | For the year ended 31 December 2016 | For the nine months ended 30 September 2017 | the annual cap for the year ending 31 December 2017 |
|---|--|--|---|---|
| | | | | <i>RMB: million</i> |
| fees payable by Kingsoft Cloud Group | | | | |
| provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group) | 8.98 | 15.21 | 13.39 | 25 |
| fees payable by the Group (excluding Kingsoft Cloud Group) | | | | |
| provision of cloud services by Kingsoft Cloud Group | 6.71 | 39.21 | 52.19 | 70 |

The Company proposes to set up the annual caps for the three years ending 31 December 2020 as follows:

| | For the year ending 31 December 2018 | For the year ending 31 December 2019 | For the year ending 31 December 2020 |
|---|---|---|---|
| | | | <i>RMB: million</i> |
| fees payable by Kingsoft Cloud Group | | | |
| provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group) | 30 | 50 | 75 |
| fees payable by the Group (excluding Kingsoft Cloud Group) | | | |
| provision of cloud services by Kingsoft Cloud Group | 90 | 150 | 220 |

(1) Reasons and basis for setting up the annual caps for the fees payable by Kingsoft Cloud Group in respect of the provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group)

The annual caps for the fees payable by Kingsoft Cloud Group in respect of the provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group) for the three years ending 31 December 2020 are determined with reference to (i) the historical transaction amounts for the two years ended 31 December 2016 and the nine months ended 30 September 2017; (ii) the number of current employees of Kingsoft Cloud Group; (iii) the fair market rates for provision of similar services; and (iv) the proposed increase of staff number of Kingsoft Cloud Group.

(2) Reasons and basis for setting up the annual caps for the fees payable by the Group (excluding Kingsoft Cloud Group) in respect of the provision of cloud services by Kingsoft Cloud Group

The annual caps for the fees payable by the Group (excluding Kingsoft Cloud Group) to Kingsoft Cloud Group in respect of the provision of cloud services by Kingsoft Cloud Group for the three years ending 31 December 2020 are determined with reference to (i) the historical transaction amounts for the two years ended 31 December 2016 and the nine months ended 30 September 2017; (ii) the annual growth rate of 484% for 2016 as compared with the transaction amount in 2015 and the growth rate of 33% for the nine months ended 30 September 2017 as compared with the transaction amount in 2016; (iii) the fair market rates for provision of similar services; and (iv) the expected steady increase in demand of cloud services as a result of the expansion of the Group's business.

4. REASONS FOR AND BENEFITS OF THE FRAMEWORK AGREEMENT

The provision of comprehensive leasing services to Kingsoft Cloud Group will increase the rental income of the Group and provide steady sources of revenues to the Group. The cloud services provided by Kingsoft Cloud have been successfully applied into and support the Group's online games and office software products. Due to the close relationship between the Group and Kingsoft Cloud Group, the Company considers that it is beneficial to renew the transactions under the Previous Framework Agreement to regulate the continuing connected transactions contemplated thereunder as such transactions will continue to facilitate the operation and growth of the Group's business as a whole.

The Directors (including the independent non-executive Directors) are of the view that the transactions under the Framework Agreement are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Framework Agreement and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. IMPLICATIONS UNDER THE LISTING RULES

Kingsoft Cloud is a subsidiary of the Company. As at the date of this announcement, Xiaomi, the associate of Mr. Jun LEI, holds more than 10% voting power in Kingsoft Cloud and Mr. Jun LEI is a substantial Shareholder. As such, Kingsoft Cloud is a connected subsidiary of the Company by virtue of Rule 14A.16 of the Listing Rules. Therefore, the entering into the Framework Agreement between the Company and Kingsoft Cloud and the transactions contemplated thereunder will become continuing connected transactions of the Company under the Listing Rules.

Each of the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the proposed annual caps for the transactions contemplated under the Framework Agreement exceeds 0.1% but is less than 5%, such transactions and their respective proposed annual caps are subject to the reporting, announcement and annual review requirements, but exempted from the independent Shareholders' approval under Chapter 14A of the Listing Rules.

Mr. Jun LEI, Mr. Tao ZOU and Mr. Yuk Keung NG have abstained from voting on the Board resolutions approving the Framework Agreement as they are the directors of Kingsoft Cloud. Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under the Framework Agreement and none of them has abstained from voting on the relevant Board resolutions.

6. INFORMATION OF THE PARTIES

The Group is principally engaged in research and development of games, and provision of online games, mobile games and casual game services; provision of cloud storage and cloud computation services; and design, research and development and sales and marketing of the office software products and services of WPS Office.

Kingsoft Cloud Group is principally engaged in the research, development and provision of cloud technology and services.

7. DEFINITION

| | |
|-------------|---|
| “associate” | has the meaning ascribed thereto under the Listing Rules; |
| “Board” | the board of Directors; |
| “BVI” | the British Virgin Islands; |
| “Cayman” | the Cayman Islands; |
| “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 Cayman on 15 November 2005, with the Shares listed on the Stock Exchange; |

| | |
|--------------------------------|--|
| “Director(s)” | the director(s) of the Company; |
| “Framework Agreement” | the agreement entered into between the Company and Kingsoft Cloud on 1 December 2017, pursuant to which, (i) the Group (excluding Kingsoft Cloud Group) will provide the comprehensive leasing services to Kingsoft Cloud Group, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative supports; (ii) Kingsoft Cloud Group will provide cloud services to the Group (excluding Kingsoft Cloud Group), including but not limited to the cloud storage and cloud computing services, for a term of three years ending 31 December 2020; |
| “Group” | the Company and its subsidiaries; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC; |
| “Kingsoft Cloud” | Kingsoft Cloud Holdings Limited, a limited liability company organized under the laws of Cayman and a subsidiary of the Company as at the date of this announcement; |
| “Kingsoft Cloud Group” | Kingsoft Cloud and its subsidiaries; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time); |
| “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; |
| “Previous Framework Agreement” | the agreement entered into between the Company and Kingsoft Cloud on 30 December 2014, pursuant to which, (i) the Group (excluding Kingsoft Cloud Group) would provide the comprehensive leasing services to Kingsoft Cloud Group, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative support; (ii) Kingsoft Cloud Group would provide cloud services to the Group (excluding Kingsoft Cloud Group), including but not limited to the cloud storage and cloud computing services, for a term of three years ending 31 December 2017; |
| “RMB” | Renminbi, the lawful currency of the PRC; |
| “Shareholder(s)” | holder(s) of the issued ordinary share(s) of the Company; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |

“subsidiary(ies)” has the same meaning as ascribed thereto in the Listing Rules;

“substantial shareholder(s)” has the same meaning as ascribed thereto in the Listing Rules;

“Xiaomi” Xiaomi Corporation, a limited liability company organized under the laws of Cayman; and

“%” per cent.

By Order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 1 December 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.