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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: 3888)

CONNECTED TRANSACTION

ACQUISITION OF 29.4% EQUITY INTEREST IN DALIAN KINGSOFT INTERACTIVE ENTERTAINMENT CO., LTD.

The Board is pleased to announce that on 27 May 2008, the Group entered into an agreement, pursuant to which the Group agreed to acquire a 29.4% equity interest in Kingsoft Dalian from Dalian SSW for a total cash consideration of RMB30.3 million, in accordance to the terms and conditions of the Share Purchase Agreement.

In 2006, the Company invested in Kingsoft Dalian together with Dalian SSW to form a company engaged in the research and development of casual online games. The joint venture company, Kingsoft Dalian, is held as to 51% by the Group and 49% by Dalian SSW.

As Dalian SSW is a connected person of the Group under Chapter 14A of the Listing Rules, the transaction under the Share Purchase Agreement constitute connected transaction of the Company. The highest applicable percentage ratios of the Share Purchase Agreement are expected to be more than 0.1% but less than 2.5%, therefore the transaction under the Share Purchase Agreement constitute connected transaction subject to announcement and reporting requirements but exempt from independent shareholders' approval requirement under Rule 14A.34(1) of the Listing Rules.

1. Background

On 27 May 2008, the Group entered into an agreement with Dalian SSW, pursuant to which the Group will acquire 29.4% shareholding of Kingsoft Dalian for a total cash consideration of RMB30.3 million, in accordance to the terms and conditions of the Share Purchase Agreement. Upon successful acquisition of the 29.4% equity interest of Kingsoft Dalian from Dalian SSW, Kingsoft Dalian will become an 80.4% owned subsidiary of the Group.

In 2006, the Company, via its indirectly controlled subsidiary Beijing Digital Entertainment, invested in Kingsoft Dalian together with Dalian SSW to form a company engaged in the research and development of casual online games. Kingsoft Dalian was developing a 3D graphics first-person shooter game, MAT, which was recently launched in Thailand in January 2008, and is scheduled to be launched in China during the second half of 2008.

This joint venture company, Kingsoft Dalian, is held as to 51% by the Company and 49% by Dalian SSW. As a result, Dalian SSW is a connected person of the Group under Chapter 14A of the Listing Rules, and the transaction under the Share Purchase Agreement constitutes connected transaction of the Company.

As the highest applicable percentage ratios of the Share Purchase Agreement are expected to be more than 0.1% but less than 2.5%, therefore the transaction under the Share Purchase Agreement constitute connected transaction subject to announcement and reporting requirements but exempt from independent shareholders' approval requirement under Rule 14A.34(1) of the Listing Rules.

Details of the Share Purchase Agreements are set out below.

2. Share Purchase Agreement

Date of agreement : 27 May 2008

Parties : • Chengdu Interactive Entertainment
• Dalian SSW

Subject matter : purchase agreement with Dalian SSW dated 27 May 2008 in relation to the purchase of 29.4% equity interest in Kingsoft Dalian from Dalian SSW

Consideration : RMB30.3 million

Payment terms : • RMB20 million to be paid within 1 day upon the Share Purchase Agreement becoming effective and the receipt of formal invoice from Dalian SSW for the said amount
• RMB10.3 million to be paid within 10 days upon the successful and completion of share transfer and registration of the Group as the new shareholder, and the receipt of formal invoice from Dalian SSW for the said amount

3. Basis of Determination of Consideration under the Share Purchase Agreement

The total consideration of RMB30.3 million under the Share Purchase Agreement was determined after arm's length negotiation between the Company and Dalian SSW with reference to the price-to-book ratio of comparable online gaming companies listed on the Stock Exchange, and a detailed internal feasibility study of Kingsoft Dalian business performance by the Company. On this basis, the Board considers the basis of determination of the consideration to be fair and reasonable.

As Kingsoft Dalian is a 51% subsidiary controlled by the Company, Kingsoft Dalian's account was accounted in the Company's account using consolidated accounting method. According to the audited financial statements of Kingsoft Dalian, the total assets and the total liabilities of Kingsoft Dalian as at 31 December 2007 were RMB29,205,006 and RMB701,103 respectively. The net asset value of Kingsoft Dalian as at 31 December 2007 was RMB28,503,903 as stated in the audited financial statements. The original investment cost of Kingsoft Dalian by the Company and Dalian SSW was RMB30,000,000 as per shareholders' equity as at 31 December 2007. According to the audited financial statement of Kingsoft Dalian prepared under PRC Generally Accepted Accounting Principles, the net loss before and after tax and extraordinary items were both at RMB2,045,537 for the year ended 31 December 2007, whilst the net profit before and after tax and extraordinary items were RMB889,663 and RMB549,440 for the year ended 31 December 2006. Losses of Kingsoft Dalian for the year ended 2007 was mainly due to the fact that online games developed by Kingsoft Dalian has not been commercialised. Without any revenue, Kingsoft Dalian's income was dependent on annual government grants provided since 2006, which by 2007 was exceeded by growing expenses and headcount of Kingsoft Dalian.

Payment for the total cash consideration of RMB30.3 million will be financed by IPO proceeds of the Group, and the Directors believe that the consideration of the Acquisition will not have a significant impact on the Group's financial position.

4. Reasons for Entering into the Share Purchase Agreement

The Board is of the view that the games developed by Kingsoft Dalian is ready for commercialisation after 2 years of internal development and testing. As such, the Company believes that it should capitalise on the commercialisation of the games by Kingsoft Dalian. Therefore the Company can benefit more if it acquires a bigger equity share of Kingsoft Dalian prior to the full commercial deployment of its games within the Asia region.

By acquiring a much larger shareholding in Kingsoft Dalian than it current owns, the Company will also gain better control of both management and resources of Kingsoft Dalian. Furthermore, the other shareholders of Kingsoft Dalian are also very receptive of the idea of liquidating their stake to the Company.

Having made due and reasonable inquiries, the Directors (including the independent non-executive Directors) are of the view that the Share Purchase Agreement has been entered into on normal commercial terms and conducted in the ordinary and usual course of business of the

Company and the terms of the Share Purchase Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

5. General Information

The Group is principally engaged in the research, development and distribution of online games entertainment and applications software in the PRC.

Dalian SSW is principally engaged in sales, research and development of computing applications and software.

6. Definition

“Acquisition”	the acquisition of 29.4% equity interest in Kingsoft Dalian by the Group from Dalian SSW
“associate(s)”	has the meaning ascribed hereto under the Listing Rules
“Beijing Digital Entertainment”	Beijing Kingsoft Digital Entertainment Co., Ltd. (北京金山數字娛樂科技有限公司), a limited liability company incorporated in the PRC on July 30, 2003 which is indirectly controlled by the Company through the structure contracts
“Board”	the board of directors of the Company
“Chengdu Interactive Entertainment”	Chengdu Kingsoft Interactive Entertainment Co., Ltd. (成都金山互動娛樂科技有限公司), a limited liability company incorporated in the PRC on August 4, 2006, which is a wholly owned subsidiary of the Company
“Company”	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its Shares listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Dalian SSW”	Dalian Shang Shang Wang Digital Technology & Co., Ltd. (大連上尚網數碼科技有限公司), the 49.0% shareholder of Kingsoft Dalian
“Group”	the Company, its subsidiaries and companies which are indirectly controlled by the Company through the structure contracts

“IPO”	initial public offering of the Company on the main board of the Stock Exchange in October 2007
“Kingsoft Dalian”	Dalian Kingsoft Interactive Entertainment Co., Ltd. (大連金山互動娛樂科技有限公司), a limited liability company incorporated in the PRC on February 13, 2006 in which our Company indirectly holds a controlling equity interest of 51.0%
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“PRC” or “China”	the People’s Republic of China which, for the purpose of this Announcement only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Share Purchase Agreement”	the agreement dated 27 May 2008 entered into between Chengdu Interactive Entertainment and Dalian SSW in respect of the Acquisition
“Share(s)”	share(s) in the capital of the Company
“Shareholder(s)”	registered holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

If there is any inconsistency between the Chinese names of the PRC entities mentioned in this announcement and their English translations, the Chinese names shall prevail.

By order of the Board
Kingsoft Corporation Limited
Pak Kwan Kau
Chairman

The PRC, 27 May 2008

As at the date of this announcement, the Executive Directors are Messrs. Pak Kwan Kau and Jun Lei; the Non-Executive Directors are Messrs. Wing Chung Anders Cheung, Wai Ming Wong and Choon Chong Tay; the Independent Non-Executive Directors are Messrs. Shun Tak Wong, Guangming George Lu and Mingming Huang.