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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

Background

The Board is pleased to announce that on 28 December 2012, Kingsoft Japan entered into the Framework Agreement with Mobile In Style, pursuant to which Kingsoft Japan will conduct various continuing connected transactions with Mobile In Style.

In order to promote and ensure the continued growth and development of the Group in the future, Kingsoft Japan and Mobile In Style will cooperate with each other to leverage on the sales channel of both Kingsoft Japan and Mobile In Style in order to cross market each other's products and services, provide loan and guarantee services by Kingsoft Japan to Mobile In Style and cooperate in terms of software development services.

Implications under the Listing Rules

As at the date of this announcement, Kingsoft Japan is a 51% owned subsidiary of the Company and Mobile In Style is a 85% owned subsidiary of Kingsoft Japan. As Mr. Jun LEI, a non-executive Director, is interested in 15% of Mobile In Style through Xiaomi Technology Co., Limited, an associate of Mr. Jun LEI, Mobile In Style is a connected person of the Company. As a result, the transactions contemplated under the Framework Agreement between Kingsoft Japan and Mobile In Style constitute continuing connected transactions of the Company.

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the proposed annual caps of the transactions within the Framework Agreement exceed 0.1% but is less than 5%, the transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules, and are subject to reporting, annual review and announcement requirements, but exempted from the independent Shareholder's approval requirement.

1. BACKGROUND

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2. CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT BUT SUBJECT TO REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS

Key Terms of the Framework Agreement

Date : 28 December 2012

Parties : — Kingsoft Japan
— Mobile In Style

Subject matter : Kingsoft Japan will provide the following products and services to Mobile In Style:

- 1) sales, entrusted product sales and related services (“**KJ Sales Agency Services**”);
- 2) entrusted business services, secondment of staff, licensing, joint research and development, entrusted software development and other related services (“**KJ Software Development Services**”);
- 3) loan services (“**Loan Services**”); and
- 4) guarantee services (“**Guarantee Services**”).

Mobile In Style will provide the following services to Kingsoft Japan:

- 1) sales, entrusted product sales and related services (“**MIS Sales Agency Services**”); and
- 2) entrusted business services, entrusted software development and other related services (“**MIS Software Development Services**”).

Term : From 28 December 2012 to 31 December 2014 for KJ Sales Agency Services, MIS Sales Agency Services, Loan Services and Guarantee Services, and from 1 January 2013 to 31 December 2014 for KJ Software Development Services and MIS Software Development Services

Pricing standards : The applicable price of the services to be supplied and provided will be based on the prevailing fair market pricing practice and pricing policy of independent third parties among industry participants for similar transactions.

Interest rates of Loan Services will be charged according to TIBOR-based loan rates offered by other financial institutions who are independent third parties.

Guarantee fees arising from Guarantee Services will be charged as a percentage of the amount guaranteed based on market rates of respective services, such as trade financing rates and loan guarantee rates charged by other financial institutions who are independent third parties.

In any event, the applicable terms and price of the products and services offered to Mobile In Style by Kingsoft Japan shall not be more favorable than those offered by Kingsoft Japan to independent third parties, and the terms and price of the products and services offered to Kingsoft Japan by Mobile In Style shall not be less favorable than those offered by Mobile In Style to independent third parties.

Payment terms : The payment shall be settled as the following:

For KJ Sales Agency Services, KJ Software Development Services, Guarantee Services, MIS Sales Agency Services, and MIS Software Development Services:

- (a) Once the service is completed, the invoice will be sent to purchaser between the cut-off date that is defined as the last day of each month to the 10th of the next month; and
- (b) Once the invoice is received, the purchaser should arrange payment between the cut-off date and the last day of the next month.

For Loan Services, the payment terms will be specified on each separate contract to be agreed by parties and, any amount due according to the terms of the loan agreements shall be repaid upon the tenure of the loans are due.

Proposed Annual Cap Amounts for the Transactions under the Framework Agreement

The following table sets out the proposed annual cap amounts for the three financial years ending 31 December 2014 contemplated under the Framework Agreement:

	Proposed Annual Cap Amounts		
	For the year ending 31 December		
	2012	2013	2014
	<i>In JPY million</i>	<i>In JPY million</i>	<i>In JPY million</i>
1. KJ Sales Agency Services	30	60	60
2. KJ Software Development Services	—	30	30
3. Loan Services	300	300	300
4. Guarantee Services	300	300	300
5. MIS Sales Agency Services	30	50	50
6. MIS Software Development Services	—	20	20

Basis for the Proposed Annual Cap Amounts under the Framework Agreement

The proposed annual cap amounts under the Framework Agreement are determined with reference to the following factors:

(1) *KJ Sales Agency Services*

Under the KJ Sales Agency Services, Kingsoft Japan will help to distribute the Android pad of Mobile In Style through its existing software distribution channels. The proposed annual caps under the KJ Sales Agency Services have been determined on the basis that the estimated number of various current and future Android pad models will be sold per year.

(2) *KJ Software Development Services*

Under the KJ Software Development Services, Kingsoft Japan will help to develop the system software for Mobile In Style, and also Kingsoft Japan will second its software engineers to Mobile In Style. The proposed annual caps of system software development fees and the cost of secondment of software engineers to Mobile In Style have been determined on the basis that the amounts of software to be developed, which is expected to be JPY20 million per year and the cost of seconding its employees to Mobile In Style, which is expected to be JPY10 million per year.

(3) *Loan Services*

Under the Loan Services, Kingsoft Japan will provide loans and cash advances to its 85% owned subsidiary, namely Mobile In Style, for its purposes of business operations and Android pad development. The estimated annual cap amount of JPY300 million advances required is based on the Company's experience in starting new high-technology related business ventures.

(4) Guarantee Services

Under the Guarantee Services, Kingsoft Japan will act as guarantor to the services suppliers, components suppliers and banks of Mobile In Style. The proposed annual caps of JPY300 million, which is the total amount expected to require the Guarantee Services, have been arrived after considering the numbers of Android pads that Mobile In Style will develop and distribute. Based on the numbers of units of Android pads, the Company has estimated the cost required to manufacture them and the guarantees required by the manufacturers. Furthermore, the Company also considered the amount of guarantees to be provided to Mobile In Style for the purpose of Mobile In Style securing loans from banks.

(5) MIS Sales Agency Services

Under the MIS Sales Agency Services, Mobile In Style will help to distribute Kingsoft Japan's software through the Android pad platform developed by Mobile In Style. The proposed annual caps for the MIS Sales Agency Services have been determined with reference to the estimated purchases per year from the Android pad users.

(6) MIS Software Development Services

Under the MIS Software Development Services, Mobile In Style will help to develop software for Kingsoft Japan. The proposed annual caps of software development fees have been determined on the basis that the amounts of software to be developed, which is expected to be JPY20 million per year.

In arriving at the proposed annual caps, the Company has also considered:

- (i) the expected demand of Android pads developed by Mobile In Style;
- (ii) the growth in the Android tablet market which would drive the sales of Android pads; and
- (iii) new software features that will be needed to be developed and incorporated in the Android pad, and also the applications that will be run on the Android pad,

which will affect the number of Android pads sold by Mobile In Style.

3. REASONS FOR AND BENEFITS OF THE FRAMEWORK AGREEMENT

Mobile In Style was established by the Company with the main purpose of taking advantage of the increasingly popular market of the tablet industry. As Android has slowly increased its market share to become one of the leaders in tablet operating system, the Company is of the opinion that riding on the success of the Android operating system would ensure the Company's products, such as office productivity and security software, would be kept on the forefront of this technological wave.

Providing financial assistance in the form of loans and guarantee to wholly-owned subsidiaries is a common business practice, especially to newly established business ventures. Although Mobile In Style is not a wholly-owned subsidiary of the Company, the 85% interest of Kingsoft Japan in Mobile In Style represents a very significant portion interest in Mobile In Style. Therefore, the Company believes that it is acting in the interest of the Company in providing financial assistance to Mobile In Style, as the largest beneficiary of the success of Mobile In Style would be the Company. Furthermore, the success of Mobile In Style can provide other synergistic effects to Kingsoft Japan's existing growth in terms of cross selling on each other's product sales channels, as planned under the KJ Sales Agency Service and MIS Sales Agency Service, and the sharing of software development resources and expertise under the KJ Software Development Service and MIS Software Development Service.

The Directors, including the independent non-executive Directors, having considered the reasons and benefits above, are of the view that the Framework Agreement was entered into under the ordinary and usual course of business, on normal commercial terms, are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

4. IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Kingsoft Japan is a 51% owned subsidiary of the Company and Mobile In Style is a 85% owned subsidiary of Kingsoft Japan. As Mr. Jun LEI, a non-executive Director, is interested in 15% of Mobile In Style through Xiaomi Technology Co., Limited, an associate of Mr. Jun LEI, Mobile In Style is a connected person of the Company. As a result, the transactions contemplated under the Framework Agreement between Kingsoft Japan and Mobile In Style constitute continuing connected transactions of the Company.

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Mr. Jun LEI, who is a non-executive Director of the Company, has abstained from voting on the Board resolution approving the Framework Agreement.

5. GENERAL INFORMATION

The Group is a leading internet based software developer, distributor and service provider and principally engaged in research, development and distribution of a wide range of innovative entertainment, internet security and application software in the PRC and the Asia region.

Kingsoft Japan is principally engaged in the distribution and operation of office application software, security software and Android pad in the Japanese market.

Mobile In Style is principally engaged in the development and distribution of Android pad in the Japanese market.

Definitions

“associate(s)”	has the meaning ascribed hereto under the Listing Rules
“Board”	the board of Directors
“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 (stock code: 03888)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Framework Agreement”	the framework agreement entered into between Kingsoft Japan and Mobile In Style on 28 December 2012, pursuant to which, Kingsoft Japan and Mobile In Style will cooperate with each other in terms of sales of each other’s products and development of software, and the provision of financial services
“Group”	the Company, its subsidiaries and companies which are indirectly controlled by the Company
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“JPY”	Japanese yen, the lawful currency of Japan
“Kingsoft Japan”	Kingsoft Japan Inc., a company incorporated in Japan on 9 March 2005, which is owned as to 51% by the Company
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Mobile In Style”	Mobile In Style Inc., a company incorporated in Japan on 5 January 2012, which is owned as to 85% by Kingsoft Japan
“PRC” or “China”	The People’s Republic of China, which, for the purpose of this announcement only, does not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Share(s)”	share(s) of US\$0.0005 each in the share capital of the Company

“Shareholder(s)”	registered holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TIBOR”	Tokyo Interbank Offered Rate
“US\$”	United State dollars, the lawful currency of the United State of America
“%”	percent

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman of the Board

The PRC, 28 December 2012

As at the date of this announcement, the executive Directors are Messrs. HongJiang ZHANG and Tao ZOU; the non-executive Directors are Messrs. Jun LEI, Pak Kwan KAU and Chi Ping LAU; and the independent non-executive Directors are Messrs. To Thomas HUI, Guangming George LU and Chuan WANG.

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.