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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
ISSUE OF ORDINARY SHARES BY WESTHOUSE TO
KINGSOFT ENTERTAINMENT AND XIAOMI VENTURES

The Board announces that Kingsoft Entertainment, Xiaomi Ventures, Westhouse Group, WestGame and WestGame Founders entered into the Share Purchase Agreement on 14 February 2014, pursuant to which Westhouse will issue 10,000,000 Westhouse Shares to Kingsoft Entertainment for a consideration of US\$5 million and 40,000,000 Westhouse Shares to Xiaomi Ventures for a consideration of US\$20 million, respectively.

Xiaomi Ventures is a subsidiary of Xiaomi. Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. As such, Xiaomi Ventures is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The transaction contemplated under the Share Purchase Agreement constitutes a connected transaction of the Company under the Listing Rules. Further, as the shareholding held by Kingsoft Entertainment in Westhouse will be diluted upon completion of the Share Purchase Agreement, such issue of ordinary shares to Xiaomi Ventures by Westhouse will constitute a deemed disposal by the Company under the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Share Purchase Agreement exceeds 0.1% but is less than 5%, the Share Purchase Agreement and the transaction contemplated thereunder are subject to reporting and announcement requirements, but exempted from the independent shareholders' approval requirement.

1 INTRODUCTION

The Board announces that Kingsoft Entertainment, Xiaomi Ventures, Westhouse Group, WestGame and WestGame Founders entered into the Share Purchase Agreement on 14 February 2014, pursuant to which Westhouse will issue 10,000,000 Westhouse Shares to Kingsoft Entertainment for a consideration of US\$5 million and 40,000,000 Westhouse Shares to Xiaomi Ventures for a consideration of US\$20 million, respectively.

Upon completion of the Share Purchase Agreement, the equity interest of Westhouse will be owned as to 4.7059% by Xiaomi Ventures, 76.4706% by Kingsoft Entertainment and 18.8235% by WestGame. Westhouse will continue to be a subsidiary of the Company.

2 THE PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT

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

Date	14 February 2014
Parties	Westhouse (as the issuer of Westhouse Shares) and other members of Westhouse Group; Kingsoft Entertainment (as the subscriber of Westhouse Shares); Xiaomi Ventures (as the subscriber of Westhouse Shares); WestGame (as the existing shareholder of Westhouse); WestGame Founders (as a warrantor under the Share Purchase Agreement)
Subject Matter	Westhouse agreed to issue and Kingsoft Entertainment and Xiaomi Ventures agreed to subscribe for 10,000,000 Westhouse Shares and 40,000,000 Westhouse Shares, respectively, at the same purchase price of US\$0.5 per share.
Conditions precedent	The obligations of Kingsoft Entertainment and Xiaomi Ventures to subscribe for the relevant Westhouse Shares are subject to the fulfillment or waiver of, on or prior to the Closing Date, among others, the following conditions: (i) all authorizations, approvals, consents, waivers or permits, if any, in respect of any governmental authority or regulatory body of each applicable jurisdiction that are required in connection with the Share Purchase Agreement having been obtained; (ii) all corporate and other procedures in connection with the Share Purchase Agreement having been completed; and (iii) other reasonable and customary conditions.

Consideration The aggregate consideration is US\$25 million, including US\$5 million payable by Kingsoft Entertainment for the 10,000,000 Westhouse Shares and US\$20 million payable by Xiaomi Ventures for the 40,000,000 Westhouse Shares.

The aggregate consideration of US\$25 million was determined after arm's length negotiations among the parties with reference to i) the business potentials of Westhouse Group; and ii) the market conditions in the game industry. The Board (including the independent non-executive Directors) is of the opinion that the price offered is fair and reasonable, on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

Payment 70% of the considerations shall be respectively paid and delivered by Kingsoft Entertainment and Xiaomi Ventures at the Closing Date, and 30% of the considerations shall be respectively paid and delivered by Kingsoft Entertainment and Xiaomi Ventures before 15 March 2014.

3 INFORMATION ABOUT WESTHOUSE GROUP

Westhouse is a company incorporated under the laws of the Cayman. Westhouse and other members of Westhouse Group are mainly engaged in the research and development of games.

The book value of the net assets of Westhouse Group as at 31 December 2012 as shown in the unaudited accounts of Westhouse Group prepared in accordance with the International Financial Reporting Standards was approximately RMB156.51 million. The approximate revenue and net profits of Westhouse Group for each of the financial years ended 31 December 2011 and 2012 are set out as follows:

	Year ended 31 December 2011 (RMB)	Year ended 31 December 2012 (RMB)
Revenue	approximately 202.95 million	approximately 250.43 million
Net profits before taxation and extraordinary items	approximately 91.02 million	approximately 118.63 million
Net profits after taxation and extraordinary items	approximately 83.52 million	approximately 107.44 million

The revenue derived from the games developed by Westhouse Group was shared between the Westhouse Group and Chengdu Kingsoft Digital Entertainment Co., Ltd, a subsidiary of the Group, according to certain arrangements between them. The revenue of Westhouse Group for the financial year ended 31 December 2012 accounted for approximately 30% of the revenue of the entertainment software segment of the Group for the same period.

There is no original acquisition cost of Westhouse Shares as such shares are to be newly issued for the purpose of the Share Purchase Agreement.

According to the International Financial Reporting Standards 27 (Revised), a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such issue of Westhouse Shares will have no impact on goodwill, nor will it give rise to a gain or loss, and the Company will not record a gain or loss due to the Share Purchase Agreement. Upon completion of the Share Purchase Agreement, Westhouse will continue to be a subsidiary of the Company.

The details of the shareholding structure of Westhouse before and after completion of the Share Purchase Agreement are set out as follows:

	Before completion of the Share Purchase Agreement		After completion of the Share Purchase Agreement	
	Number of Shares	Percentage	Number of Shares	Percentage
Kingsoft Entertainment	640,000,000	80%	650,000,000	76.4706%
WestGame	160,000,000	20%	160,000,000	18.8235%
Xiaomi Ventures	—	—	40,000,000	4.7059%
Total	800,000,000	100%	850,000,000	100%

4 REASONS FOR AND BENEFITS OF THE TRANSACTION

Westhouse Group is primarily engaged in the research and development of games. Xiaomi is one of the leading providers of smart phones in the PRC. It is principally engaged in the business of provision of manufacturing and supplying smart phones. The Board is of the view that the investment in Westhouse Group by Xiaomi via its subsidiary Xiaomi Ventures, represents a validation of Xiaomi in Westhouse Group's business, and in particular, the online game business. Having Xiaomi as a shareholder and an important business partner of Westhouse will expect to achieve mutual benefits through deepened and broadened cooperation in the provision of online games to the users. Further, Westhouse Group and Xiaomi will further explore the opportunity of cooperation in the area of mobile games. Whereby Xiaomi would be a strategic distribution partner of Westhouse Group's mobile games.

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.

5 IMPLICATIONS UNDER THE LISTING RULES

Xiaomi Ventures is a subsidiary of Xiaomi. Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. As such, Xiaomi Ventures is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The transaction contemplated under the Share Purchase Agreement constitutes a connected transaction of the Company under the Listing Rules. Further, as the shareholding held by Kingsoft Entertainment in Westhouse will be diluted upon completion of the Share Purchase Agreement, such issue of ordinary shares to Xiaomi Ventures by Westhouse will constitute a deemed disposal by the Company under the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Share Purchase Agreement exceeds 0.1% but is less than 5%, the Share Purchase Agreement and the transaction contemplated thereunder are subject to reporting and announcement requirements, but exempted from the independent shareholders' approval requirement.

In view of his interest in Xiaomi, Mr. Jun LEI has abstained from voting on the Board resolution approving the Share Purchase Agreement. Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under the Share Purchase Agreement and none of them has abstained from voting on the relevant Board resolution.

6 INFORMATION ABOUT THE PARTIES

Kingsoft Entertainment is a wholly-owned subsidiary of the Company and is mainly engaged in investment holding, research and provision of online game services.

Xiaomi Ventures is a wholly-owned subsidiary of Xiaomi and is mainly engaged in investment holding.

Westhouse and other members of Westhouse Group are mainly engaged in the research and development of online and mobile games.

WestGame is, directly or indirectly, owned by WestGame Founders. Aside from being an investment holding company holding 20% equity interests in Westhouse as the date of this announcement, WestGame does not have any other business activities.

7 DEFINITIONS

“associate”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“BVI”	British Virgin Islands
“Cayman”	Cayman Islands

“Closing Date”	the date as mutually agreed by the parties under the Share Purchase Agreement, which shall be no later than 14 February 2014
“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 Stock Exchange (stock code: 03888)
“connected person”	has the meaning ascribed thereto under 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 People’s Republic of China
“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 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 Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share Purchase Agreement”	the share purchase agreement dated 14 February 2014 entered into among Kingsoft Entertainment, Xiaomi Ventures, Westhouse Group, WestGame and WestGame Founders, pursuant to which Westhouse will issue 10,000,000 Westhouse Shares to Kingsoft Entertainment for a consideration of US\$5 million and 40,000,000 Westhouse Shares to Xiaomi Ventures for a consideration of US\$20 million
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules

“US\$”	United States dollars, the lawful currency of the United States of America
“WestGame”	WestGame Holdings Limited, a limited liability company incorporated under the laws of the BVI
“WestGame Founders”	the founders of WestGame, including 26 individuals
“Westhouse”	Westhouse Holdings Limited, a limited liability company incorporated under the laws of the Cayman and a subsidiary of the Company as at the date of this announcement
“Westhouse Group”	Westhouse and its subsidiaries
“Westhouse Shares”	the ordinary shares of Westhouse with par value of US\$0.004
“Xiaomi”	Xiaomi Corporation, a limited liability company organized under the laws of the Cayman
“Xiaomi Ventures”	Xiaomi Ventures Limited, a limited liability company organized under the laws of the BVI and a wholly-owned subsidiary of Xiaomi as at the date of this announcement
%	percent

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

Hong Kong, 14 February 2014

As at the date of this announcement, the executive Directors are Messrs. HongJiang ZHANG, Yuk Keung NG and Tao ZOU; the non-executive Directors are Messrs. Jun LEI, Pak Kwan KAU and Chi Ping LAU; the independent non-executive Directors are Messrs. Guangming George LU, David Yuen Kwan TANG, and Ms. Wenjie WU.