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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** about any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

**If you have sold or transferred** all your shares in **Kingsoft Corporation Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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 ISSUE OF SERIES D  
PREFERRED SHARES BY KINGSOFT CLOUD; AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**



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A letter from the Board is set out on pages 6 to 21 of this circular and a letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 22 to 23 of this circular. A letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 38 of this circular.

A notice convening the EGM to be held at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC on Tuesday, 27 February 2018 at 2:00 p.m. is set out on pages 45 to 47 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting (as the case may be) should you so wish.

6 February 2018

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“AMC Investor”	ChinaAMC Special Investment Limited;
“Article(s)”	the article(s) of the amended and restated memorandum of association and articles of association of Kingsoft Cloud as may be altered from time to time;
“associate(s)”	has the meaning ascribed to it in the Listing Rules;
“Beijing Kingsoft Cloud”	Beijing Kingsoft Cloud Internet Technology Co. Ltd., a subsidiary of Kingsoft Cloud;
“Board”	the board of Directors;
“BVI”	the British Virgin Islands;
“Cayman”	the Cayman Islands;
“Certain KSC Shareholder”	certain shareholder of Kingsoft Cloud as at the Latest Practicable Date, namely Autogold Limited, an investment company principally engaged in investment holding held by Mr. Yulin WANG;
“close associate(s)”	has the meaning ascribed to it in the Listing Rules;
“CM Investor”	Buddies Team Limited, a business company incorporated under the laws of the BVI;
“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;
“connected person(s)”	has the meaning ascribed to it in the Listing Rules;
“controlling shareholders(s)”	has the meaning ascribed to it in the Listing Rules;
“Director(s)”	director(s) of the Company;
“EGM”	an extraordinary general meeting of the Company to be convened at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC on Tuesday, 27 February 2018 at 2:00 p.m. for the purpose of the Independent Shareholders’ considering, and if thought fit, approving the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI, and the transactions contemplated thereunder;
“ESOP”	the share award scheme, the share option scheme and other employee stock incentive plans as adopted by Kingsoft Cloud from time to time;

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## DEFINITIONS

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“Forebright Investor”	Precious Steed Limited, a company incorporated and existing under the laws of the BVI;
“FutureX Capital”	FutureX Capital Limited, a company incorporated and existing under the laws of Cayman;
“FutureX Subscription”	the subscription of 114,971,205 Series D Preferred Shares by FutureX Capital from Kingsoft Cloud under the Share Purchase Agreement VI;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“IDG Investor”	Celestial Power Limited, a company limited by shares incorporated under the laws of the BVI;
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors formed by the Company to advise the Independent Shareholders in respect of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder;
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO, acting as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder;
“Independent Shareholders”	the shareholders of the Company who are not required to abstain from voting in respect of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder;
“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 Latest Practicable Date;
“Kingsoft Cloud Group”	Kingsoft Cloud and its subsidiaries;
“KSC Ordinary Share(s)”	the ordinary share(s) of Kingsoft Cloud with par value of US\$0.001;
“Latest Practicable Date”	31 January 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);

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## DEFINITIONS

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“Liyue Investor”	LIYUE JINSHI INVESTMENT L.P. (驪悦金實投資有限合夥), an exempted limited partnership registered and existing under the laws of Cayman;
“Loan Agreement”	the loan agreement entered into among the Company, Kingsoft Cloud and Xiaomi on 1 December 2014 in relation to, among others, the grant of loan facility by the Company to Kingsoft Cloud (please refer to the announcement of the Company dated 1 December 2014 for details);
“Minsheng Investment Framework Agreement”	the investment framework agreement dated 11 October 2017 entered into among China Minsheng Trust Co., Ltd., Beijing Kingsoft Cloud and Kingsoft Cloud in relation to the arrangement in respect of the Minsheng Subscription;
“Minsheng Investor”	New Cloud Ltd., a business company incorporated and existing under the laws of the BVI;
“Minsheng Subscription”	the subscription of 81,313,365 Series D Preferred Shares by Minsheng Investor from Kingsoft Cloud under the Share Purchase Agreement II, which has been completed as of the Latest Practicable Date;
“Minsheng Trust”	China Minsheng Trust Co., Ltd.;
“Officer”	Mr. Yulin WANG (王育林), being the chief executive officer and director of Kingsoft Cloud;
“percentage ratio”	has the meaning ascribed to it in the Listing Rules;
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Previous Kingsoft Subscription”	the subscription of an aggregate of 176,768,184 Series D Preferred Shares by the Company from Kingsoft Cloud under the Share Purchase Agreement I and the Share Purchase Agreement II, which has been completed as of the Latest Practicable Date;
“Previous Liyue Subscription”	the subscription of 58,922,728 Series D Preferred Shares by Liyue Investor from Kingsoft Cloud under the Share Purchase Agreement I, which has been completed as of the Latest Practicable Date;
“Proposed Kingsoft Subscription”	the proposed subscription of an aggregate of 244,601,207 Series D Preferred Shares by the Company from Kingsoft Cloud under the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI;
“Proposed Subscriptions”	the proposed subscriptions of Series D Preferred Shares by Forebright Investor, Shunwei Investor, Liyue Investor, FutureX Capital and the Company under the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI;

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## DEFINITIONS

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“Restated Shareholders Agreement”	the restated shareholders agreement entered into by all the then shareholders of Kingsoft Cloud, i.e. the Subscribers (or the Affiliate(s) of FutureX Capital), CM Investor, AMC Investor, IDG Investor, Xiaomi, Kingsoft Cloud Group, Autogold Limited, River Jade Holdings Limited, Mr. Hongjiang ZHANG and the Officer on or prior to the completion of the respective Share Purchase Agreement;
“RMB”	Renminbi, the lawful currency of the PRC;
“Series D Preferred Shares”	series D preferred convertible shares of Kingsoft Cloud with par value of US\$0.001;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share Purchase Agreement I”	the share purchase agreement entered into by the Company, Liyue Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer on 12 September 2017, pursuant to which, Kingsoft Cloud as the issuer agreed to issue an aggregate of 117,845,456 Series D Preferred Shares and each of the Company and Liyue Investor as the subscribers agreed to subscribe for 58,922,728 Series D Preferred Shares, respectively. As at the Latest Practicable Date, the transactions under such agreement have been completed;
“Share Purchase Agreement II”	the share purchase agreement entered into by the Company, Minsheng Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer on 11 October 2017, pursuant to which, Kingsoft Cloud as the issuer agreed to issue an aggregate of 235,690,912 Series D Preferred Shares and each of the Company and Minsheng Investor (subject to the Minsheng Investment Framework Agreement) as the subscribers agreed to subscribe for 117,845,456 Series D Preferred Shares, respectively. As at the Latest Practicable Date, the transactions under such agreement have been completed;
“Share Purchase Agreement III”	the share purchase agreement entered into by the Company, Forebright Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer on 28 December 2017, pursuant to which, Kingsoft Cloud as the issuer agreed to issue an aggregate of 117,845,456 Series D Preferred Shares and each of the Company and Forebright Investor as the subscribers agreed to subscribe for 58,922,728 Series D Preferred Shares, respectively;
“Share Purchase Agreement IV”	the share purchase agreement entered into by the Company, Shunwei Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer on 28 December 2017, pursuant to which, Kingsoft Cloud as the issuer agreed to issue an aggregate of 23,569,092 Series D Preferred Shares and each of the Company and Shunwei Investor as the subscribers agreed to subscribe for 11,784,546 Series D Preferred Shares, respectively;

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## DEFINITIONS

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“Share Purchase Agreement V”	the share purchase agreement entered into by the Company, Liyue Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer on 28 December 2017, pursuant to which, Kingsoft Cloud as the issuer agreed to issue an aggregate of 117,845,456 Series D Preferred Shares and each of the Company and Liyue Investor as the subscribers agreed to subscribe for 58,922,728 Series D Preferred Shares, respectively;
“Share Purchase Agreement VI”	the share purchase agreement entered into by the Company, FutureX Capital, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer on 29 January 2018, pursuant to which, Kingsoft Cloud as the issuer agreed to issue an aggregate of 229,942,410 Series D Preferred Shares and each of the Company and FutureX Capital as the subscribers agreed to subscribe for 114,971,205 Series D Preferred Shares, respectively;
“Share Purchase Agreement(s)”	the Share Purchase Agreement I, the Share Purchase Agreement II, the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and/or the Share Purchase Agreement VI;
“Share(s)”	the ordinary share(s) of the Company;
“Shareholder(s)”	holder(s) of the issued ordinary share(s) of the Company;
“Shunwei Investor”	Shunwei Growth III Limited, a business company incorporated and existing under the laws of the BVI;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber(s)”	the Company, Liyue Investor, Minsheng Investor, Forebright Investor, Shunwei Investor and/or FutureX Capital, being the subscriber(s) for the Series D Preferred Shares under the Share Purchase Agreement(s);
“subsidiary”	has the same meaning as ascribed thereto in the Listing Rules;
“substantial shareholder(s)”	has the same meaning as ascribed to it under the Listing Rules;
“US\$”	US dollars, the lawful currency of the United States;
“Xiaomi”	Xiaomi Corporation, a limited liability company organized under the laws of Cayman; and
“%”	per cent.

*For the purpose of this circular, unless the context otherwise requires, conversion of US\$ into HK\$ is based on the approximate exchange rate of US\$1.00 to HK\$7.8152, and conversion of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.1924. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amounts in HK\$, US\$ or RMB have been, could have been or may be converted at such or any other rates or at all.*



## Kingsoft Corporation Limited

金山軟件有限公司

*(Continued into the Cayman Islands with limited liability)*

(Stock Code: 03888)

### Directors:

#### *Executive Directors*

Mr. Tao ZOU

Mr. Yuk Keung NG

#### *Non-executive Directors*

Mr. Jun LEI (*Chairman*)

Mr. Pak Kwan KAU

Mr. Chi Ping LAU

#### *Independent Non-executive Directors*

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

#### *Registered Office*

PO Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

#### *Principal Place of Business*

*in Hong Kong*

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

*To the Shareholders*

Dear Sir or Madam,

## CONNECTED TRANSACTION: PROPOSED ISSUE OF SERIES D PREFERRED SHARES BY KINGSOFT CLOUD

### 1. INTRODUCTION

References are made to the announcements of the Company dated 12 September 2017, 11 October 2017, 28 December 2017 and 29 January 2018.

On 12 September 2017, the Company, Liyue Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement I, pursuant to which, among others, each of the Company and Liyue Investor agreed to subscribe for 58,922,728 Series D Preferred Shares for a respective consideration of US\$50 million (equivalent to approximately HK\$390.76 million), respectively. On 11 October 2017, the Company, Minsheng Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement II, pursuant to which, among others, each of the Company and Minsheng Investor agreed to subscribe for 117,845,456 Series D Preferred Shares for a respective consideration of US\$100 million (equivalent to approximately HK\$781.52 million), respectively. The Minsheng Subscription was subject to the Minsheng Investment Framework Agreement and the terms of the completion of the



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## LETTER FROM THE BOARD

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Share Purchase Agreement II. Pursuant to the Listing Rules, the Previous Liyue Subscription, the Minsheng Subscription and the Previous Kingsoft Subscription are exempted from the Independent Shareholders' approval. As at the Latest Practicable Date, the Share Purchase Agreement I and the Share Purchase Agreement II have been completed.

On 28 December 2017, the Company, Forebright Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement III, pursuant to which, among others, each of the Company and Forebright Investor agreed to subscribe for 58,922,728 Series D Preferred Shares for a respective consideration of US\$50 million (equivalent to approximately HK\$390.76 million), respectively. On the same day, the Company, Shunwei Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement IV, pursuant to which, among others, each of the Company and Shunwei Investor agreed to subscribe for 11,784,546 Series D Preferred Shares for a respective consideration of US\$10 million (equivalent to approximately HK\$78.15 million), respectively. On the same day, the Company, Liyue Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement V, pursuant to which, among others, each of the Company and Liyue Investor agreed to subscribe for 58,922,728 Series D Preferred Shares for a respective consideration of US\$50 million (equivalent to approximately HK\$390.76 million), respectively.

On 29 January 2018, the Company, FutureX Capital, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement VI, pursuant to which, among others, each of the Company and FutureX Capital agreed to subscribe for 114,971,205 Series D Preferred Shares for a respective consideration of US\$100 million (equivalent to approximately HK\$781.52 million), respectively. The transactions under the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI are subject to the Independent Shareholders' approval.

On or prior to the completion of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI, all the then shareholders of Kingsoft Cloud will enter into the Restated Shareholders Agreement. For the avoidance of doubt, the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI are independent from each other.

The purpose of this circular is to provide you with, among others (i) further details of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee in respect of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder; (iii) the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder; and (iv) a notice of the EGM.

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## LETTER FROM THE BOARD

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### 2. SUBSCRIPTION OF SERIES D PREFERRED SHARES

#### 2.1 Proposed Subscriptions

##### *2.1.1 the Share Purchase Agreements subject to the Independent Shareholders' approval*

Unless otherwise stated below, the principal terms of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI are substantially the same as each other:

**Parties:**

Kingsoft Cloud (as the issuer) and other members of Kingsoft Cloud Group;

the Company and Forebright Investor (as the subscribers under the Share Purchase Agreement III);

the Company and Shunwei Investor (as the subscribers under the Share Purchase Agreement IV);

the Company and Liyue Investor (as the subscribers under the Share Purchase Agreement V);

the Company and FutureX Capital (as the subscribers under the Share Purchase Agreement VI);  
and

Certain KSC Shareholder and the Officer.

**Subscriptions:**

*Share Purchase Agreement III*

Kingsoft Cloud to issue 117,845,456 Series D Preferred Shares and each of the Company and Forebright Investor to subscribe for 58,922,728 Series D Preferred Shares.

*Share Purchase Agreement IV*

Kingsoft Cloud to issue 23,569,092 Series D Preferred Shares and each of the Company and Shunwei Investor to subscribe for 11,784,546 Series D Preferred Shares.

*Share Purchase Agreement V*

Kingsoft Cloud to issue 117,845,456 Series D Preferred Shares and each of the Company and Liyue Investor to subscribe for 58,922,728 Series D Preferred Shares.

*Share Purchase Agreement VI*

Kingsoft Cloud to issue 229,942,410 Series D Preferred Shares and each of the Company and FutureX Capital to subscribe for 114,971,205 Series D Preferred Shares.

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## LETTER FROM THE BOARD

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### **Conditions Precedent:**

#### *Conditions to the obligations of Kingsoft Cloud*

The performance of the obligations of Kingsoft Cloud under the respective Share Purchase Agreements is subject to the satisfaction of, on or prior to the respective completion of the respective Share Purchase Agreements, the conditions, including but not limited to the followings:

- (i) all the representations and warranties provided by the Subscribers under the respective Share Purchase Agreements being true, correct and complete in all material respects; and
- (ii) other reasonable and customary conditions.

#### *Conditions to the obligations of the Subscribers*

The performance of the obligations of the Subscribers under the respective Share Purchase Agreements is subject to the satisfaction of, on or prior to the respective completion of the respective Share Purchase Agreements, the conditions, including but not limited to the followings:

- (i) all the representations and warranties provided by Kingsoft Cloud Group being true, correct and complete in all material respects;
- (ii) any and all consents and waivers from third parties necessary for the lawful subscription for the Series D Preferred Shares having been obtained by Kingsoft Cloud Group; and
- (iii) other reasonable and customary conditions.

Each of the conditions to the obligations of Kingsoft Cloud may be waived by Kingsoft Cloud at its discretion, except for the condition that all corporate and other proceedings on the part of the Company in connection with the transactions under the respective Share Purchase Agreements being completed, the waiver of which is subject to the approval of the Company. For the avoidance of doubt, the Company will not waive the approval from the Shareholders in connection with the Share Purchase Agreements in any event.

Each of the conditions to the obligations of each of the Subscribers may be waived by such Subscriber at its discretion.

The waiver of the conditions precedent under the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI would not affect the substance of the transactions contemplated under the respective Share Purchase Agreements.

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## LETTER FROM THE BOARD

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### **Completion:**

Upon or prior to the completion of the Share Purchase Agreement VI, without consent of the other parties, FutureX Capital shall be entitled to assign all (but not part) of its rights and obligations under the Share Purchase Agreement VI to not more than two of its affiliates (each as an “**Affiliate of FutureX Capital**”) with written evidence to the reasonable satisfaction of Kingsoft Cloud. The Affiliate of FutureX Capital could be (i) a subsidiary of FutureX Capital (“**FutureX Capital Subsidiary**”); (ii) an investment vehicle or an investment fund of which FutureX Capital or FutureX Capital Subsidiary is the holder of management shares or the general partner; or (iii) any other Affiliate of FutureX Capital otherwise agreed by Kingsoft Cloud in writing.

As at the Latest Practicable Date, none of the conditions precedent for the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI have been waived.

### **Consideration:**

Under the Share Purchase Agreement III, the aggregate consideration is US\$100 million (equivalent to approximately HK\$781.52 million) at the unit price per share of approximately US\$0.85 per Series D Preferred Share (equivalent to approximately HK\$6.64), including US\$50 million (equivalent to approximately HK\$390.76 million) payable by the Company and US\$50 million (equivalent to approximately HK\$390.76 million) payable by Forebright Investor to Kingsoft Cloud for their respective subscriptions of 58,922,728 Series D Preferred Shares.

Under the Share Purchase Agreement IV, the aggregate consideration is US\$20 million (equivalent to approximately HK\$156.30 million) at the unit price per share of approximately US\$0.85 per Series D Preferred Share (equivalent to approximately HK\$6.64), including US\$10 million (equivalent to approximately HK\$78.15 million) payable by the Company and US\$10 million (equivalent to approximately HK\$78.15 million) payable by Shunwei Investor to Kingsoft Cloud for their respective subscriptions of 11,784,546 Series D Preferred Shares.

Under the Share Purchase Agreement V, the aggregate consideration is US\$100 million (equivalent to approximately HK\$781.52 million) at the unit price per share of approximately US\$0.85 per Series D Preferred Share (equivalent to approximately HK\$6.64), including US\$50 million (equivalent to approximately HK\$390.76 million) payable by the Company and US\$50 million (equivalent to approximately HK\$390.76 million) payable by Liyue Investor to Kingsoft Cloud for their respective subscriptions of 58,922,728 Series D Preferred Shares.

Under the Share Purchase Agreement VI, the aggregate consideration is US\$200 million (equivalent to approximately HK\$1,563.04 million) at the unit price per share of approximately US\$0.87 per Series D Preferred Share (equivalent to approximately HK\$6.80), including US\$100 million (equivalent to approximately HK\$781.52 million) payable by the Company and US\$100 million (equivalent to approximately HK\$781.52 million) payable by FutureX Capital to Kingsoft Cloud for their respective subscriptions of 114,971,205 Series D Preferred Shares.

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## LETTER FROM THE BOARD

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For the avoidance of doubt, the unit price per share of approximately US\$0.85 (equivalent to approximately HK\$6.64) per Series D Preferred Share under the Share Purchase Agreement III, the Share Purchase Agreement IV and the Share Purchase Agreement V (the “**Unit Price I**”) is calculated based on the total issued shares of Kingsoft Cloud immediately before the issue of Series D Preferred Shares under the Share Purchase Agreements on the assumption that (i) all issued and outstanding preferred shares of Kingsoft Cloud immediately before the issue of Series D Preferred Shares are fully converted into the KSC Ordinary Shares based on the conversion ratio of 1:1; and (ii) all shares under the share option scheme and all shares already reserved for issuance under the ESOP immediately before the issue of Series D Preferred Shares are issued. The unit price per share of approximately US\$0.87 (equivalent to approximately HK\$6.80) per Series D Preferred Share under the Share Purchase Agreement VI (the “**Unit Price II**”, together with the Unit Price I, the “**Unit Prices**”) is calculated based on the total issued shares of Kingsoft Cloud immediately before the issue of Series D Preferred Shares under the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI on the assumption that (i) all issued and outstanding preferred shares of Kingsoft Cloud immediately before the issue of Series D Preferred Shares under the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI are fully converted into the KSC Ordinary Shares based on the conversion ratio of 1:1; (ii) all shares under the share option scheme and all shares already reserved for issuance under the ESOP immediately before the issue of Series D Preferred Shares are issued; (iii) the Minsheng Warrant is fully exercised; and (iv) the issue of Series D Preferred Shares under the Share Purchase Agreement III, the Share Purchase Agreement IV and the Share Purchase Agreement V is completed and the Series D Preferred Shares so issued are fully converted into the KSC Ordinary Shares based on the conversion ratio of 1:1. The primary reason for the slight difference between the Unit Price I and the Unit Price II was that FutureX Capital is considered to be a “latecomer” in the Proposed Subscriptions as compared to other Subscribers. Therefore, the Unit Price II was slightly raised to justify its late subscription.

The Company has funded the subscription for the Series D Preferred Shares from its internal resources and bank borrowings.

The consideration was determined after arm’s length negotiations among the parties with reference to the following factors:

- (i) the financial conditions of Kingsoft Cloud Group

For the nine months ended 30 September 2017, Kingsoft Cloud Group generated revenue of approximately RMB982.73 million, representing approximately 126.57% of its revenue for the year ended 31 December 2016. Such improvement was mainly driven by increased customer usage of Kingsoft Cloud Group’s cloud services from video and mobile game sectors.

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## LETTER FROM THE BOARD

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(ii) the business potentials of Kingsoft Cloud Group

On the customer service front, Kingsoft Cloud hosted the “the Game Ecosystem Annual Conference 2016” and secured the market recognition and trust from customers, enabling it to consolidate the brand awareness and reputation of Kingsoft Cloud and pave the way for future business development. In addition, Kingsoft Cloud continued to lead in the video cloud sector, and introduced a live streaming monitoring and assessment platform during the year ended 31 December 2016, providing the market with a more comprehensive overall live streaming service. Kingsoft Cloud also actively expanded its government cloud and healthcare cloud businesses in the fourth quarter. Looking ahead, Kingsoft Cloud will step up promotion of the hybrid cloud business and position itself as an operation and maintenance solutions specialist in the game industry. Furthermore, it will continue to perfect its live video cloud streaming products, expand the government cloud and healthcare cloud markets, and pursue cooperation to expand the sales network, thereby attaining greater achievements for Kingsoft Cloud’s development.

(iii) the market conditions in the internet industry

The Company considered the price to sales ratios of comparable companies in the market, which demonstrated the market values of comparable companies (under the then market conditions) corresponding to sales performances of comparable companies in the market. Such comparable companies are all information technology companies in the similar line of business as Kingsoft Cloud which are listed on the Stock Exchange or the stock exchanges in the PRC. Their price to sales ratios range from 1 time to 21 times, the average of which is approximately 11 times. The price to sales ratios of the Proposed Kingsoft Subscription of approximately 14 times are within the above range.

Based on the above, the Directors consider that the Unit Prices and the considerations under the Share Purchase Agreements are fair and reasonable.

**Payment:**

The abovementioned consideration shall be paid by the Subscribers to Kingsoft Cloud by wire transfer of immediately available funds in U.S. dollars to an account designated by Kingsoft Cloud upon completion of the respective Share Purchase Agreements. If any portion of the consideration is to be paid by a currency other than U.S. dollar, the exchange rate between such currency and U.S. dollar shall be the selling rate of U.S. dollar quoted by Bank of China at 9:00 a.m. on the date of the completion of the respective Share Purchase Agreements.

***2.1.2 Restated Shareholders Agreement***

The holders of Series D Preferred Shares have the right to request Kingsoft Cloud to purchase the Series D Preferred Shares held by them in the event that (i) series D qualified public offering has yet to complete within the period, which is determined with reference to similar fundraising activities in the internet industry (i.e. ranging from 3 to 5 years upon completion of the fundraising activities); (ii) any of the holders of series B preferred shares of Kingsoft Cloud has requested Kingsoft Cloud to purchase the series B preferred shares held by it pursuant to the Restated Shareholders Agreement; or (iii) any of the holders of series C preferred shares of Kingsoft Cloud has requested Kingsoft Cloud to purchase the series C preferred shares held by it pursuant to the Restated Shareholders Agreement.

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## LETTER FROM THE BOARD

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The purchase price (the “**Redemption Price**”) for Kingsoft Cloud to purchase the Series D Preferred Shares upon the exercising the exit right by any holder of the Series D Preferred Shares shall be calculated as follows:

Redemption Price shall be the applicable purchase price paid by such holder of Series D Preferred Shares and a return at a compound rate of 8% per annum as stipulated in the Restated Shareholders Agreement calculated from the date of the actual issuance of such Series D Preferred Shares (with respect to the Series D Preferred Shares subscribed by the holder thereof by exercising the Minsheng Warrant, from the effective date of the Minsheng Warrant provided that Minsheng Warrant has been exercised in full or in part before the redemption) to the date on which such holder of the Series D Preferred Shares elects to exercise its exit right plus all declared but unpaid dividends on the respective Series D Preferred Shares held by the holder thereof requested to be purchased pursuant to the Restated Shareholders Agreement.

The Board has taken into account the redemption rate applicable to the holders of series C preferred shares of Kingsoft Cloud, and the rates at which the Group is entitled to a priority right for dividend entitlement as a result of investment in gaming companies, all being 8% per annum. Based on the above, the Board believes that the compound rate of 8% per annum is fair and reasonable.

### 2.2 Previous Kingsoft Subscription, Previous Liyue Subscription and Minsheng Subscription

The completion of the Share Purchase Agreement I took place on 21 September 2017. Kingsoft Cloud issued an aggregate of 117,845,456 Series D Preferred Shares and each of the Company and Liyue Investor subscribed for 58,922,728 Series D Preferred Shares for a respective consideration of US\$50 million (equivalent to approximately HK\$390.76 million), respectively.

The completion of the Share Purchase Agreement II took place on 6 December 2017. Kingsoft Cloud issued an aggregate of 199,158,821 Series D Preferred Shares and each of the Company and Minsheng Investor subscribed for 117,845,456 and 81,313,365 Series D Preferred Shares (the “**Actual Shares**”) for a respective consideration of US\$100 million (equivalent to approximately HK\$781.52 million) and US\$69 million (equivalent to approximately HK\$539.25 million) (the “**Actual Amount**”), respectively. Pursuant to the Minsheng Investment Framework Agreement, on 6 December 2017, the domestic entity designated by Minsheng Trust (the “**Lender**”) and Beijing Kingsoft Cloud entered into a confirmation of fund, pursuant to which, the Lender granted Beijing Kingsoft Cloud an interest-free fund in RMB with a principal amount of approximately RMB205 million (equivalent to approximately US\$31 million and HK\$242.27 million, respectively), being the difference between US\$100 million and the Actual Amount. On the same day, Kingsoft Cloud and Minsheng Investor entered into a warrant agreement, pursuant to which, Kingsoft Cloud granted a warrant to Minsheng Investor (the “**Minsheng Warrant**”) entitling Minsheng Investor to subscribe for 36,532,091 Series D Preferred Shares (the “**Minsheng Warrant Preferred Shares**”), being the remaining Series D Preferred Shares under the Minsheng Subscription after deducting the Actual Shares. The exercise price per Minsheng Warrant Preferred Shares is an amount equivalent to RMB5.608617, subject to any adjustment due to subsequent share split, combination and dividends, reclassification or other actions that may affect the exercise price.

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## LETTER FROM THE BOARD

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### 3. THE PRINCIPAL TERMS OF SERIES D PREFERRED SHARES

According to the amended and restated memorandum of association and articles of association to be adopted by Kingsoft Cloud on or prior to the completion of the respective Share Purchase Agreement, the principal terms of the Series D Preferred Shares are set out below:

- Issue Date:** completion of the respective Share Purchase Agreement
- Liquidation Preference:** In the event of any insolvency, liquidation, dissolution or winding up of any major member of Kingsoft Cloud Group, whether voluntary or involuntary, each holder of Series D Preferred Shares shall, in priority to the holders of KSC Ordinary Shares, series A preferred shares, series B preferred shares, series C preferred shares and all other holders of share capital of Kingsoft Cloud, be entitled to receive the higher of, (a) an amount equal to one hundred and twenty percent (120%) of the issue price of Series D Preferred Shares with respect to each Series D Preferred Share multiplied by the number of Series D Preferred Shares held by such holder, plus all declared but unpaid dividends thereon; or (b) an amount distributable to such holder if all of the assets from such insolvency, liquidation, dissolution or winding up legally available for distribution by Kingsoft Cloud to its shareholders are distributed ratably among all shareholders of Kingsoft Cloud on an as-converted basis. If all of the assets of Kingsoft Cloud are insufficient to make payment of the foregoing amounts in full on all Series D Preferred Shares, such assets shall be distributed among the holders of Series D Preferred Shares on a pro rata basis.

After paying such amounts in full, the remaining funds or assets of Kingsoft Cloud legally available for distribution to the shareholders, if any, shall be distributed ratably among the holders of series C preferred shares of Kingsoft Cloud (on an as-converted basis) pursuant to the Articles. After paying such amounts in full, the remaining funds or assets of Kingsoft Cloud legally available for distribution to the shareholders, if any, shall be distributed ratably among the holders of series B preferred shares of Kingsoft Cloud (on an as-converted basis) pursuant to the Articles. After paying the above amounts in full, the remaining funds or assets of Kingsoft Cloud legally available for distribution to the shareholders, if any, shall be distributed ratably among all shareholders other than holders of Series D Preferred Shares, the holders of series C preferred shares and the holders of series B preferred shares of Kingsoft Cloud (on an as-converted basis) pursuant to the Articles.



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## LETTER FROM THE BOARD

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**Conversion Rights:**

Each Series D Preferred Share may be converted at any time at the option of the holder thereof into such number of the KSC Ordinary Share as may be obtained by dividing the applicable issue price by the then applicable conversion price. The new KSC Ordinary Share to be issued upon conversion of the Series D Preferred Shares shall rank *pari passu* in all respects with the existing KSC Ordinary Share.

**Conversion Price:**

The initial conversion price shall be equal to the issue price, resulting in an initial conversion ratio of 1:1 (i.e., one Series D Preferred Share convertible into one KSC Ordinary Share). The conversion price is subject to adjustments from time to time pursuant to the Articles, including but not limited to that at any time, or from time to time, after the first sale and issuance date of Series D Preferred Shares, (i) if Kingsoft Cloud issues or sells additional KSC Ordinary Shares for a consideration per share less than the then effective conversion price of Series D Preferred Shares; or (ii) if Kingsoft Cloud issues any equivalents to KSC Ordinary Shares which are exercisable, convertible or exchangeable for additional KSC Ordinary Shares and the effective conversion price of such equivalents is less than the then effective conversion price of Series D Preferred Shares, then, the conversion price of Series D Preferred Shares shall be reduced on a weighted average basis, as of the opening of business on the date of such issue or sale. Such adjustments shall be made whenever such additional KSC Ordinary Shares or their equivalents are issued.

**Voting:**

Subject to the provisions of the Articles, at all general meetings of Kingsoft Cloud, the holder of each Series D Preferred Share shall be entitled to such number of votes as equals the whole number of KSC Ordinary Shares into which such holder's total Series D Preferred Shares are convertible immediately after the close of business on the record date of the determination of the shareholders of Kingsoft Cloud entitled to vote or, the date on which such vote is taken or any written consent of the shareholders of Kingsoft Cloud is first solicited (if no such record date). Subject to provisions of the Articles and the requirements of the Companies Law of Cayman, the holders of Series D Preferred Shares shall vote together with the holders of KSC Ordinary Shares as a single class, on an as-converted basis, on all matters submitted to the shareholders.

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## LETTER FROM THE BOARD

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**Dividend:**

The holders of each class of preferred shares of Kingsoft Cloud shall be entitled to receive on a *pari passu* basis, when, as and if declared at the sole discretion of the board of Kingsoft Cloud, but only out of funds that are legally available therefor, cash dividends at the rate or in the amount as the board of Kingsoft Cloud considers appropriate. If the legally available funds shall be insufficient for the payment of the entire amount of cash dividends payable at any time, such funds shall be allocated pro rata for the payment of dividends with respect to the preferred shares of Kingsoft Cloud.

Subject to the provisions of the Companies Laws of Cayman and the Articles, no dividends, whether in cash, in property or in shares of Kingsoft Cloud (other than those on KSC Ordinary Shares payable solely in the form of KSC Ordinary Shares) shall be declared or paid on the KSC Ordinary Shares, the series A preferred shares, the series B preferred shares, the series C preferred shares or any future class or series of shares of Kingsoft Cloud, unless and until a dividend in like amount is declared and paid in full on each issued and outstanding Series D Preferred Share (on an as-converted basis).

#### 4. FINANCIAL INFORMATION ABOUT KINGSOFT CLOUD GROUP

The unaudited accounts of Kingsoft Cloud Group were prepared under the International Financial Reporting Standards.

The net profit/(loss) before and after taxation of Kingsoft Cloud Group based on the unaudited accounts are as follows:

	<b>For the year ended 31 December 2015</b>	<b>For the year ended 31 December 2016</b>	<b>For the nine months ended 30 September 2017 RMB million</b>
Net profit/(loss) before taxation	approximately (238.06)	approximately (508.22)	approximately (605.44)
Net profit/(loss) after taxation	approximately (238.06)	approximately (507.02)	approximately (604.58)
Net profit/(loss) excluding extraordinary items before taxation	approximately (238.06)	approximately (475.76)	approximately (614.19)

The total assets and net assets value of Kingsoft Cloud Group based on the unaudited combined management accounts for the nine months ended 30 September 2017 are approximately RMB2,679.09 million and RMB(543.39) million, respectively.

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## LETTER FROM THE BOARD

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On the assumption that (i) all preferred shares of Kingsoft Cloud are fully converted into the KSC Ordinary Shares based on the conversion ratio of 1:1; (ii) all shares under the share option scheme and all shares already reserved for issuance under the ESOP are issued; and (iii) the Minsheng Warrant is fully exercised, upon completion of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI, Kingsoft Cloud will be owned as to approximately 51.58% by the Company, 4.32% by Liyue Investor, 4.32% by Minsheng Investor, 2.16% by Forebright Investor, 0.43% by Shunwei Investor and 4.21% by FutureX Capital (or the Affiliate(s) of FutureX Capital), and the shareholding of the Company in Kingsoft Cloud will decrease from 51.93% to 51.58%.

There is no original acquisition cost of Series D Preferred Shares as such shares are to be newly issued for the purpose of the Share Purchase Agreements.

According to the International Financial Reporting Standards 10, a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such issue of Series D Preferred Shares will have no impact on goodwill, nor will it give rise to a gain or loss on the issuance date. Kingsoft Cloud will continue to be a subsidiary of the Company.

### 5. REASONS FOR AND BENEFITS OF THE TRANSACTION

The subscription of the Series D Preferred Shares by the Subscribers and the Company shows strong confidence in Kingsoft Cloud. The issue of the Series D Preferred Shares will provide financial supports to the business development and promote the fast growth of Kingsoft Cloud, which in turn will enhance the shareholder value of the Company. Further, through subscription of the Series D Preferred Shares by the Company, the Company will remain as the majority shareholder of Kingsoft Cloud upon completion of the Share Purchase Agreements.

The proceeds from the issue of the Series D Preferred Shares under the Share Purchase Agreements, being an aggregate of US\$720 million (equivalent to approximately HK\$5,626.94 million), are expected to be used by Kingsoft Cloud Group as follows:

- (i) approximately US\$216 million (equivalent to approximately HK\$1,688.08 million), representing approximately 30% of the proceeds is proposed to be used for the development of its principal businesses of the Kingsoft Cloud Group;
- (ii) approximately US\$324 million (equivalent to approximately HK\$2,532.12 million), representing approximately 45% of the proceeds is proposed to be used for the capital expenditures and general working capital of Kingsoft Cloud Group;
- (iii) the remaining proceeds, being approximately US\$180 million (equivalent to approximately HK\$1,406.74 million), representing approximately 25% of the proceeds, are proposed to be used for (a) the repayment of the outstanding principal amount and any accrued but unpaid interest thereon under the Loan Agreement amounting to RMB555 million (equivalent to approximately HK\$661.78 million) and the loan provided by the Zhongguancun sub-branch of the Bank of Beijing to Kingsoft Cloud Group with an aggregate principal amount of up to RMB400 million (equivalent to approximately HK\$476.96 million); (b) cash pledge in favor of the Company to secure repayment of the loan under the Loan Agreement; or (c) the other purposes as approved by the board of Kingsoft Cloud pursuant to the respective Share Purchase Agreements.

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## LETTER FROM THE BOARD

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### 6. IMPLICATIONS UNDER THE LISTING RULES

The subscriptions by Liyue Investor, Minsheng Investor, Forebright Investor, Shunwei Investor and FutureX Capital, on an aggregate basis, constitute a deemed disposal under Chapter 14 of the Listing Rules. As the highest percentage ratio in relation to such deemed disposal exceeds 5% but is less than 25%, the deemed disposal constitutes a discloseable transaction of the Company, which is subject to the announcement requirement under Chapter 14 of the Listing Rules.

Kingsoft Cloud is a subsidiary of the Company. As at the Latest Practicable Date, Xiaomi, the associate of Mr. Jun LEI, holds more than 10% voting power in Kingsoft Cloud and Mr. Jun LEI is a substantial shareholder of the Company. As such, Kingsoft Cloud is a connected subsidiary of the Company by virtue of Rule 14A.16 of the Listing Rules. Therefore, the subscriptions of Series D Preferred Shares by the Company from Kingsoft Cloud under the Share Purchase Agreements constitute connected transactions of the Company under the Listing Rules. Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the Share Purchase Agreements shall be aggregated. As the highest applicable percentage ratio in respect of the Previous Kingsoft Subscription exceeds 0.1% but is less than 5%, such transaction constitutes a connected transaction of the Company and is subject to the announcement requirement, but exempted from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the issue of 421,369,391 Series D Preferred Shares by Kingsoft Cloud to the Company under the Share Purchase Agreements exceeds 5%, the Proposed Kingsoft Subscription constitutes a connected transaction of the Company and is subject to the announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, Shunwei Investor is a connected person of the Company by virtue of being an associate of Mr. Jun LEI, the chairman and substantial shareholder of the Company. Therefore, the issue of 11,784,546 Series D Preferred Shares by Kingsoft Cloud to Shunwei Investor constitutes a connected transaction of the Company under the Listing Rules. As the highest applicable percentage ratio in respect of the issue of 11,784,546 Series D Preferred Shares by Kingsoft Cloud to Shunwei Investor exceeds 0.1% but is less than 5%, such transaction constitutes a connected transaction of the Company and is subject to the announcement requirement under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, FutureX Capital is a connected person of the Company by virtue of being an associate of Ms. Qian Zhang, a director of Kingsoft Cloud. Therefore, the issue of 114,971,205 Series D Preferred Shares by Kingsoft Cloud to FutureX Capital constitutes a connected transaction of the Company under the Listing Rules. As the highest applicable percentage ratio in respect of the issue of 114,971,205 Series D Preferred Shares by Kingsoft Cloud to FutureX Capital exceeds 0.1% but is less than 5%, such transaction constitutes a connected transaction of the Company and is subject to the announcement requirement under Chapter 14A of the Listing Rules. For the avoidance of doubt, the subscriptions of Forebright Investor, Shunwei Investor, Liyue Investor and FutureX Capital under the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI are subject to the independent Shareholders' approval.

Pursuant to the Restated Shareholders Agreement, each of Forebright Investor, Shunwei Investor, Liyue Investor, FutureX Capital (or the Affiliate(s) of FutureX Capital) and the Company is entitled to an exit right in certain circumstances. As the exercise of the exit right of the Company is at the discretion of the Company, the Company will comply with the applicable requirements under the Listing Rules when it exercises the exit right granted by Kingsoft Cloud under the Restated

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## LETTER FROM THE BOARD

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Shareholders Agreement. As each of the highest applicable percentage ratios in respect of the grant of exit right to Forebright Investor and Liyue Investor is below 5%, such transaction is exempted from the announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules. As each of the highest applicable percentage ratios in respect of the grant of the exit right to Shunwei Investor and FutureX Capital (or the Affiliate(s) of FutureX Capital) exceeds 0.1% but is below 5%, such transaction is subject to the announcement requirement, but exempted from the independent Shareholders' approval under Chapter 14A of the Listing Rules.

### 7. 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.

Forebright Investor is principally engaged in equity investments in private companies. Forebright Investor is owned by Forebright New Opportunities Fund, L.P. and Forebright New Opportunities Fund II, L.P. as at the Latest Practicable Date. The general partners, which have control over the business and affairs of the above two funds, are ultimately owned by Ip Kun Wan and Liu Cheng. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Forebright Investor, the above funds and the above individuals are third parties independent of the Company and its connected persons.

Shunwei Investor is principally engaged in the activity of making growth investments in a variety of companies at various stages of development. As at the Latest Practicable Date, Shunwei Investor is 100% directly owned by Shunwei China Internet Opportunity Fund II, L.P.. Mr. Jun LEI, the chairman and substantial shareholder of the Company, ultimately controls more than 30% voting power of Shunwei Investor. As such, Shunwei Investor is a connected person of the Company by virtue of being an associate of Mr. Jun LEI pursuant to the Listing Rules. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, other ultimate beneficial owners of Shunwei China Internet Opportunity Fund II, L.P. are third parties independent of the Company and its connected persons.

Liyue Investor is principally engaged in equity investments in private companies. The general partner, which has control over the business and affairs of Liyue Investor is Liyue Investment Management Ltd. as at the Latest Practicable Date. The ultimate beneficial owners of its general partner are Mr. TSENG Kuo-Lung and Ms. CHU Chia-Huei. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Liyue Investor, its general partner and the above individuals are third parties independent of the Company and its connected persons.

FutureX Capital is principally engaged in equity investments in private companies. As at the Latest Practicable Date, FutureX Capital is wholly owned by Ms. Qian Zhang, a director of Kingsoft Cloud. As such, FutureX Capital is a connected person of the Company by virtue of being an associate of Ms. Qian Zhang pursuant to the Listing Rules.

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## LETTER FROM THE BOARD

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### 8. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 22 to 23 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder.

Your attention is also drawn to the letter of advice received from Gram Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders as set out on pages 24 to 38 of this circular which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder, the casting of votes for or against the resolution approving the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder, as well as the principal factors and reasons considered by it in concluding its advice.

Pursuant to the Listing Rules, the Shareholders with a material interest in the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder and their respective associates shall abstain from voting on the relevant resolution. Xiaomi, which holds more than 10% voting power in Kingsoft Cloud, is an associate of Mr. Jun LEI. Shunwei Investor, is also an associate of Mr. Jun LEI. As at the Latest Practicable Date, Mr. Jun LEI and his associates can exercise control over the voting right in respect of 352,830,251 Shares at the Company's general meeting, representing 25.68% equity interest in the Company. In view of his interest in Shunwei Investor, Mr. Jun LEI will abstain from voting in favour of the resolution approving the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder at the EGM. Save as disclosed above, to the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no other Shareholders or any of their respective associates have material interest in the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder, thus no other Shareholders or any of their respective associates are required to abstain from voting in favour of the resolution approving the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder at the EGM.

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

The Directors consider that the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder are on normal commercial terms, but not in the ordinary and usual course of business of the Group. The Directors also consider that the terms of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder are fair and reasonable and in the interests of the Shareholders and the Company as a whole and the Board recommends that the Independent Shareholders should vote in favour of the ordinary resolution as set out in the notice of the EGM.

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## LETTER FROM THE BOARD

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### 9. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
By Order of the Board  
**Kingsoft Corporation Limited**  
**Jun LEI**  
*Chairman of the Board*



**Kingsoft Corporation Limited**

**金山軟件有限公司**

*(Continued into the Cayman Islands with limited liability)*

**(Stock Code: 03888)**

Hong Kong, 6 February 2018

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION:  
PROPOSED ISSUE OF SERIES D  
PREFERRED SHARES BY KINGSOFT CLOUD**

We refer to the circular issued by the Company to the Shareholders dated 6 February 2018 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires. Under the Listing Rules, the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder constitute connected transactions of the Company subject to the Independent Shareholders’ approval.

We have been appointed by the Board to consider the terms of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder and to advise the Independent Shareholders in connection therewith and as to whether, in our opinion, the terms of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder are fair and reasonable, and whether the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder are on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed as Independent Financial Adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from Gram Capital as set out in the Circular. Having considered the principal factors and reasons considered by, and the opinion and advice of Gram Capital as set out in its letter of advice, we consider that the terms of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder are fair and reasonable, and the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder are on normal commercial terms, although they are not in the ordinary and usual course of business of the Group. In view of the above, we consider that the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution approving the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V, the Share Purchase Agreement VI and the transactions contemplated thereunder at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Shun Tak WONG**

**Mr. David Yuen Kwan TANG**

**Ms. Wenjie WU**

*Independent non-executive Directors*

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## LETTER FROM GRAM CAPITAL

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*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Kingsoft Subscription for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

6 February 2018

*To: The independent board committee and the independent shareholders of Kingsoft Corporation Limited*

Dear Sir/Madam,

### **CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION: PROPOSED ISSUE OF SERIES D PREFERRED SHARES BY KINGSOFT CLOUD**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Kingsoft Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 6 February 2018 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 12 September 2017, the Company, Liyue Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement I, pursuant to which, among others, each of the Company and Liyue Investor agreed to subscribe for 58,922,728 Series D Preferred Shares for a respective consideration of US\$50 million (equivalent to approximately HK\$390.76 million) (i.e. US\$100 million for 117,845,456 Series D Preferred Shares in total).

On 11 October 2017, the Company, Minsheng Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement II, pursuant to which, among others, each of the Company and Minsheng Investor agreed to subscribe for 117,845,456 Series D Preferred Shares for a respective consideration of US\$100 million (equivalent to approximately HK\$781.52 million) (i.e. US\$200 million for 235,690,912 Series D Preferred Shares in total).

On 28 December 2017, the Company, Forebright Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement III, pursuant to which, among others, each of the Company and Forebright Investor agreed to subscribe for 58,922,728 Series D Preferred Shares for a respective consideration of US\$50 million (equivalent to approximately HK\$390.76 million) (i.e. US\$100 million for 117,845,456 Series D Preferred Shares in total).

On 28 December 2017, the Company, Shunwei Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement IV, pursuant to which, among others, each of the Company and Shunwei Investor agreed to subscribe for 11,784,546 Series D Preferred Shares for a respective consideration of US\$10 million (equivalent to approximately HK\$78.15 million) (i.e. US\$20 million for 23,569,092 Series D Preferred Shares in total).

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## LETTER FROM GRAM CAPITAL

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On 28 December 2017, the Company, Liyue Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement V, pursuant to which, among others, each of the Company and Liyue Investor agreed to subscribe for 58,922,728 Series D Preferred Shares for a respective consideration of US\$50 million (equivalent to approximately HK\$390.76 million) (i.e. US\$100 million for 117,845,456 Series D Preferred Shares in total).

On 29 January 2018, the Company, FutureX Capital, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer entered into the Share Purchase Agreement VI, pursuant to which, among others, each of the Company and FutureX Capital agreed to subscribe for 114,971,205 Series D Preferred Shares for a respective consideration of US\$100 million (equivalent to approximately HK\$781.52 million) (i.e. US\$200 million for 229,942,410 Series D Preferred Shares in total).

The unit price per Series D Preferred Share under the Share Purchase Agreement III, Share Purchase Agreement IV and Share Purchase Agreement V is approximately US\$0.85 (the “**Unit Price I**”), and the unit price per Series D Preferred Share under the Share Purchase Agreement VI is approximately US\$0.87 (the “**Unit Price II**”, together with the Unit Price I, the “**Unit Prices**”).

With reference to the Board Letter, the Proposed Kingsoft Subscription, in aggregation with the Previous Kingsoft Subscription, constitutes discloseable and connected transaction of the Company and is therefore subject to notification, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Shun Tak WONG, Mr. David Yuen Kwan TANG and Ms. Wenjie WU (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Proposed Kingsoft Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Proposed Kingsoft Subscription is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Proposed Kingsoft Subscription and the transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Mr. Graham Lam was the person signing off the opinion letter from the independent financial adviser contained in the circular dated 14 September 2017 in respect of the major and connected transactions for the Company. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital’s independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

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## LETTER FROM GRAM CAPITAL

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### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposed Kingsoft Subscription. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors, collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, parties to the Share Purchase Agreements or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Proposed Kingsoft Subscription. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

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## LETTER FROM GRAM CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Kingsoft Subscription, we have taken into consideration the following principal factors and reasons:

#### 1. Background of and reasons for the Proposed Kingsoft Subscription

##### Business overview of the Group

With reference to the Board Letter, 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.

Set out below are the financial information of the Group for (i) the three years ended 31 December 2016 as extracted from the annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”); and (ii) the six months ended 30 June 2017 (with comparative figures) as extracted from the interim results announcement of the Company for the six months ended 30 June 2017 (the “**2017 IR Announcement**”):

	For the year ended 31 December 2016 <i>(audited)</i> RMB in million	For the year ended 31 December 2015 <i>(audited)</i> RMB in million	For the year ended 31 December 2014 <i>(audited)</i> RMB in million	Change from 2015 to 2016  %
Revenue	8,282.13	5,676.11	3,350.13	45.91
— Entertainment software (online game)	2,545.67	1,368.81	1,252.75	85.98
— Information security and internet services (represented by Cheetah Group)	4,448.59	3,660.05	1,768.73	21.54
— Office software and others (cloud services, office software and others)	1,287.87	647.25	328.66	98.98
Gross profit	5,619.76	4,356.71	2,760.48	28.99
(Loss)/Profit for the year	(292.28)	341.70	866.57	N/A

	For the six months ended 30 June 2017 <i>(unaudited)</i> RMB in million	For the six months ended 30 June 2016 <i>(unaudited)</i> RMB in million	Change from 2016 to 2017  %
Revenue	2,497.78	1,417.38	76.23
— Online games	1,622.15	933.66	73.74
— Cloud services	572.47	283.12	102.20
— Office software and services and others	303.15	200.59	51.13
Gross profit	1,499.43	973.31	54.05
(Loss)/Profit for the period	564.92	(785.47)	N/A

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## LETTER FROM GRAM CAPITAL

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The revenue and gross profit of the Group for the year ended 31 December 2016 (“FY2016”) increased and amounted to approximately RMB8,282.13 million and RMB5,619.76 million respectively, representing an increase of approximately 45.91% and 28.99% as compared to the year ended 31 December 2015 (“FY2015”).

Nevertheless, the Group made loss for FY2016 as compared to profit for FY2015. With reference to the 2016 Annual Report and as confirmed by the Directors, the Group’s loss for FY2016 was mainly attributable to, amongst others, the substantial increase in the other losses (net) which was mainly due to substantial provisions for impairment on the carrying value of investments in Xunlei Limited and 21Vianet Group, Inc., respectively, as there was a significant/prolonged decline in the market value of the investments in Xunlei Limited and 21Vianet Group, Inc. below the costs (with reference to the 2016 Annual Report, (i) Xunlei Limited is a cloud-based acceleration technology company in the PRC, whose ordinary shares have been listed on The NASDAQ Global Select Market under the symbol “XNET” by way of ADSs since June 2014; and (ii) 21 Vianet Group, Inc. is a carrier-neutral Internet data center services provider in the PRC, whose ordinary shares had been listed on The NASDAQ Global Select Market under the symbol “VNET” by way of ADSs since April 2011).

With reference to the 2016 Annual Report, continuous innovation and optimization of the Group’s resources are the foundation of its development and business success. The Group believes the new era will bring new opportunities while application of artificial intelligence is set to become a major global development trend. Going forward, while the Group keeps focusing on its mobile and cloud businesses, maintaining strong revenue growth momentum, the Group shall also start to explore new opportunities in the artificial intelligence field and direct itself to open a new chapter of growth for the Group and deliver additional value to all of its Shareholders.

As illustrated in the above tables, the revenue and gross profit of the Group for the six months ended 30 June 2017 increased by approximately 76.23% and 54.05% respectively as compared to the corresponding period in 2016. The Group also managed to make profit for the six months ended 30 June 2017 as compared to the loss made during the corresponding period in 2016.

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## LETTER FROM GRAM CAPITAL

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### Information on Kingsoft Cloud

With reference to the Board Letter, Kingsoft Cloud Group is principally engaged in the research, development and provision of cloud technology and services. As at the Latest Practicable Date, Kingsoft Cloud is a subsidiary of the Company.

Set out below is the key financial figures for the three years ended 31 December 2016 and the nine months ended 30 September 2017 as extracted from the unaudited accounts of Kingsoft Cloud Group which were prepared under the International Financial Reporting Standards:

	For the year ended 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2016	For the nine months ended 30 September 2017
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Revenue	69.83	279.51	776.41	982.73
Gross loss	(8.49)	(34.86)	(11.62)	(102.26)
Net loss before taxation	(129.03)	(238.06)	(508.22)	(605.44)
Net loss after taxation	(129.03)	(238.06)	(507.29)	(604.58)

As illustrated in the above table, the revenue of Kingsoft Cloud Group increased significantly during the three years ended 31 December 2016. The revenue of Kingsoft Cloud Group for FY2016 amounted to approximately RMB776.41 million, represented an increase of over 10 times as compared to the year ended 31 December 2014 (“**FY2014**”). As for the nine months ended 30 September 2017, Kingsoft Cloud Group generated revenue of approximately RMB982.73 million, representing approximately 126.57% of its revenue for FY2016.

Despite the significant improvement in Kingsoft Cloud Group’s revenue as aforesaid, Kingsoft Cloud Group recorded gross loss and net loss after taxation for the three years ended 31 December 2016 and the nine months ended 30 September 2017. As advised by the Company, the loss position was mainly due to substantial research and development cost incurred for Kingsoft Cloud Group’s technological development and is expected to improve when its market share expands.

With reference to the 2016 Annual Report, revenue from the game cloud business grew steadily in the fourth quarter and succeeded in bringing in key customers with major influence in the industry including Perfect World, Giant and Snail Games. On the customer service front, Kingsoft Cloud hosted the “the Game Ecosystem Annual Conference 2016” and secured the market recognition and trust from customers, enabling it to consolidate the brand awareness and reputation of Kingsoft Cloud and pave the way for future business development. In addition, Kingsoft Cloud continued to lead in the video cloud sector, and introduced a live streaming monitoring and assessment platform during FY2016, providing the market with a more comprehensive overall live streaming service. Kingsoft Cloud also actively expanded its government cloud and healthcare cloud businesses in the fourth quarter. Looking ahead, Kingsoft Cloud will step up promotion of the hybrid cloud business and position itself as an operation and maintenance solutions specialist in the game industry. Furthermore, it will continue to perfect its live video cloud streaming products, expand the government cloud and healthcare cloud markets, and pursue cooperation to expand the sales network, thereby attaining greater achievements for Kingsoft Cloud’s development.

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## LETTER FROM GRAM CAPITAL

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### **Information on parties to the Proposed Kingsoft Subscription**

Details of information on parties to the Proposed Kingsoft Subscription are set out under the section headed “7. INFORMATION OF THE PARTIES” of the Board Letter.

### **Reasons for and benefits of the Proposed Kingsoft Subscription**

With reference to the Board Letter, the subscription of the Series D Preferred Shares by the Subscribers shows strong confidence in Kingsoft Cloud. The issue of the Series D Preferred Shares will provide financial supports to the business development and promote the fast growth of Kingsoft Cloud, which in turn will enhance the shareholder value of the Company. Further, through subscription of the Series D Preferred Shares by the Company, the Company will remain as the majority shareholder of Kingsoft Cloud upon completion of the Share Purchase Agreements.

The proceeds from the issue of the Series D Preferred Shares under the Share Purchase Agreements, being an aggregate of US\$720 million (equivalent to approximately HK\$5,626.94 million), are expected to be used by Kingsoft Cloud Group as follows: (i) the development of its principal businesses of the Kingsoft Cloud Group; (ii) the capital expenditures and general working capital of Kingsoft Cloud Group; (iii) the repayment of the outstanding principal amount and any accrued but unpaid interest thereon under the Loan Agreement and the loan provided by the Zhongguancun sub-branch of the Bank of Beijing to Kingsoft Cloud Group, (iv) cash pledge in favor of the Company to secure repayment of the loan under the Loan Agreement, or (v) the other purposes as approved by the board of Kingsoft Cloud pursuant to the respective Share Purchase Agreements.

Having considered that (i) the issue of the Series D Preferred Shares will provide financial supports to the business development and promote the fast growth of Kingsoft Cloud; (ii) through subscription of the Series D Preferred Shares by the Company, the Company will remain as the majority shareholder of Kingsoft Cloud upon completion of the Share Purchase Agreements; and (iii) the revenue of Kingsoft Cloud Group increased significantly during the three years ended 31 December 2016, we concur with the Directors that the Proposed Kingsoft Subscription is in the interests of the Company and the Shareholders as a whole.

### **Principal terms of the Proposed Kingsoft Subscription**

Other than those stated in the Board Letter, the principal terms of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI are substantially the same as one another. For the avoidance of doubt, the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI are independent from each other. Details of the Share Purchase Agreement III, the Share Purchase Agreement IV, the Share Purchase Agreement V and the Share Purchase Agreement VI are set out under the section headed “2.1.1 the Share Purchase Agreements subject to the Independent Shareholder’s approval” of the Board Letter.

#### ***Parties:***

Kingsoft Cloud (as the issuer) and other members of Kingsoft Cloud Group

Company and Forebright Investor (as the subscribers under the Share Purchase Agreement III)

Company and Shunwei Investor (as the subscribers under the Share Purchase Agreement IV)



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Company and Liyue Investor (as the subscribers under the Share Purchase Agreement V)

Company and FutureX Capital (as the subscribers under the Share Purchase Agreement VI)

Certain KSC Shareholder and the Officer

### ***Subscriptions:***

Share Purchase Agreement III: Kingsoft Cloud to issue 117,845,456 Series D Preferred Shares and each of the Company and Forebright Investor to subscribe for 58,922,728 Series D Preferred Shares.

Share Purchase Agreement IV: Kingsoft Cloud to issue 23,569,092 Series D Preferred Shares and each of the Company and Shunwei Investor to subscribe for 11,784,546 Series D Preferred Shares.

Share Purchase Agreement V: Kingsoft Cloud to issue 117,845,456 Series D Preferred Shares and each of the Company and Liyue Investor to subscribe for 58,922,728 Series D Preferred Shares.

Share Purchase Agreement VI: Kingsoft Cloud to issue 229,942,410 Series D Preferred Shares and each of the Company and FutureX Capital to subscribe for 114,971,205 Series D Preferred Shares.

### ***Consideration:***

The aggregate consideration is US\$720 million (equivalent to approximately HK\$5,626.94 million) at the Unit Price I per share of approximately US\$0.85 and the Unit Price II per share of approximately US\$0.87 per Series D Preferred Share (equivalent to approximately HK\$6.64 and HK\$6.80 respectively) under the Share Purchase Agreements, including US\$360 million (equivalent to approximately HK\$2,813.47 million) payable by the Company, US\$100 million (equivalent to approximately HK\$781.52 million) payable by Liyue Investor, US\$100 million (equivalent to approximately HK\$781.52 million) payable by Minsheng Investor, and US\$10 million (equivalent to approximately HK\$78.15 million) payable by Shunwei Investor, US\$50 million (equivalent to approximately HK\$390.76 million) payable by Forebright Investor and US\$100 million (equivalent to approximately HK\$781.52 million) payable by FutureX Capital to Kingsoft Cloud for their subscriptions of 421,369,391, 117,845,456, 117,845,456, 11,784,546, 58,922,728 and 114,971,205 Series D Preferred Shares, respectively. The consideration payable by Minsheng Investor is subject to the Investment Framework Agreement.

The Company has funded the subscription for the Series D Preferred Shares from its internal resources and bank borrowings.

With reference to the Board Letter, the consideration was determined after arm's length negotiations among the parties with reference to (i) the financial conditions of Kingsoft Cloud Group; (ii) the business potentials of Kingsoft Cloud Group; and (iii) the market conditions in the internet industry:

#### ***(i) Financial conditions of Kingsoft Cloud Group***

For the nine months ended 30 September 2017, Kingsoft Cloud Group generated revenue of approximately RMB982.73 million, representing approximately 126.57% of its revenue for FY2016. Such improvement was mainly driven by increased customer usage of Kingsoft Cloud Group's cloud services from video and mobile game sectors.

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(ii) *Business potentials of Kingsoft Cloud Group*

On the customer service front, Kingsoft Cloud hosted the “the Game Ecosystem Annual Conference 2016” and secured the market recognition and trust from customers, enabling it to consolidate the brand awareness and reputation of Kingsoft Cloud and pave the way for future business development. In addition, Kingsoft Cloud continued to lead in the video cloud sector, and introduced a live streaming monitoring and assessment platform during FY2016, providing the market with a more comprehensive overall live streaming service. Kingsoft Cloud also actively expanded its government cloud and healthcare cloud businesses in the fourth quarter. Looking ahead, Kingsoft Cloud will step up promotion of the hybrid cloud business and position itself as an operation and maintenance solutions specialist in the game industry. Furthermore, it will continue to perfect its live video cloud streaming products, expand the government cloud and healthcare cloud markets, and pursue cooperation to expand the sales network, thereby attaining greater achievements for Kingsoft Cloud’s development.

Based on our independence research, we noted from the 《雲計算發展三年行動計劃》(Three-year action plan regarding the development of cloud computing\*, the “**Cloud Computing Plan**”) published by Ministry of Industry and Information Technology of the PRC in March 2017 that the market scale of PRC’s cloud computing industry reached RMB150 billion in 2015. The Cloud Computing Plan target to expand the market scale of PRC’s cloud computing industry to RMB430 billion in 2019, and expedite the creation of market leaders. This indicates potential of the cloud computing industry.

(iii) *Market conditions in the internet industry*

The Company considered the price to sales ratio of comparable companies in the market, which demonstrated the market value of comparable companies (under the then market conditions) corresponding to sales performance of comparable companies in the market. Such comparable companies are all information technology companies in the similar line of business as Kingsoft Cloud which are listed on the Stock Exchange or the stock exchanges in the PRC. Their price to sales ratios range from 1 time to 21 times, the average of which is approximately 11 times. The price to sales ratios of the Proposed Kingsoft Subscription of approximately 14 times are within the above range.

With reference to the Board Letter, the primary reason for the slight difference between the Unit Price I and the Unit Price II was that FutureX Capital is considered to be “latecomer” in the Proposed Subscriptions as compared to other Subscribers and thus the Unit Price II was slightly raised to justify its late subscription.

We noted that the trading multiples analysis, such as price to earnings ratio (“**PER**”), price to book ratio (“**PBR**”) and price to sales ratio (“**PSR**”), are commonly adopted valuation methods in the market. For this reason and as part of our independent analysis to assess the fairness and reasonableness of the Unit Prices, we have performed the trading multiple analysis. Given that Kingsoft Cloud had been loss making for the year ended 31 December 2016 and recorded net liabilities value as at 30 September 2017, we consider the PER analysis and PBR analysis to be inapplicable.

We have researched for companies listed on the Shanghai Stock Exchange, Shenzhen Stock Exchange and the Stock Exchange which are engaged in similar line of business as Kingsoft Cloud (the “**Market Comparable(s)**”), being the cloud business. Based on the aforesaid selection criteria, we consider that the Market Comparables are exhaustive and are fair and representative samples.

Set out below are the PSRs of the Market Comparables based on (i) their respective closing prices as at 28 December 2017, being the date of the Share Purchase Agreement III, Share Purchase Agreement IV and Share Purchase Agreement V (the “**PSRs I**”); and (ii) their respective closing prices as at 29 January

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2018, being the date of the Share Purchase Agreement VI (the “PSRs II”), and their respective latest published financial information:

Company name (Stock code)	Principal business	PSRs I	PSRs II
		<i>(Note 1)</i>	<i>(Note 1)</i>
Beijing Join-cheer Software Co., Ltd. (SZ002279)	Development of software for data management, e-government, Enterprise Resource Planning (ERP), and business intelligence application	5.49	5.92
Xiamen Meiya Pico Information Co., Ltd. (SZ300188)	Development, sale and provision of services for digital forensic technology and network information security	9.90	10.04
Venustech Group Inc. (SZ002439)	Provision of a variety of information security products, information security services and information security solutions	10.83	9.51
Nsfocus Information Technology Co., Ltd. (SZ300369)	Development, manufacturing, sale of information security products, and provision of professional security services	6.69	7.66
Beijing Orient National Communication Science and Technology Co., Ltd. (SZ300166)	Development and sale of enterprise business system solution and provision of related technical services	10.39	9.65
Shenzhen Infogem Technologies Co., Ltd. (SZ300085)	Provision of bank seal recognition system, computer’s software and hardware and bank account management system	9.81	10.59
Thunder Software Technology Co., Ltd. (SZ300496)	Provision of operating system solutions to smart mobile devices, and development and provision of mobile operating system products and technical solutions	15.27	14.22
Shenzhen Jieshun Science and Technology Industry Co., Ltd. (SZ002609)	Development, production and sale of access control and management equipment and security system solutions	12.63	12.17
Winning Health Technology Group Co., Ltd. (SZ300253)	Development and sale of medical software, and provision of technology support services and information technology solutions to the health care industry	11.16	13.20
Beijing TRS Information Technology Co., Ltd. (SZ300229)	Development and marketing of software and technology services for unstructured data management, and provision of software products that are enterprise search, content management and text mining	9.74	9.46
Shanghai Great Wisdom Co., Ltd. (SH601519)	Provision of financial data and data analysis which based on software terminal and internet	8.56	8.09

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<b>Company name (Stock code)</b>	<b>Principal business</b>	<b>PSRs I</b>	<b>PSRs II</b>
Oriental Times Media Corporation (SZ002175)	Production and operation of HD digital entertainment platforms and TV shows, and design, manufacturing and marketing of digital measuring instruments	10.60	10.27
Wisefsoft Co., Ltd. (SZ002253)	Production of air traffic management (ATM) products, including ATM real-time strategic command systems and ATM simulation training systems, and surface intelligent traffic management products, including traffic management application systems for vehicle automatic recognition	14.50	13.38
Beijing Dahao Technology Corporation Limited (SH603025)	Research, production and sale of various computerized control systems for swing and knitting machines	18.84	21.93
Hubei Century Network Technology Co., Ltd. (SZ300494)	Provision of internet content and service aggregation platforms	12.68	12.34
Beijing Watertek Information Technology Co., Ltd. (SZ300324)	Provision of embedded systems for defense and military testing products and technical services, information security products and embedded smart mobile devices embedded industry	7.71	8.63
Hangzhou Jizhi Mechatronic Co., Ltd. (SZ300553)	Design, production and sale of automatic balancing machines, testers, and other related parts and accessories	19.41	19.17
Beijing VRV Software Corporation Ltd. (SZ300352)	Manufacturing and sale of information security software products, and provision of technical services	11.60	12.60
Beijing Jetsen Technology Co., Ltd. (SZ300182)	Design, development and implementation of audio and video integrated solutions	6.74	7.79
Digital China Holdings Ltd. (HK861)	Provision of information technology services, provision of supply chain services, provision of all-encompassing Smart City services and institutional financial services.	0.73	0.65
Kingdee International Software Group Co. Ltd. (HK268)	Developing, manufacturing and selling of enterprise management software products and provision of software-related technical services in the PRC	5.61	6.71
Chanjet Information Technology Co. Ltd. (HK1588)	Sale of software and the provision of related services as well as other related products	4.73	4.48

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Company name (Stock code)	Principal business	PSRs I	PSRs II
Ahsay Backup Software Development Co. Ltd. (HK8290)	Provision of online backup software solutions to clients via internet	3.06	3.13
Tencent Holdings Ltd. (HK700)	Provision of value-added services and online advertising services to users in the PRC	21.45	24.78
Rentian Technology Holdings Ltd. (HK885)	Provision of data management services and integrated smart IoT solutions for modern centralised industrial supply chains to corporate and enterprise customers; securities investment; and money lending business	3.47	3.52
ZTE Corporation (HK763)	Design, development, production, distribution and installation of a broad range of advanced ICT-related systems, equipment and terminals, including carriers' networks, government and corporate business and consumer business	1.02	0.97
Powerleader Science & Technology Group Ltd. (HK8236)	Provision of cloud server & cloud storage related equipment; provision of R&D, design, manufacturing & sale of cloud computing equipment related components, provision of development & services of cloud computing related software & platform	0.16	0.18
<b>Maximum</b>		<b>21.45</b>	<b>24.78</b>
<b>Minimum</b>		<b>0.16</b>	<b>0.18</b>
<b>Average</b>		<b>9.36</b>	<b>9.67</b>
<b>The Proposed Kingsoft Subscription</b>		<b>13.54</b>	<b>13.88</b>

**Notes:**

1. *The PSRs of the Market Comparables were calculated based on their respective latest published annual results.*
2. *Each of the implied PSRs of the Proposed Kingsoft Subscription is calculated based on the Unit Prices respectively, consolidated revenue of Kingsoft Cloud Group for FY2016 and total issued share capital assuming all convertible securities of Kingsoft Cloud having been converted/exercised as at the date immediately preceding the issuance of any Series D Preferred Share.*
3. *The financial year end date of all the Market Comparables is 31 December.*

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We noticed from the above table that (i) the PSRs I of the Market Comparables ranged from approximately 0.16 times to 21.45 times, with an average of approximately 9.36 times; and (ii) the PSRs II of the Market Comparables ranged from approximately 0.18 times to 24.78 times, with an average of approximately 9.67 times. The implied PSRs of the Proposed Kingsoft Subscription are within the said PSRs I range and PSRs II range of the Market Comparables respectively, higher than the average of the Market Comparables' PSRs I and PSRs II respectively and not close to the higher end or the lower end of the Market Comparables ranges respectively.

In light of that (i) the implied PSRs of Proposed Kingsoft Subscription are within the PSRs I range and PSRs II range of the Market Comparables respectively and not close to the higher end or the lower end of the Market Comparables ranges respectively; and (ii) the Unit Price I was applied to all the Subscribers (including independent third parties to the Company) under the Share Purchase Agreement III, Share Purchase Agreement IV and Share Purchase Agreement V and the Unit Price II was applied to all the Subscribers (including independent third parties to the Company) under the Share Purchase Agreement VI, we are of the view that the Unit Prices are fair and reasonable so far as the Independent Shareholders are concerned.

### **Exit right of holders of Series D Preferred Shares**

According to the Restated Shareholders Agreement, the holders of Series D Preferred Shares have the right to request Kingsoft Cloud to purchase the Series D Preferred Shares held by them in the event that (i) series D qualified public offering has yet to complete within a certain period of time; (ii) any of the holders of series B preferred shares of Kingsoft Cloud has requested Kingsoft Cloud to purchase the series B preferred shares held by it pursuant to the Restated Shareholders Agreement; or (iii) any of the holders of series C preferred shares of Kingsoft Cloud has requested Kingsoft Cloud to purchase the series C preferred shares held by it pursuant to the Restated Shareholders Agreement.

The Redemption Price for Kingsoft Cloud to purchase the Series D Preferred Shares upon exercising the exit right by any holder of the Series D Preferred Shares shall be calculated as follows:

Redemption Price shall be the applicable purchase price paid by such holder of Series D Preferred Shares and a return at a compound rate of 8% per annum (the "**Return Rate**") as stipulated in the Restated Shareholders Agreement calculated from the date of the actual issuance of such Series D Preferred Shares to the date on which such holder of the Series D Preferred Shares elects to exercise its exit right plus all declared but unpaid dividends on the respective Series D Preferred Shares held by the holder thereof requested to be purchased pursuant to the Restated Shareholders Agreement.

With reference to the Board Letter, the Return Rate was determined upon arm's length negotiations between the parties with reference to (i) the redemption price of Kingsoft Cloud's series C preferred shares; and (ii) similar return arrangements of the Group's other investments.

In respect of the redemption price of Kingsoft Cloud's series C preferred shares, we noticed from the Company's announcements dated 5 February 2016 and 6 May 2016 that Kingsoft Cloud conducted fundraising by issuance of series C preferred shares (details of which are set out under the aforesaid announcements). For our due diligence purpose, we obtained the restated shareholders agreement entered into by the then shareholders of Kingsoft Cloud on 16 May 2016. We noted from the aforesaid restated shareholders agreement that the Return Rate of 8% per annum also applies to the redemption price of Kingsoft Cloud's series C preferred shares.

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In respect of the similar return arrangements of the Group's other investments, we were advised by the Company that the Group currently has investments in two gaming companies. For our due diligence purpose, we obtained the shareholders' agreements that the Group member entered into with respective shareholders of and the subject companies being invested. As stipulated under the aforesaid shareholders' agreements, the Group is entitled to a priority right for dividend entitlement equivalent to 8% per annum of the Group's total investment in such companies before the rest of the distributable profit being distributed among all shareholders.

Given the above and that the aforesaid exit right is extended to all holders of the Series D Preferred Shares, we consider such provision to be fair and reasonable.

### **Principal terms of Series D Preferred Shares**

The principal terms of the Series D Preferred Shares according to the amended and restated memorandum of association and articles of association to be adopted by Kingsoft Cloud on or prior to the completion respective Share Purchase Agreement are set out under the section headed "3. THE PRINCIPAL TERMS OF SERIES D PREFERRED SHARES" of the Board Letter.

We are not aware of any abnormal term of the Series D Preferred Shares. In addition, as the principal terms of the Series D Preferred Shares are extended to all holders of the Series D Preferred Shares, we consider such terms to be fair and reasonable.

In light of the above factors, we consider that the terms of Proposed Kingsoft Subscription are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

### **Possible financial effects of the Proposed Kingsoft Subscription**

With reference to the Board Letter, according to the International Financial Reporting Standards 10, a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such issue of Series D Preferred Shares will have no impact on goodwill, nor will it give rise to a gain or loss on the issuance date. Kingsoft Cloud will continue to be a subsidiary of the Company.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon the Completion.

### **RECOMMENDATION**

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Kingsoft Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Kingsoft Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Proposed Kingsoft Subscription and the

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transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

*Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.*



## 1. RESPONSIBILITY STATEMENT

This circular, for which Directors, collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange were as follows:

*Interest in the shares and underlying shares of the Company:*

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL (NOTE 1)	NATURE OF SHARES INTERESTED
Jun LEI	Interest of controlled corporation	210,116,248	15.30	Long position
	Other	142,714,003	10.38	Long position
	<b>Total:</b>	<b>352,830,251</b>	<b>25.68</b>	Long position
		(Note 2)		
Pak Kwan KAU	Interest of controlled corporation	108,032,566 (Note 3)	7.86	Long position
Yuk Keung NG	Beneficial owner	3,800,000	0.28	Long position
Tao ZOU	Beneficial owner	7,409,307	0.54	Long position

*Notes:*

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at the Latest Practicable Date, which was 1,373,728,717.

2. Among these 352,830,251 Shares, (i) 174,818,191 Shares are held by Color Link Management Limited, a BVI company owned as to 100% by Mr. Jun LEI; (ii) 35,298,057 Shares was held by a wholly-owned subsidiary of Xiaomi, a company controlled by Mr. Jun LEI under the SFO; and (iii) 142,714,003 Shares are deemed to be interested by Mr. Jun LEI under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU and Mr. ShuenLung CHEUNG will vote in the same way as Mr. Jun LEI with these Shares.
3. These Shares are held by Topclick Holdings Limited, a BVI company wholly owned by Kau Management Limited. Kau Management Limited is a company indirectly owned by a discretionary trust, the beneficiaries of which include Mr. Pak Kwan KAU and his family members. As such, Mr. Pak Kwan KAU is deemed to be interested in these Shares under the SFO. In addition, Mr. Jun LEI is also deemed to be interested in these Shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU will vote in the same way as Mr. Jun LEI with these Shares.

*Interest in the shares and underlying shares of the associated corporations of the Company*

**Cheetah Mobile Inc.**

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL (NOTE 2)	NATURE OF SHARES INTERESTED
Jun LEI (Note 3)	Interest of controlled corporation	17,660,294	4.25	Long position
David Yue Kwan TANG	Beneficial owner	140,000	0.03	Long position
Yuk Keung NG	Beneficial owner	1,200	0.00	Long position

*Notes:*

1. The Company holds over 20% of the issued shares of Cheetah Mobile Inc. as at the Latest Practicable Date, which is listed on the NYSE.
2. % of issued share capital in class was calculated on basis of the issued Class A Cheetah Shares of Cheetah Mobile Inc. as at 31 December 2017, which was 415,250,897.
3. Among the 17,660,294 shares, (i) 3,374,580 shares are held by Go Corporate Limited, a BVI company owned as to 100% by Mr. Jun LEI; and (ii) 14,285,714 shares are held by Xiaomi, a company controlled by Mr. Jun LEI under the SFO.

**Seasun Holdings Limited**

<b>NAME OF DIRECTOR</b>	<b>CAPACITY</b>	<b>NUMBER OF SHARES INTERESTED</b>	<b>% OF ISSUED SHARE CAPITAL (NOTE 2)</b>	<b>NATURE OF SHARES INTERESTED</b>
Tao ZOU	Beneficial owner	18,123,462	1.97	Long position

*Notes:*

1. Seasun Holdings Limited is a non-wholly owned subsidiary of the Company.
2. % of issued share capital in class was calculated on the basis of the issued ordinary shares of Seasun Holdings Limited as at 31 December 2017, which was 918,149,438.

**3. SUBSTANTIAL SHAREHOLDERS**

As at the Latest Practicable Date, as far as the Directors are aware of, the following, other than the Directors and chief executive of the Company, had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued capital of the Company:

<b>NAME OF SUBSTANTIAL SHAREHOLDER</b>	<b>CAPACITY</b>	<b>NUMBER OF SHARES INTERESTED</b>	<b>% OF ISSUED SHARE CAPITAL (NOTE 1)</b>	<b>NATURE OF SHARES HELD</b>
Color Link Management Limited ( <i>Note 2</i> )	Beneficial owner	174,818,191	12.73	Long position
Topclick Holdings Limited ( <i>Note 3</i> )	Beneficial owner	108,032,566	7.86	Long position
Tencent Holdings Limited ( <i>Note 4</i> )	Interest of controlled corporation	106,784,515	7.77	Long position

*Notes:*

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at the Latest Practicable Date, which was 1,373,728,717.

2. Mr. Jun LEI is deemed to be interested in Color Link Management Limited's interest in the Company pursuant to Part XV of the SFO because Color Link Management Limited is wholly owned by Mr. Jun LEI. Mr. Jun LEI is a director of Color Link Management Limited.
3. These Shares are held by Topclick Holdings Limited, a BVI company wholly owned by Kau Management Limited. Kau Management Limited is a company owned by a discretionary trust, the trustee of which is Credit Suisse Trust Limited and the beneficiaries of which include Mr. Pak Kwan KAU and his family members. As such, Mr. Pak Kwan KAU is deemed to be interested in these Shares under the SFO. In addition, Mr. Jun LEI is also deemed to be interested in these Shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares. Mr. Jun LEI is a director of Topclick Holdings Limited.
4. These Shares are held by TCH Saffron Limited, a wholly-owned subsidiary of Tencent Holdings Limited. As such, Tencent Holdings Limited, MIH TC Holdings Limited and Naspers Limited, its beneficial owners, are deemed to be interested in TCH Saffron Limited's interests in the Company pursuant to Part XV of the SFO. As at the Latest Practicable Date, Mr. Chi Ping LAU is the director of Tencent Holdings Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

#### **4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

#### **5. ARRANGEMENT AFFECTING DIRECTORS**

As at the Latest Practicable Date:

- (a) None of the Directors is interested, directly or indirectly, in any assets which have, since 31 December 2016, the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date as entered into by any member of the Group and which is significant in relation to the business of the Group
- (c) None of the Directors and his/her close associates had any competing interests that would be required to be disclosed under Rule 8.10 of the Listing Rules as if he/she was a controlling shareholder of the Company.

## 6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2016, the date to which the latest published audited consolidated financial statements of the Group were made up.

## 7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advices contained in this circular:

<b>Name</b>	<b>Qualification</b>
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO

As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any shareholding directly or indirectly in any member of the Group, nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Gram Capital had no direct or indirect interest in any assets which had been, since 31 December 2016 (being the date to which the latest published audited financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

## 8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for at least 14 days for inspection during normal business hours on any weekday (except public holidays) at 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the Share Purchase Agreements;
- (c) the Minsheng Investment Framework Agreement;
- (d) the Restated Shareholders Agreement;
- (e) the Articles;
- (f) the Loan Agreement;

- (g) the letter from the Independent Board Committee to the Independent Shareholders dated 6 February 2018, the text of which is set out on pages 22 to 23 of this circular;
- (h) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders dated 6 February 2018, the text of which is set out on page 24 to 38 of this circular;
- (i) the written consent referred to in the section headed “Expert and Consent” in this appendix; and
- (j) this circular.



**Kingsoft Corporation Limited**

**金山軟件有限公司**

*(Continued into the Cayman Islands with limited liability)*

**(Stock Code: 03888)**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (the “EGM”) of Kingsoft Corporation Limited (the “**Company**”) will be held at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC on Tuesday, 27 February 2018 at 2:00 p.m. to consider and, if thought fit, passing the following ordinary resolution of the Company. Unless otherwise indicated, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 6 February 2018:

**ORDINARY RESOLUTION**

“**THAT**

- (i) the share purchase agreement dated 28 December 2017 entered into by the Company, Precious Steed Limited, Kingsoft Cloud Holdings Limited and its subsidiaries, Autogold Limited and Mr. Yulin WANG, pursuant to which, among others, Kingsoft Cloud Holdings Limited agreed to issue and each of the Company and Precious Steed Limited agreed to subscribe for 58,922,728 series D preferred shares of Kingsoft Cloud Holdings Limited at a respective consideration US\$50 million, respectively, a copy of which has been produced to the EGM marked “1” and signed by the chairman of the EGM for the purposes of identification, and the terms and conditions thereof and all transactions contemplated thereunder and the implementation thereof and any other agreements or documents in connection herewith be and are hereby approved, ratified and confirmed;
- (ii) the share purchase agreement dated 28 December 2017 entered into by the Company, Shunwei Growth III Limited, Kingsoft Cloud Holdings Limited and its subsidiaries, Autogold Limited and Mr. Yulin WANG, pursuant to which, among others, Kingsoft Cloud Holdings Limited agreed to issue and each of the Company and Shunwei Growth III Limited agreed to subscribe for 11,784,546 series D preferred shares of Kingsoft Cloud Holdings Limited at a respective consideration US\$10 million, respectively, a copy of which has been produced to the EGM marked “2” and signed by the chairman of the EGM for the purposes of identification, and the terms and conditions thereof and all transactions contemplated thereunder and the implementation thereof and any other agreements or documents in connection herewith be and are hereby approved, ratified and confirmed;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (iii) the share purchase agreement dated 28 December 2017 entered into by the Company, LIYUE JINSHI INVESTMENT L.P., Kingsoft Cloud Holdings Limited and its subsidiaries, Autogold Limited and Mr. Yulin WANG, pursuant to which, among others, Kingsoft Cloud Holdings Limited agreed to issue and each of the Company and LIYUE JINSHI INVESTMENT L.P. agreed to subscribe for 58,922,728 series D preferred shares of Kingsoft Cloud Holdings Limited at a respective consideration US\$50 million, respectively, a copy of which has been produced to the EGM marked “3” and signed by the chairman of the EGM for the purposes of identification, and the terms and conditions thereof and all transactions contemplated thereunder and the implementation thereof and any other agreements or documents in connection herewith be and are hereby approved, ratified and confirmed;
- (iv) the share purchase agreement dated 29 January 2018 entered into by the Company, FutureX Capital Limited, Kingsoft Cloud Holdings Limited and its subsidiaries, Autogold Limited and Mr. Yulin WANG, pursuant to which, among others, Kingsoft Cloud Holdings Limited agreed to issue and each of the Company and FutureX Capital Limited agreed to subscribe for 114,971,205 series D preferred shares of Kingsoft Cloud Holdings Limited at a respective consideration US\$100 million, respectively, a copy of which has been produced to the EGM marked “4” and signed by the chairman of the EGM for the purposes of identification, and the terms and conditions thereof and all transactions contemplated thereunder and the implementation thereof and any other agreements or documents in connection herewith be and are hereby approved, ratified and confirmed; and
- (v) any one Director be and is hereby authorised for and on behalf of the Company to take all steps necessary or expedient in his opinion to implement and/or give effect to the terms of the above share purchase agreements and to agree such variations, amendments or waivers thereof as are, in the opinion of such Director, in the interests of the Company.”

By Order of the Board  
**Kingsoft Corporation Limited**  
**Jun LEI**  
*Chairman of the Board*

Hong Kong, 6 February 2018

*Principal place of business in Hong Kong:*

Unit 1309A  
13/F Cable TV Tower  
No. 9 Hoi Shing Road  
Tsuen Wan, N.T.  
Hong Kong



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Notes:*

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote instead of him. A proxy needs not be a member of the Company but must attend the meeting in person to represent you. If more than one proxy is so appointed, the appointment shall specify the number of shares of the Company in respect of which each such proxy is so appointed.
2. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or the adjourned meeting (as the case may be).
3. Where there are joint holders of any share of the Company, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the EGM personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
4. Pursuant to Rule 13.39(4) of the Listing Rules, all votes of shareholders at the meeting will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

*As at the date of this notice, 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.*