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**Kingsoft Corporation Limited**

**金山軟件有限公司**

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

**(Stock Code: 03888)**

## **CONTINUING CONNECTED TRANSACTIONS**

On 27 September 2012, KIS Holdings, a subsidiary of the Company, entered into the Framework Agreement with Tencent Shenzhen, pursuant to which, KIS Holdings and its subsidiaries will provide various marketing platforms and channels to Tencent Group for the promotion of Tencent Group's internet services and products.

KIS Holdings and its subsidiaries has been providing various marketing channels for internet services to Tencent Group, including the provision of search interface and the provision of marketing platforms as disclosed in the announcements of the Company dated 15 February 2012 and 30 March 2012 respectively. In order to enhance the value of the Group, the Company has proposed that KIS Holdings enters into the Framework Agreement with Tencent Shenzhen, whereby KIS Holdings and its subsidiaries can market more services and products of Tencent Group for a fee, thereby enhancing the returns of the Group.

Tencent is a substantial shareholder of the Company by virtue of its shareholding interest that exceeds 10% in the total issued share capital of the Company. Tencent is therefore, a connected person of the Company under the Listing Rules. As a result, the services provided by KIS Holdings and its subsidiaries and the service fees received from Tencent Group under the Framework Agreement constitute continuing connected transactions of the Company.

As the relevant applicable percentage ratios in respect of the annual caps of the transactions within the Framework Agreement are higher than 5%, the Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under rule 14A.35 of the Listing Rules.

A circular containing, amongst other things, (i) further details of the Framework Agreement, (ii) the letter from the Independent Board Committee, (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreement; and (iv) the notice convening the extraordinary general meeting, is expected to be despatched to the Shareholders as soon as practicable but no later than 29 September 2012.

## 1. BACKGROUND

On 27 September 2012, KIS Holdings, a subsidiary of the Company, entered into the Framework Agreement with Tencent Shenzhen, pursuant to which, KIS Holdings and its subsidiaries will provide various marketing platforms and channels to Tencent Group for the promotion of Tencent Group's internet services and products.

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## 2. DETAILS OF THE FRAMEWORK AGREEMENT

|                |   |  |
|----------------|---|--|
| Date           | : | 27 September 2012  |
| Period         | : | 1 January 2012 to 31 December 2013   |
| Parties        | : | KIS Holdings<br>Tencent Shenzhen   |
| Subject matter | : | KIS Holdings and its subsidiaries will provide various marketing platforms and channels, including but not limited to its websites, and softwares for PC and mobile devices, to Tencent Group for the promotion of Tencent Group's services and products, including but not limited to internet and mobile internet services and products  |
| Pricing basis  | : | The prices will be based on:<br><br>1) the prevailing fair market pricing practiced and pricing policy of independent third parties among industry participants for similar transactions; and if no such pricing information is available;<br><br>2) the actual cost incurred thereof plus a reasonable profit margin, such profit margin will be made reference to the profit margin of products with similar nature/function in historical transactions of the Group conducted with independent third parties and/or connect persons, whichever is more favourable to the Company. |

The pricing of services and products provided by KIS Holdings and its subsidiaries to Tencent Group should be no less favourable than the terms of services and products offered by KIS Holdings and its subsidiaries to the independent third parties.

KIS Holdings and its subsidiaries will adopt relevant supervision and internal control procedures to ensure that the pricing basis for each of the transactions of services and products are carried out in accordance with the above terms.

Payment terms : To be settled with reference to the similar payment terms of the respective transactions' practice among industry participants during the transaction period

### 3. ANNUAL CAPS AND BASIS OF DETERMINATION

The table below sets out the actual transaction amounts of the aggregate promotional services provided by KIS Holdings and its subsidiaries to Tencent Group for the year ended 31 December 2011, the eight months ended 31 August 2012 and the proposed annual caps under the Framework Agreement for each of the two full financial years ending 31 December 2012 and 31 December 2013.

|   | Historical transaction amounts                                      |  | Proposed annual caps  |        |
|---|---|--|---|--------|
|   | For the<br>year ended<br>31 December<br>2011<br><i>RMB' million</i> | For the<br>eight months<br>ended<br>31 August<br>2012<br><i>RMB' million</i> | For the year ending<br>31 December<br>2012                      2013<br><i>RMB' million              RMB' million</i> |        |
| Total revenue from Tencent Group<br>on marketing related services | 7.01  | 38.03  | 120.00  | 200.00 |

The proposed annual caps have been worked out with reference to the historical transactions occurred between KIS Holdings and its subsidiaries and Tencent Group for the year ended 31 December 2011 and over the past 8 months since January 2012. Based on the above figures, the transaction amounts for the eight months ended 31 August 2012 are more than five times compared to the transaction amounts for the year ended 31 December 2011. In addition, the transaction amounts for the two most recent months of July and August 2012 showed a rapid growth, and each of them is more than twice the transacted amount for each of the months between January and June 2012. This indicated that the aggregate demand for these promotional services is increasing dramatically. The Company is of the opinion that the proposed annual caps would be required to meet the demand for services provided by KIS Holdings and its subsidiaries.

In order to ensure the amount of transactions contemplated under the Framework Agreement will not exceed the proposed annual caps, KIS Holdings and its subsidiaries will carry out periodical monitoring of the total historical transaction amount and estimating the amount of transactions that may possibly be incurred in the coming months.

## **4. REASONS FOR AND BENEFITS OF THE FRAMEWORK AGREEMENT**

Under the Framework Agreement, KIS Holdings and its subsidiaries will provide to Tencent Group (i) an interface by embedding Tencent's search engine in KIS Holdings and its subsidiaries' websites and softwares for PC and mobile devices as the search engine; (ii) the marketing of Tencent Group's security software utilising the business channels of KIS Holdings and its subsidiaries; and (iii) the marketing of any other products and services that Tencent Group will offer in the future through various marketing platforms and channels of KIS Holdings and its subsidiaries, including but not limited to its websites, softwares for PC and mobile devices.

The transactions under the Framework Agreement will provide a comprehensive package of products and services for PC and mobile devices to KIS Holdings and its subsidiaries' customers. In addition, the Framework Agreement will also allow KIS Holdings and its subsidiaries to broaden the services and products offering, and bring additional revenue streams into the Group. The consolidation of all the continuing connected transactions, involving the marketing of products and services belonging to Tencent Group by KIS Holdings and its subsidiaries, into a framework agreement between KIS Holdings and Tencent Shenzhen will benefit the Company by reducing administrative time and cost in ensuring its compliance with the Listing Rules.

The Company believes that with the strength and support of Tencent Group as its partner and substantial Shareholder, the Group will be strategically positioned to better leverage on the development opportunities in the online software markets and serve to enhance the market positions of the Group.

The Directors, including the independent non-executive Directors, consider that the Framework Agreement between KIS Holdings and Tencent Shenzhen is entered into in the ordinary and usual course of business of the Company, on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

## **5. IMPLICATIONS UNDER THE LISTING RULES**

Tencent is a substantial shareholder of the Company by virtue of its shareholding interest that exceeds 10% in the total issued share capital of the Company. Tencent is therefore, a connected person of the Company under the Listing Rules. As a result, the services provided by KIS Holdings and its subsidiaries and the service fees received from Tencent Group under the Framework Agreement constitute continuing connected transactions of the Company.

As the relevant applicable percentage ratios in respect of the annual caps of the transactions within the Framework Agreement are higher than 5%, the Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under rule 14A.35 of the Listing Rules.

An Independent Board Committee has been established to make recommendation to the Independent Shareholders in respect of the transactions contemplated under the Framework Agreement. Goldin Financial has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreement and the transactions contemplated thereunder.

Mr. Chi Ping Lau, who is the director of both the Company and Tencent, has abstained from voting on the Board resolution approving the Framework Agreement.

## **6. GENERAL INFORMATION**

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

KIS Holdings, a non-wholly owned subsidiary of the Company, is principally engaged in the research, development and distribution of mobile and internet security software.

Tencent and its subsidiaries are principally engaged in the provision of Internet value-added services, mobile and telecommunications value-added services, online advertising and e-Commerce services to users in the PRC.

Tencent Shenzhen is principally engaged in the provision of Internet and mobile and telecommunications value-added services in the PRC.

A circular containing, amongst other things, (i) further details of the Framework Agreement, (ii) the letter from the Independent Board Committee, (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreement; and (iv) the notice convening the extraordinary general meeting, is expected to be despatched to the Shareholders as soon as practicable but no later than 29 September 2012.

## 7. DEFINITION

|  |  |
|--|--|
| “associate(s)”   | has the meaning ascribed thereto under the Listing Rules   |
| “Board”  | the board of directors of the Company  |
| “Company”  | Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its Shares listed on the Stock Exchange (stock code: 03888) |
| “connected person(s)”                                    | has the meaning ascribed thereto under the Listing Rules   |
| “Director(s)”  | the director(s) of the Company   |
| “Framework Agreement”                                    | the framework agreement entered into among the KIS Holdings and Tencent Shenzhen dated 27 September 2012, pursuant to which, KIS Holdings and its subsidiaries will provide various marketing platforms and channels to Tencent Group for the promotion of Tencent Group’s internet services and products  |
| “Group”  | the Company, its subsidiaries and companies which are indirectly controlled by the Company through the structure contracts   |
| “Independent Board Committee”                            | the independent board committee, which comprises all of the independent non-executive Directors, namely Mr. To Thomas HUI, Mr. Guangming George LU and Mr. Chuan WANG formed, to consider the Framework Agreement and the transactions contemplated thereunder and the proposed annual caps                |
| “Independent Financial Adviser” or<br>“Goldin Financial” | Goldin Financial Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity as defined under the Securities and Futures Ordinance, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders                  |
| “Independent Shareholders”                               | for the purpose of approving the resolution with respect to the Framework Agreement and the transaction contemplated thereunder and the proposed annual caps, the Shareholders other than Tencent and any of its associates who are legally and/or beneficially interested in the Shares                   |
| “KIS Holdings”   | Kingsoft Internet Security Software Holdings Limited, a non-wholly owned subsidiary of the Company   |

|                    |   |
|--------------------|---|
| “Listing Rules”    | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited  |
| “PRC” or “China”   | the People’s Republic of China which, for the purpose of this announcement only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan |
| “RMB”              | Renminbi, the lawful currency of the PRC  |
| “Share(s)”         | share(s) of US\$0.0005 each in the share capital of the Company   |
| “Shareholder(s)”   | registered holder(s) of the Shares  |
| “Stock Exchange”   | The Stock Exchange of Hong Kong Limited   |
| “Tencent”          | Tencent Holdings Limited, a limited liability company organised and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange                        |
| “Tencent Group”    | Tencent and its subsidiaries  |
| “Tencent Shenzhen” | Shenzhen Tencent Computer Systems Company Limited (深圳市騰訊計算機系統有限公司), a subsidiary of Tencent   |
| “US\$”             | United States dollars, the lawful currency of the United States of America  |
| “%”                | percent.  |

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

PRC, 27 September 2012

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