THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

KINGSOFT®

Kingsoft Corporation Limited
金 山 軟 件 有 限 公 司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

MAJOR AND CONNECTED TRANSACTIONS:
PROPOSED DELEGATION OF VOTING RIGHTS IN CHEETAH;
PROPOSED INVESTMENT IN ROBOTICS BUSINESS; AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

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

Gram Capital Limited
嘉林資本有限公司

A letter from the Board is set out on pages 5 to 32 of this circular and a letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 33 to 34 of this circular. A letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 35 to 54 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 Friday, 29 September 2017 at 2:00 p.m. is set out on pages 78 to 79 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.

14 September 2017

TABLE OF CONTENTS

Page

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

"associate(s)"	has the meaning ascribed to it in the Listing Rules;
"Beijing Security Software"	Beijing Kingsoft Internet Security Software Co., Ltd.* (北京金山安全軟件有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of Cheetah;
"Beijing Security Software Warrant"	the entitlement for Beijing Security Software to subscribe for the Target Company's registered capital in RMB with an equivalent value up to US$62 million (equivalent to approximately HK$480.89 million) as ascribed under the Capital Injection Agreement, the details of which are set out in the paragraph headed "3.1 the Capital Injection Agreement — Beijing Security Software Warrant" in the letter from the Board of this circular;
"Board"	the board of Directors;
"BVI"	the British Virgin Islands;
"Capital Injection"	the Proposed Investment and the proposed subscription of the registered capital in the Target Company by Pingtan Dingfu and Kangyuan Heart under the Capital Injection Agreement;
"Capital Injection Agreement"	the capital injection agreement dated 26 May 2017 entered into among Beijing Security Software, Shougang Fund, Purple Cow, Pingtan Dingfu, Kangyuan Heart, the Target Company, Mr. FU and ZHANG Wenlong in relation to the Capital Injection;
"Cheetah"	Cheetah Mobile Inc., a non-wholly-owned subsidiary of the Company whose ordinary shares are listed on the NYSE by way of American depository shares;
"Cheetah Group"	Cheetah and its subsidiaries;
"close associate(s)"	has the meaning ascribed to it in the Listing Rules;
"Company"	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the BVI on 20 March 1998 and discontinued in the BVI and continued into the Cayman Islands on 15 November 2005, with the Shares listed on the Stock Exchange;
"Completion"	completion of the Proposed Delegation pursuant to the Voting Proxy Agreement;
"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;

"Delegated Shares"	not more than 399,445,025 class B ordinary shares of Cheetah (subject to adjustment under the Voting Proxy Agreement), the voting power of which is proposed to be delegated to Mr. FU by the Company under the Voting Proxy Agreement;
"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 Friday, 29 September 2017 at 2:00 p.m. for the purpose of the Independent Shareholders' considering, and if thought fit, approving the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder);
"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;
"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 Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder);
"Independent Financial Adviser" or "Gram Capital"	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, acting as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder);
"Independent Shareholders"	the shareholders of the Company who are not required to abstain from voting in respect of the Proposed Delegation and/or the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder);
"Kangyuan Heart"	Beijing Kangyuan Heart Management Consulting Centre, Limited Partnership* (北京康元同心管理諮詢中心(有限合夥)), a third party independent of the Company as of the Latest Practicable Date;
"Kingsoft Cloud"	Kingsoft Cloud Holdings Limited, a limited liability company organized under the laws of the Cayman Islands and a subsidiary of the Company as of the Latest Practicable Date;
"Latest Practicable Date"	12 September 2017, 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);

"Mr. FU"	Mr. FU Sheng, the chief executive officer and director of Cheetah;
"Mr. FU's Option"	Mr. FU's right to purchase the Target Company's shares issued under the Beijing Security Software Warrant from Beijing Security Software, the details of which are set out in the paragraph headed "3.1 the Capital Injection Agreement — Mr. FU's Option" in the letter from the Board of this circular;
"NYSE"	the New York Stock Exchange;
"Pingtan Dingfu"	Pingtan Dingfu Investment Management Co., Ltd.* (平潭鼎福投資管理有限公司), a third party independent of the Company as of the Latest Practicable Date;
"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;
"Proposed Delegation"	the proposed delegation by the Company of part of its voting rights in Cheetah to Mr. FU subject to the conditions as set out in the Voting Proxy Agreement;
"Proposed Investment"	the proposed subscription of RMB4,545,455 in the registered capital of the Target Company by Beijing Security Software in consideration of a RMB amount equivalent to US$40 million (equivalent to approximately HK$310.25 million) under the Capital Injection Agreement;
"Purple Cow"	Tianjin Purple Cow Asset Management Limited Partnership* (天津紫牛基業資產管理合夥企業(有限合夥)), in which Mr. FU held less than 30% interest as a limited partner as of the Latest Practicable Date;
"Relevant Event(s)"	the relevant event(s) as specified in the Capital Injection Agreement, the details of which are set out in the paragraph headed "3.1 The Capital Injection Agreement — Beijing Security Software Warrant" in the letter from the Board of this circular;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	the ordinary share(s) of the Company;
"Shareholder(s)"	holder(s) of the issued ordinary share(s) of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Shougang Fund"	Beijing Shougang Fund Co., Ltd. (北京首鋼基金有限公司), an independent third party of the Company as of the Latest Practicable Date;
"subsidiary(ies)"	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;
"Target Company"	Beijing OrionStar Technology Co., Ltd. (北京獵戶星空科技有限公司), a limited liability company incorporated in the PRC;
"Tencent"	Tencent Holdings Limited, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Stock Exchange and a substantial shareholder of Cheetah;
"Tencent Delegation"	the delegation of the voting power of approximately 4.5% voting rights of Cheetah based on the total issued share capital of Cheetah as of the Latest Practicable Date by Tencent to Mr. FU, representing a portion of Tencent's voting rights attached to class B ordinary shares of Cheetah;
"US$"	US dollars, the lawful currency of the United States;
"Voting Proxy Agreement"	the voting proxy agreement entered into between the Company and Mr. FU on 12 February 2017, pursuant to which the Company agreed to delegate part of its voting rights in Cheetah to Mr. FU subject to certain conditions; and
"%"	per cent.

For the purpose of this circular, unless the context otherwise requires, the conversion of US$ into HK$ is based on the approximate exchange rate of US$1.00 to HK$7.7563, the conversion of HK$ into RMB is based on the approximate exchange rate of HK$1.00 to RMB0.8817, and the conversion of US$ into RMB is based on the approximate exchange rate of US$1.00 to RMB6.8698. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in HK$, US$ or RMB have been, could have been or may be converted at such or any other rate 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
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Principal Place of Business in Hong Kong
Unit 1309A, 13/F
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No. 9 Hoi Shing Road
Tsuen Wan, N.T.
Hong Kong

To the Shareholders

Dear Sir or Madam,

PROPOSED DELEGATION OF VOTING RIGHTS IN CHEETAH; AND PROPOSED INVESTMENT IN ROBOTICS BUSINESS

1. INTRODUCTION

References are made to the announcements of the Company dated 12 February 2017, 13 February 2017 and 26 May 2017.

On 12 February 2017, the Company entered into the Voting Proxy Agreement with Mr. FU, the chief executive officer and director of Cheetah, to delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah to Mr. FU (as the representative of the management of Cheetah), subject to certain conditions.

On 26 May 2017, Beijing Security Software entered into the Capital Injection Agreement with Mr. FU, the Target Company, Shougang Fund, Pingtan Dingfu, Purple Cow, Kangyuan Heart and ZHANG Wenlong in relation to the Capital Injection. Pursuant to the Capital Injection Agreement, Beijing Security Software, Pingtan Dingfu and Kangyuan Heart agreed to subscribe for RMB4,545,455, RMB45,455 and RMB39,773 in the registered capital of the Target Company in consideration of respective RMB amounts equivalent to US$40 million, US$0.4 million and US$0.35 million (equivalent to approximately HK$310.25 million, HK$3.10 million and HK$2.71 million, respectively). Further, the Beijing Security Software Warrant was granted to Beijing Security Software, subject to the terms and conditions as set out in the Capital Injection Agreement.

The purpose of this circular is to provide you with, among others (i) details of the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder); (ii) the recommendation from the Independent Board Committee in respect of the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder); (iii) the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder); and (iv) a notice of the EGM.

2. PROPOSED DELEGATION OF VOTING RIGHTS IN CHEETAH

2.1 The Voting Proxy Agreement

On 12 February 2017, the Company entered into the Voting Proxy Agreement with Mr. FU, the chief executive officer and director of Cheetah, to delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah to Mr. FU (as the representative of the management of Cheetah), subject to certain conditions. The principal terms of the Voting Proxy Agreement are summarized as follows:

Date: 12 February 2017

Parties:

(i) the Company; and

(ii) Mr. FU

Delegated Voting Rights: the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah

Consideration and Conditions:

(i) Mr. FU will not participate or have any direct investment in any business which may compete with the principal businesses of Cheetah Group and the Group; and

(ii) Mr. FU will use his best endeavour to procure that the core management team of Cheetah Group will remain stable. ((i) and (ii), collectively "**Undertakings**")

The consideration and conditions for the Proposed Delegation were determined after arm's length negotiations between the Company and Mr. FU, taking into account the factors set out in the paragraph headed "2.3 Reasons for and benefits of the Proposed Delegation" in the letter from the Board of this circular.

Revocation: In the event that the Company forms a view that Mr. FU may have become in breach of the Undertakings, the Company will, within 10 business days, notify Mr. FU in writing to request that Mr. FU ceases and rectifies the breach. If Mr. FU fails to do so within 10 business days upon receipt of such notice, the Company has the right to revoke the Proposed Delegation by way of a written notice, and the Voting Proxy Agreement will be terminated as such. The Board will take into account various factors to determine whether to revoke the Proposed Delegation. Such factors include but not limited to (a) the seriousness of the breach and the likely negative impact of such breach on the Company and Cheetah Group; (b) the then business scope, development and operation of the Company and Cheetah Group; and (c) the economic and financial impact on the Company and Cheetah Group as a result of the revocation of the Proposed Delegation.

The effective date of the revocation will be determined by the Company and be set out in the written notice, which is to be determined after taking into account of various factors, such as the time required for the Company to comply with the applicable compliance obligations (if any) under the Listing Rules in connection with the revocation.

The revocation of the Proposed Delegation is at the Company's discretion and the Company will comply with the applicable requirements of the Listing Rules (including seeking the Independent Shareholders' approval, if applicable) if the Board determines to or not to revoke the Proposed Delegation pursuant to the Voting Proxy Agreement.

Disposal Restriction: In the event that the Company proposes to dispose of its shares in Cheetah, the Company agrees that it will dispose of its other shares in Cheetah (excluding the Delegated Shares) first. For the avoidance of doubt, the Voting Proxy Agreement does not restrict the Company from further disposing of the Delegated Shares after it has disposed of all its remaining shares in Cheetah. If a part of the Delegated Shares are disposed of by the Company, the actual voting power delegated to Mr. FU under the Voting Proxy Agreement will decrease accordingly. If all Delegated Shares are disposed of by the Company, the voting power delegated to Mr. FU under the Voting Proxy Agreement will decrease to naught.

Board Composition: The current board of Cheetah consists of four directors nominated by the Company, two directors nominated by Tencent, one director from Cheetah's management and two independent directors. The parties agree to change the composition of the board of Cheetah following completion of the Proposed Delegation and the Tencent Delegation as follows: three directors from Cheetah's management, one director nominated by the Company, one director nominated by Tencent and six independent directors. Such proposed change is in compliance with its memorandum and articles of association and the applicable regulatory requirements in the United States of

America. The change is generally the result of negotiation among the parties, with reference to the following factors:

(i) The board of Cheetah will have representatives from each of the three persons holding largest voting power upon completion of the Proposed Delegation and the Tencent Delegation, i.e. the Company (25.2%), Tencent (16.6%) and the core management team of Cheetah (including Mr. FU) (51.6%);

(ii) introducing additional representatives of Cheetah's management into the board of Cheetah will be able to facilitate the board's decision making process, which is in line with the purposes of the Proposed Delegation, i.e. to allow the core management of Cheetah to assert greater influence over the operation and management of Cheetah Group; and

(iii) the board of Cheetah will have adequate independent element, consisting of a total of six independent directors, which will account for more than half of the board members, to enhance the corporate governance and internal control of Cheetah Group.

Conditions Precedent: The Voting Proxy Agreement will become effective subject to the fulfilment of the following conditions precedent:

(i) the Independent Shareholders' approval in relation to the Proposed Delegation; and

(ii) the signing of the definitive agreement in relation to the Proposed Investment between Cheetah and Mr. FU.

As of the Latest Practicable Date, condition precedent (ii) has been fulfilled through signing the Capital Injection Agreement on 26 May 2017. For details, please refer to the section headed "3. Proposed Investment in Robotics Business" in the letter from the Board of this circular.

For the avoidance of doubt, the completion of the Proposed Investment is not a condition precedent to the Completion. This is also the result of mutual negotiation between the Company and Mr. FU. The following factors have been taken into account: (a) the transaction size and financial impact of the Proposed Investment are comparatively small to the Group; (b) the Target Company's business is not a competing business of the Group and Cheetah Group; and (c) the parties, based on the current available information, are not aware of any matter that may hinder the completion of the Proposed Investment.

According to the current timetable, the parties expect that the completion of the Proposed Investment will take place immediately after the Company obtaining the Independent Shareholders' approval at the EGM and the effective date of the Proposed Delegation will be 1 October 2017.

Save for the voting power attached to the Delegated Shares subject to the Voting Proxy Agreement, no other rights (including the rights to dividends and other economic benefits attached to the Delegated Shares) attached to the equity interest currently held by the Company in Cheetah will be disposed of pursuant to the Voting Proxy Agreement.

Save as disclosed above, the Company has no present intention to further dispose of or delegate the voting rights attached to the shares in Cheetah.

2.2 Information of Cheetah Group

Cheetah is a non-wholly-owned subsidiary of the Company, whose American depositary shares, each representing 10 class A ordinary shares in Cheetah, have been listed on the NYSE in the United States of America since May 2014.

Cheetah Group primarily engages in research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices.

A summary of the audited consolidated financial results of Cheetah for the two years ended 31 December 2016 and unaudited consolidated financial results of Cheetah for the six months ended 30 June 2017 is as follows:

	Year ended 31 December 2015	**Year ended 31 December 2016**	**Six months ended 30 June 2017**
			RMB'000
Revenue	3,773,877	4,564,650	2,392,264
Profit before tax	238,377	–68,896	173,482
Profit after tax	174,637	–56,707	163,906

The audited consolidated total assets and net assets of Cheetah as at 30 June 2017 amounted to approximately RMB5,818.5 million and RMB3,387.7 million, respectively.

The above financial information is extracted from the annual reports and interim results announcement of Cheetah, which were prepared under US Generally Accepted Accounting Principles.

As elaborated in the 2016 annual report of Cheetah and based on the management discussion of Cheetah Group, the substantial loss incurred for the year ended 31 December 2016 was primarily due to:

(a) Cost of revenues increased by 61.4% year over year to RMB1,543.8 million in 2016, which was primarily driven by increased investments in content for Cheetah Group's content-driven applications, higher bandwidth and internet data center costs associated with increased user traffic worldwide, and data analytics. The content-driven products focus on providing users with online content in various forms (e.g., articles, news, videos) and content-related services, such as News Republic, a global personalized news content application, and Live.me, a global live video streaming application;

(b) Research and development expenses increased by 30.3% year over year to RMB905.9 million in 2016, which was primarily driven by an increase in personnel-related costs associated with the Company's increased investments in big data analytics and new product development, particularly the development of new content-driven mobile applications and services;

(c) Selling and marketing expenses increased by 9.6% year over year to RMB1,650.6 million in 2016, primarily due to increased product promotional activities for the content-driven applications, which were partially offset by reduced spending on product activities for utility applications; and

(d) Other expenses net recorded RMB56.4 million in 2016 compared to other income, net of RMB21.5 million in 2015. Other expenses, net mainly resulted from impairment loss on previous long-term strategic equity investments in certain internet and technology companies recognized in 2016, which were partially offset by some disposal gain of investment.

The content-driven products were new business initiatives, and a new focus for Cheetah, which started to generate revenue in the second quarter of 2016. These businesses were at investment stage in 2016 and did not generate sufficient revenue to offset the related costs and expenses, which caused more than RMB500 million losses (excluding share-based compensation expenses) for Cheetah in 2016. Cheetah's other businesses in aggregate were profitable in 2016. Further, the content-driven products had become a new growth catalyst, and Cheetah recorded profits again for the six months ended 30 June 2017.

Assuming there is no other change in the shareholding structure of Cheetah from the Latest Practicable Date to the completion of the Proposed Delegation and the Tencent Delegation, the equity interest and voting power of the shareholders in Cheetah will be as follows:

	As of the Latest Practicable Date		As of the date of the completion of the Proposed Delegation and the Tencent Delegation [1]	
	Equity Interest	Voting Power	Equity Interest	Voting Power
the Company	46.8%	63.2%	46.8%	25.2%
Tencent	16.3%	21.1%	16.3%	16.6%
— Mr. FU[2]	6.8%	6.0%	6.8%	48.5%[3]
— Cheetah's core management (excluding Mr. FU)	3.5%	3.1%	3.5%	3.1%
Mr. Fu and Cheetah's core management (excluding Mr. FU)	10.3%	9.1%	10.3%	51.6%
Other shareholders	26.6%	6.6%	26.6%	6.6%

Notes:

1: This table is prepared on the assumption that the Proposed Delegation and the Tencent Delegation complete simultaneously for illustration purpose only. For details of the Tencent Delegation (including the status and expected timetable), please refer to the paragraph headed "2.6 The Tencent Delegation".

2: The calculation of equity interest percentage and voting power percentage of Mr. FU in Cheetah has included the vested but unissued shares granted to Mr. FU under the ESOP plans of Cheetah.

3: The 48.5% voting power held by Mr. FU includes 38.0% voting power delegated by the Company, 4.5% voting power delegated by Tencent, and 6.0% voting power owned by himself.

2.3 Reasons for and Benefits of the Proposed Delegation

(i) Improving the independency and flexibility of Cheetah's management

(a) Mr. FU's contribution to Cheetah Group

Mr. FU joined the Group as the CEO and director of Cheetah in November 2010. Mr. FU was the product manager of 3721 Internet Real Name and 3721 Internet Assistant, as well as the general manager of 360 Security Guard. He was the vice president of Matrix Partners China from November 2008, and CEO and chairman of Conew Network Technology (Beijing) Co., Ltd. from September 2009. Mr. FU has become a senior vice president of the Company since 7 March 2011. Mr. FU graduated from the faculty of Information Management and Information System in Shandong Institute of Business and Technology in 1999.

Mr. FU has rich experiences in the internet industry for over 17 years. It has been demonstrated that Mr. FU's expertise in internet industry contributed a lot to the business development of internet companies by his past working experiences, in particular Cheetah Group. Since he joined the Group in 2010, Mr. FU has been responsible for the daily operation and overall management of Cheetah Group. Mr. FU has been an important leader in Cheetah Group and made several key strategic decisions to seize business opportunities that lead to Cheetah Group's current success. With the leadership of Mr. FU, Cheetah transformed into an internet company from a traditional software company, entered into the fast-expanding mobile market at an early stage from experienced but slowed-down business at PC end, and expanded its business globally. The leadership and contributions of Mr. FU played an important role in making Cheetah a NYSE-listed company. Under the six-year leadership of Mr. FU, Cheetah Group has been operating successfully and developing fast. The revenue of Cheetah Group has increased more than 32 times from RMB140 million in 2011 to RMB4,565 million in 2016, which represented an annual compound growth rate of 78.7% over the past six years. The global mobile monthly active users of Cheetah Group have increased from 46 million as of March 2011 to over 600 million as of March 2017. Based on Mr. FU's experiences and expertise in the internet industry and his past great contributions to Cheetah Group, the Company believes that the future success of Cheetah Group depends substantially on the continued efforts of its management team and key employees, in particular, Mr. FU. Cheetah Group will maintain strong growth momentum to achieve new highs in the future under the management of Mr. FU and the management team of Cheetah.

(b) greater influence by the core management team of Cheetah in general meeting

The Group (excluding Cheetah Group) and Cheetah Group are leading PRC internet companies, whose businesses all require the management and operation led by the management team with professional knowledge and rich experiences. After years of business development, the Group (excluding Cheetah Group) and Cheetah Group have been exploring their respective future business development strategies. It is desirable for Cheetah Group, being a fast growing and expanding business, to develop its business and to formulate its business strategies more freely.

Following the completion of the Proposed Delegation and the Tencent Delegation, the voting power exercised by the core management team of Cheetah will increase from less than 10% to over 50%. Being the single controlling shareholder of Cheetah, the core management team of Cheetah will be able to exercise positive and effective control over the general meeting in Cheetah. By virtue of being the single largest shareholder on one hand and the senior management of Cheetah on the other hand, the core management can implement the business development strategies and fulfil the business development goal of Cheetah more efficiently, allowing the core management of Cheetah to assert greater influence over the operation and management of Cheetah Group.

As such, after due deliberation, the Directors decided to delegate part of the voting power in Cheetah to Mr. FU (as the representative of the management of Cheetah) through the Voting Proxy Agreement to allow Cheetah's core management team represented by Mr. FU to have more independency and flexibilities in the business development of Cheetah Group through holding over 50% voting power in the general meeting of Cheetah upon completion of the Proposed Delegation and the Tencent Delegation.

Mr. FU will exercise such voting power in accordance with the applicable laws and regulations. Further, as confirmed by Mr. FU and based on his previous leadership in Cheetah, the Company believes that Mr. FU will exercise the voting power in the interest of Cheetah Group and its shareholders as a whole.

The Company, as a shareholder of Cheetah, will monitor closely how Mr. FU exercises the voting power in Cheetah's general meeting. The Company may also consult its legal advisors on compliance with applicable laws and regulations by Mr. FU's exercise of the voting power. Furthermore, as a public company on NYSE, Cheetah is required to have all its shareholders to vote in compliance with its memorandum of association, relevant laws and regulations, and rules of NYSE.

(c) Mr. FU's compliance with the Undertakings

Mr. FU has provided the Undertakings in favour of the Group under the Voting Proxy Agreement.

Pursuant to the Undertakings, Mr. FU shall use his best endeavour to procure that the core management team of Cheetah Group will remain stable. The core management team of Cheetah Group includes Mr. FU and Mr. Ming XU ("**Mr. XU**"), the president of Cheetah. Mr. XU has been the president of Cheetah since November 2014. Mr. XU had served as Cheetah's chief technology officer from October 2010 to February 2016. Mr. XU has more than 10 years of experience in the research and development of anti-virus and internet security. Prior to joining the Group, between September 2008 and October 2010, Mr. XU served as the chief technology officer of Conew.com Corporation. Between 2005 and August 2008, Mr. XU worked at Qihoo 360 Technology Co., Ltd., where he was the technical director of 360 department, a division then in charge of developing 360 products. Between 2003 and 2005, Mr. XU worked in various Internet companies, including Yahoo! Inc. and Beijing 3721 Technology Co., Ltd. as a software engineer. Mr. XU received a master's degree and a bachelor's degree in engineering from Harbin Institute of Technology, China, in 2002 and 1999, respectively.

Mr. FU will serve as senior management or a director and devote the majority of his time to the management of Cheetah Group so long as the Proposed Delegation remains effective. Meanwhile, Mr. FU shall use his best endeavour to procure that Mr. XU will continue to serve as senior management of Cheetah Group for at least 4 years upon Completion, except in the situation that he is unable to do so due to health reason, or that he shall cease to serve as senior management due to his material violation of laws or internal policies, failure to perform his duties as senior management to the satisfaction of Cheetah, or other reasons as agreed by the Company and Cheetah. Mr. FU will take the following measures to procure that the core management team of Cheetah Group will remain stable: (1) to provide competitive remuneration package (including share incentive package) to the core management team of Cheetah Group; (2) to align the career development goal of the core management team of Cheetah Group with Cheetah Group's business development strategy; and (3) to provide guidance and feedback to the core management from time to time.

Further, Mr. FU will not participate or have any direct investment in any business which may compete with the principal business of Cheetah Group and the Group. As confirmed by Mr. FU, Mr. FU currently does not participate in or have any direct investment in any business (including Mr. FU's current investment in the Target Company) which may compete with the principal business of the Group or Cheetah Group. The Target Company focuses on the research, development and sale of the intelligent voice system and intelligent robots. The Company has not engaged in and will not engage in the intelligent voice system and intelligent robots business in the foreseeable future. As such, the Target Company's robotics business is not a competing business of the Company.

The Company will implement the internal control procedures to monitor Mr. FU's compliance with the Undertakings as follows:

(1) The Company is entitled to appoint one director in the board of Cheetah upon completion of the Proposed Delegation and the Tencent Delegation. The board representative nominated by the Company will monitor the corporate actions of Cheetah and evaluate Mr. FU's compliance with the Undertakings;

(2) The Company will monitor publicly available information and information released by Cheetah to its shareholders with an aim to evaluate Mr. FU's compliance with the Undertakings;

(3) The Board will review Mr. FU's compliance with the Undertakings on an annual basis; and

(4) Mr. FU will provide all necessary information required (including an annual declaration on his compliance with the Undertakings) for the Board's annual review of compliance with the Undertakings.

As such, the Undertakings will ensure the stability of Cheetah's core management team and the contribution of Mr. FU to Cheetah Group.

Following the completion of the Proposed Delegation and the Tencent Delegation, Mr. FU and the management team of Cheetah will control the exercise of above 50% voting power in Cheetah and will be able to exercise positive and effective control over the general meeting of Cheetah, thus allowing him and the management team of Cheetah to assert greater influence over the operation and management of Cheetah Group. With confidence in Mr. FU's leadership, the Company believes that the Proposed Delegation will facilitate the operation and management of Cheetah Group, which in turn will, through the Company's shareholding in Cheetah, bring long-term shareholder value to the Company and the Shareholders.

(ii) Allowing the Group to focus on its remaining business

The Group (excluding Cheetah Group) will continue to concentrate on its remaining business, primarily including (i) research and development of games, and provision of online games, mobile games and casual game services; and (ii) research, development and distribution of office application software, provision of cloud storage, cloud computation and dictionary services across devices, and provision of online marketing services. In particular, the Group (excluding Cheetah Group) has been implementing the "All-in Cloud" strategies and making heavy investments in cloud storage and computing services during the past few years. Upon Completion, under the leadership of the management team of the Company led by Mr. Tao ZOU (the CEO appointed in December 2016), the Company will be able to allocate more resources and focus on the cloud business.

(iii) No change in the percentage of the Company's equity interest in Cheetah as a result of the Proposed Delegation

Upon Completion, the voting power of the Company holds in Cheetah will decrease from 63.2% to 25.2%. Meanwhile, the percentage of the Company's equity interest in Cheetah will remain unchanged, being approximately 46.8% on the assumption that there is no other change in the shareholding structure of Cheetah.

The Directors consider that the terms of the Voting Proxy Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2.4 Financial Effects of the Proxy

The Group will not receive any consideration as a result of the execution of the Proposed Delegation.

In accordance with IFRS 10, paragraph 25 (see below), the Group will recognize a deemed disposal gain in connection to the deemed disposal of Cheetah in the Group's consolidated statement of profit or loss, based on the difference between the fair value of the Company's equity interests in Cheetah and the net asset value of Cheetah attributable to the Company as at the date of the Completion.

IFRS 10, para 25 "*If a parent loses control of a subsidiary, the parent:*

(a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.

(b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest."

Upon completion of the Proposed Delegation, the Group will lose control over Cheetah and Cheetah will not be accounted for as a subsidiary of the Company. The Group will derecognise the assets and liabilities of Cheetah from the consolidated statement of financial position as well as the carrying amount of non-controlling interests in Cheetah; and will account for its investment in Cheetah as investment in an associate at its fair value when control is lost; and recognise share of profit or loss in investment in Cheetah using the equity method of accounting, subsequently.

The fair value in respect of the Company's equity interest in Cheetah as at the date of the Completion is determined by market share price of Cheetah, as Cheetah is a NYSE-listed company.

The fair value of the Company's equity interest in Cheetah and the net asset value of Cheetah attributable to the Company are approximately RMB5 billion and RMB2 billion, respectively, with reference to the market value of Cheetah and unaudited management accounts of Cheetah as at 30 June 2017. The deemed disposal gain as a results of the Proposed Delegation to be recognized in the Group's consolidated statement of profit or loss is expected to be approximately RMB3 billion based on aforesaid basis. As at 30 June 2017, the total assets and total liabilities of Cheetah were approximately RMB5,700 million and RMB2,344 million, respectively. If Cheetah was accounted as an associate instead of a discontinued operation of the Group as at 30 June 2017, total assets of the Group would decrease by approximately RMB945 million (being total assets of Cheetah of approximately RMB5,700 million, less investment in an associate of approximately RMB4,755 million), total liabilities of the Group would decrease by approximately RMB2,344 million. If Cheetah was accounted as an associate instead of a discontinued operation of the Group for the year ended 30 June 2017, profit after tax of the Group would decrease by approximately RMB70 million (being profit after tax of Cheetah approximately RMB137 million, less share of profit of an associate of approximately RMB67 million).

2.5 Listing Rules Implications

The Proposed Delegation constitutes a deemed disposal of the Company. As one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Proposed Delegation exceeds 25% and is less than 75%, the Proposed Delegation constitutes a major transaction of the Company and is subject to notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As Mr. FU is a connected person of the Company by virtue of being the director and chief executive officer of Cheetah. The Proposed Delegation also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

2.6 The Tencent Delegation

So far as the Company is aware, Tencent, the other substantial shareholder of Cheetah, will separately enter into a voting proxy agreement with Mr. FU, pursuant to which Tencent will agree to delegate its voting right of approximately 4.5% voting rights of Cheetah based on the total issued share capital of Cheetah as of the Latest Practicable Date to Mr. FU, representing a portion of Tencent's voting rights attached to class B ordinary shares of Cheetah, in consideration that (i) Mr. FU will not participate or have any direct investment in any business which may compete with the principal businesses of Cheetah Group; and (ii) Mr. FU will use his best endeavour to procure that the core management team of Cheetah Group will remain stable. As of the Latest Practicable Date, Mr. FU and Tencent are in the course of negotiation on the terms of the definitive agreement in relation to the Tencent Delegation. As informed by Mr. FU, the agreement is expected to be entered into on or around the effective date of the Proposed Delegation, after taking into account the negotiation process and Tencent's internal approval process. The Tencent Delegation and the Proposed Delegation are independent of each other and are not inter-conditional. The Tencent Delegation will not affect the Completion.

2.7 Information Regarding the Group and Mr. FU

(i) The Group

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.

(ii) Mr. FU

Mr. FU is the chief executive officer and director of Cheetah. He has been responsible for the daily operation and overall management of Cheetah Group since he joined the Group in November 2010.

3. PROPOSED INVESTMENT IN ROBOTICS BUSINESS

3.1 The Capital Injection Agreement

On 26 May 2017, Beijing Security Software entered into the Capital Injection Agreement with Mr. FU, the Target Company, Shougang Fund, Pingtan Dingfu, Purple Cow, Kangyuan Heart and ZHANG Wenlong in relation to the Capital Injection. Pursuant to the Capital Injection Agreement, Beijing Security Software, Pingtan Dingfu and Kangyuan Heart agreed to subscribe for RMB4,545,455, RMB45,455 and RMB39,773 in the registered capital of the Target Company in consideration of respective RMB amounts equivalent to US$40 million, US$0.4 million and US$0.35 million (equivalent to approximately HK$310.25 million, HK$3.10 million and HK$2.71 million, respectively). Further, the Beijing Security Software Warrant was granted to Beijing Security Software, subject to the terms and conditions as set out in the Capital Injection Agreement.

The principal terms of the Capital Injection Agreement are summarized as follows:

Date:	26 May 2017
Parties:	(i) Beijing Security Software, Pingtan Dingfu and Kangyuan Heart (as the new investors); (ii) the Target Company (as the company); and (iii) Mr. FU, ZHANG Wenlong, Shougang Fund and Purple Cow (as the existing shareholders)
Registered Capital:	Upon completion of the Capital Injection, the registered capital of the Target Company will be increased by RMB4,630,683 to RMB15,381,083.
Capital Injection:	Beijing Security Software agreed to subscribe for RMB4,545,455 in the registered capital of the Target Company in a consideration of a RMB amount equivalent to US$40 million (equivalent to approximately HK$310.25 million), representing approximately 29.55% of the registered capital of the Target Company upon completion of the Capital Injection assuming there is no other change in the registered capital of the Target Company. Pingtan Dingfu agreed to subscribe for RMB45,455 in the registered capital of the Target Company in a consideration of a RMB amount equivalent to US$0.4 million (equivalent to approximately HK$3.10 million), representing approximately 0.30% of the registered capital of the Target Company upon completion of the Capital Injection assuming there is no other change in the registered capital of the Target Company. Kangyuan Heart agreed to subscribe for RMB39,773 in the registered capital of the Target Company in a consideration of a RMB amount equivalent to US$0.35 million (equivalent to approximately HK$2.71 million), representing approximately 0.26% of the registered capital of the Target Company upon completion of the Capital Injection assuming there is no other change in the registered capital of the Target Company.
Consideration:	The consideration for the Capital Injection represents the investment price of US$8.8 (equivalent to approximately HK$68.3) for RMB1.0 in the registered capital of the Target Company, which was determined after arm's length negotiations between the parties having taken into account, among others, the following factors:

- ***the previous investment price in the Target Company***

  The investment price of the Proposed Investment is equivalent to each of the prices in relation to the prior equity investments by Shougang Fund and Purple Cow in the Target Company, respectively, all being US$8.8 for RMB1.0 in the registered capital of the Target Company. For the backgrounds of Shougang Fund and Purple Cow, please refer to the paragraph headed “3.6 Information regarding the parties”.

  The previous investment price from independent third parties in the Target Company, in particular Shougang Fund, is the key reason for the parties to determine the investment price of the Capital Injection. Although the terms of agreements of previous investments by Shougang Fund and Purple Cow are not exactly the same with the Capital Injection Agreement (e.g. the Capital Injection Agreement is associated with the Beijing Security Software Warrant and the Mr. FU’s Option), the nature of previous investments of the Shougang Fund and Purple Cow is comparable with each other. Accordingly, the previous investment prices (as recent transactions) can provide reference for the “market price” of equity investment in the Target Company.

  Beijing Security Software believes that Shougang Fund, the ultimate beneficial owner of which is Shougang Group as a large PRC state-owned enterprise with stringent internal control measures (especially in equity investments) in compliance with relevant PRC laws and regulations, had negotiated the previous investment price with the Target Company on an arm’s length basis.

- ***huge opportunities in Chinese artificial intelligence market***

  Artificial intelligence (AI) technologies have emerged as one of the most important technological advancement in recent years and have broad applications in many different areas.

  Voice interactive operating system, i.e., to command a smart device to perform certain tasks by giving direct voice instructions, can be much more efficient than by typing a series of command on keyboard or clicking through a series of menus. It could potentially become the new entrance point of internet and internet of things and represents a major business opportunity that has not been explored previously. In the United States, Echo, a smart speaker powered by AI-based voice interactive operating system called Alexa, has achieved huge commercial success.

  It is believed that the mobile users can readily become the end users of voice interactive operating system. Considering the number of mobile users is large, even though the AI technologies related market is still at its infant stage, it is growing rapidly fuelled by the fast development in voice recognition and natural language processing technologies.

- ***the need for Cheetah to quickly enter into AI field***

  Cheetah's main business is to develop mobile utility applications and generate advertising revenues by displaying advertisements on its mobile utility applications delivered from third party advertising platform. As shown in its latest quarterly earnings release, Cheetah's main business is approaching a mature stage and the relevant revenues start to flat out. It needs to quickly identify and enter into a new field with large growth potential. AI is the emerging trend that is closely related to Cheetah's business. Investment in an AI company with well-established technologies and fully functional team is an efficient way to quickly build up presence in AI technologies. The competitive landscape changes constantly and not entering into the AI field could potentially leave Cheetah in a very disadvantaged position a couple of years later.

- ***the prospects of the Target Company's robotics business***

  The Target Company has been developing far-field voice interactive operating system and robotics. The first product with the Target Company's far-field voice interactive operating system, Xiaoya AI Speaker, was released on 20 June 2017 and is on sale. The intelligent robots are expected to be launched in 2019.

  The Target Company's voice interactive operating system can be deployed on smart speakers, smart TVs, car speakers, toys, and other places that can receive voice instructions from end users. Through internet, the system can be connected to various content and service providers, including music, audiobooks, audios speech, ecommerce, weather services, which allows end users to access these content or services by just giving voice instructions. It is expected that the voice interaction is more convenient and natural for people to communicate with computers.

  One of the core technologies of the Target Company is its far-field voice recognition technology. Far-field voice recognition technology is a term opposite to "near-field" voice recognition technology. In a "near-field" scenario, the microphone is close to the users mouth which means a clear signal and less ambient noise, while in a "far-field' scenario, the source of the voice can be several meters away from microphones and much noiser. The Target Company's other technologies include natural language understanding, which is also driven by AI and allows the voice interactive system to parse the words recognized and take the corresponding actions. In addition, the Target Company's text to speech technology allows its voice interactive system to output information by speaking with users in a natural and pleasant tone.

  As of the Latest Practicable Date, the Target Company has made significant progress in commercializing its technologies. It has already signed a cooperation agreement with a major voice content provider in China to deploy its voice interactive operating system in the smart speakers of the content provider. The AI speaker product, Xiaoya AI Speaker, was released on 20 June 2017 and is on sale.

  The Target Company expects to generate revenues from the sale of hardware and services of its voice interactive operating system and share revenues with business partners from the sale of paid internet content through such platform.

- ***the competency and background of the core employees of the Target Company***

  Talents are key assets to an AI company. The core technology team of the Target Company consists of leaders and talents in the relevant fields, who have accumulated years of experience in leading enterprises in their respective expertise. For example, several dozen core team members of the Target Company in respect of the voice technology have all worked with leaders of top companies in this area for years and have been equipped with vast experiences in the AI field. The team is highly sought after by several major technology companies in China, and a "hire by acquire" approach is a reasonable way to acquire and keep the talent pool.

  The voice technology is the technology that allows a computer to recognize and understand different spoken words and users could command a smart device to perform certain tasks by giving direct voice instructions in distance through far-field voice technology. Through the voice interactive platform, users could perform searches, control software applications, call up music tracks and radio stations, control smart devices such as light bulbs, etc. with their voice.

In order to assess the fairness and reasonableness of the consideration, the Board has further engaged Crowe Horwath First Trust Appraisal Pte Ltd ("**Crowe Horwarth**"), a valuer independent to the Group, to conduct the valuation of 100% equity interest of the Target Company (the "**Valuation**") as at 30 June 2017 (the "**Valuation Date**"). Pursuant to the valuation report issued by Crowe Horwarth dated 12 September 2017 (the "**Valuation Report**"), the market value of the Target Company as at the Valuation Date was RMB772.40 million (equivalent to approximately HK$876.03 million).

Based on the Target Company's existing total registered capital of RMB10,750,400 and the above appraised market value, RMB1.0 in the registered capital of the Target Company represents the appraised price of approximately US$10.46 (equivalent to approximately HK$81.13). The investment price of US$8.8 in the Capital Injection for RMB1.0 in the registered capital of the Target Company represents a discount of 15.87% to the above appraised price of US$10.46.

Based on the above, the Directors consider the consideration for the Capital Injection is fair and reasonable.

Beijing Security Software shall, at its sole discretion, either (a) pay all the consideration to the Target Company in cash; or (b) pay the outstanding consideration to the Target Company after offsetting the loan in the principal amount in RMB equivalent to US$3 million and other loans (together with the interests incurred) granted by Beijing Security Software to the Target Company.

Beijing Security Software Warrant: Within two years after the closing of the Capital Injection, provided that the Proposed Delegation remains effective under the Voting Proxy Agreement, Beijing Security Software is entitled to subscribe for the registered capital of the Target Company with an equivalent value of up to US$62 million (equivalent to approximately HK$480.89 million) at the price for the Capital Injection (i.e. US$8.8 (equivalent to approximately HK$68.3) for RMB1.0 in the registered capital of the Target Company, subject to any adjustment due to any subsequent share split, share consolidation, share dividend, anti-dilution or other actions that may affect the exercise price).

For the avoidance of doubt, Beijing Security Software shall still enjoy the Beijing Security Software Warrant if the Proposed Delegation is revoked as a result of the Relevant Event(s). The "Relevant Event(s)" refer to the occurrence of any of following situations:

(i) the Company disposes of its shares in Cheetah pursuant to the Voting Proxy Agreement and the actual voting power delegated to Mr. FU under the Proposed Delegation decreases accordingly. If all such shares are disposed by the Company, the voting power delegated to Mr. FU will decrease to naught; or

(ii) the Company revokes the Proposed Delegation pursuant to the Voting Proxy Agreement on the grounds that (a) Mr. FU becomes in breach of his non-competition undertaking under the Voting Proxy Agreement in material respects; or (b) Mr. FU ceases to serve as a director or senior management role in Cheetah due to (x) his voluntary resignation, or (y) violation of applicable laws and regulations which materially and adversely affects Cheetah.

Notwithstanding the above entitlement, should (i) there be a round of equity financing with a pre-money valuation in the Target Company of US$500 million and financing proceeds of at least US$10 million within two years after the closing of the Capital Injection (the "**Qualified Financing**"); and (ii) Beijing Security Software chooses to exercise the Beijing Security Software Warrant in whole or in part, unless all shareholders of the Target Company reach a consensus, Beijing Security Software shall exercise no less than 80% of the Beijing Security Software Warrant (i.e. US$49.6 million) (equivalent to approximately HK$384.71 million) prior to the closing of the Qualified Financing.

Mr. FU's Option: If the Company revokes part or all of the Proposed Delegation, Mr. FU shall be entitled to purchase from Beijing Security Software part or all shares of the Target Company issued through exercise of the Beijing Security Software Warrant ("**Beijing Security Software Warrant Shares**") at a price determined by the higher value of (a) the fair market value of the Beijing Security Software Warrant Shares as determined by an independent valuer which is appointed by Beijing Security Software and Mr. FU, or (b) the exercise price paid by Beijing Security Software to acquire such Beijing Security Software Warrant Shares under the Beijing Security Software Warrant plus the interests incurred thereof at a simple interest of 8% per annum.

The simple interest of 8% per annum was determined upon arm's length negotiations between the parties with reference to the previous investment returns of Cheetah Group's other investments in independent third parties. The Board believes that the simple interest of 8% per annum is not less favorable than the previous investment returns of Cheetah Group's other investments in independent third parties. For the avoidance of doubt, Mr. FU shall not be entitled to Mr. FU's Option if the Proposed Delegation is revoked as a result of the Relevant Event(s).

The exercise of Mr. FU's Option is at Mr. FU's discretion, subject to the conditions as ascribed under the Capital Injection Agreement.

Conditions Precedent: Beijing Security Software shall complete its obligations under the Capital Injection Agreement subject to the fulfilment of the following conditions precedent:

(a) approval from the Independent Shareholders in connection with the Capital Injection Agreement and the transactions contemplated thereunder;

(b) completion of due diligence to the satisfaction of Beijing Security Software;

(c) execution of the entrustment agreement between the Target Company, Mr. FU and ZHANG Wenlong in form and substance to the satisfaction of Beijing Security Software, pursuant to which ZHANG Wenlong shall agree to hold 13% of the shares of the Target Company upon completion of the Capital Injection for the potential ESOP platform, and ZHANG Wenlong shall agree to delegate the voting rights attached to the 13% shares to Mr. FU;

(d) representations and warranties made by each of the existing shareholders of the Target Company and the Target Company being true, correct and complete;

(e) no breach of the transaction documents in relation to the Capital Injection Agreement by each of the existing shareholders of the Target Company and the Target Company;

(f) all corporate procedures and other proceedings (if any) in relation to the Capital Injection Agreement being duly completed;

(g) approvals, consents, permits, registrations and waivers necessary for consummation of the Capital Injection being obtained by each of the existing shareholders of the Target Company and the Target Company;

(h) execution and delivery of each of the transaction documents by each of the existing shareholders of the Target Company and the Target Company;

(i) execution of a confirmation letter between Mr. FU and the Target Company in relation to the interest-free loan provided by Mr. FU to the Target Company in form and substance to the satisfaction of Beijing Security Software;

(j) no material adverse effect since the date of the Capital Injection Agreement;

(k) the proposed board composition of the Target Company (including one director nominated by Beijing Security Software and two members nominated by Mr. FU) having been approved by the Target Company;

(l) submission of a detailed business plan and budget by the Target Company and its subsidiaries for the twelve months following the closing of the Capital Injection in form and substance to the satisfaction of Beijing Security Software;

(m) submission of an unaudited financial report up to 31 May 2017 by the Target Company and its subsidiaries to Beijing Security Software in form and substance to the satisfaction of Beijing Security Software;

(n) issue of legal opinion from the PRC counsel of the Target Company in form and substance to the satisfaction of Beijing Security Software;

(o) execution of waiver of right of first refusal by the existing shareholders of the Target Company in form and substance to the satisfaction of the new investors; and

(p) execution and delivery of a closing certificate by each of the existing shareholders of the Target Company and the Target Company, indicating whether the above conditions precedent have been satisfied or waived in written by the new investors.

All the conditions precedent of the Capital Injection is waivable by Beijing Security Software. Nevertheless, Beijing Security Software will not waive the Independent Shareholders' approval at the Company's EGM in any event, and no other waivers will affect the substance of the Capital Injection. As of the Latest Practicable Date, the condition set out in paragraph (b) has been fulfilled. Save as disclosed above, none of other above conditions precedent has been fulfilled or waived as of the Latest Practicable Date.

3.2 Summary of the Valuation Report

According to the Valuation Report, Crowe Horwarth adopted discounted cash-flow method to value the equity interest of the Target Company.

The assumptions Crowe Horwath considered in the Valuation included, but were not limited to, the followings:

- The assumption that the Target Company and its subsidiaries (the "**Target Group**") are expected to run the existing content distribution business;
- The assumption that the Target Group is expected to develop the robot business successfully and start record growth in 2019;
- The general robot demand market will show relatively fast growth in the coming projection period; and
- The assumption that the Target Group is expected to obtain proper financing to supporting its future expansion;

The factors Crowe Horwath considered in the Valuation included, but were not limited to, the followings:

- The nature and history of the Target Group;
- The financial conditions of the Target Group;
- Operation and financial risks of the Target Group;
- Environmental policies set by the government that pertains to the Target Group;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of the Target Group including the continuity of income and the projected future results.

Please refer to Appendix I to this circular for details of the Valuation Report.

In accordance with paragraph 29(2) of Appendix 1B to the Listing Rules, ZHONGHUI ANDA CPA Limited ("**ZHONGHUI ANDA**"), has reviewed the calculations upon which the Valuation set out in the Valuation Report is based. The letter issued by ZHONGHUI ANDA in respect of the calculations upon which the Valuation is based is set out in Appendix II to this circular.

In accordance with paragraph 29(2) of Appendix 1B to the Listing Rules, the Board has reviewed the Valuation and confirms that the Valuation has been made by the Board after due and careful enquiry. The letter from the Board is set out in Appendix III to this circular.

3.3 Information of the Target Company

The Target Company is a company established in the PRC in September 2016, whose principal businesses include the research and development and sale of the intelligent voice system and intelligent robots. The first product with the Target Company's far-field voice interactive operating system, Xiaoya AI Speaker, was released on 20 June 2017 and is on sale. Through the voice interactive platform, users could command a smart device (i.e. the light, television, oven, etc.) to perform certain tasks by giving direct far-field voice instructions, which will bring convenience to daily life. Starting from the second half of 2017, the Target Company expects to generate revenues from the sale of hardware and services of its far-field voice control & assistant system and share revenues with business partners from the sale of internet content through such system.

Further, the Target Company expects to launch its first intelligent robot in 2019. The target consumers of the intelligent robots are intended to be the consumers who are able to afford and are interested in new cutting-edge high-tech devices. The intelligent robots will interact with users for entertainment purpose, including provision of online content (such as music, news, online searches, etc.) and vocal interactions (such as chatting with users). Moreover, they are expected to perform more complicated tasks which are able to provide certain functional services to users.

A summary of the unaudited financial results of the Target Company for the period from its establishment to 31 December 2016 and the six months ended 30 June 2017 is as follows:

	From its establishment to 31 December 2016	**Six months ended 30 June 2017**
	RMB'000	*RMB'000*
Profit before tax	–27, 750.34	–56,631.97
Profit after tax	–27, 750.34	–56,631.97

The unaudited total assets and net assets of the Target Company as at 30 June 2017 amounted to approximately RMB37.21 million and RMB–39.39 million, respectively.

The above financial information is extracted from the unaudited management accounts of the Target Company, which was prepared under PRC Generally Accepted Accounting Principles.

The Target Company has not yet generated any turnover as the first product with the Target Company's intelligent voice technology has just been recently released and the intelligent robots are currently at the research and development stage.

The table below sets out the shareholding structure of the Target Company on the assumption that there is no other change in the shareholding structure of the Target Company from the Latest Practicable Date to the date of full exercise of the Beijing Security Software Warrant:

	As of the Latest Practicable Date		**Immediately upon completion of the Capital Injection**		**Immediately upon full exercise of the Beijing Security Software Warrant**	
	Registered Capital *(RMB)*	Percentage	Registered Capital *(RMB)*	Percentage	Registered Capital *(RMB)*	Percentage
Mr. FU	8,000,000	74.42%	8,000,000	52.01%	8,000,000	35.67%
ZHANG Wenlong *	2,000,000	18.60%	2,000,000	13.00%	2,000,000	8.92%
Shougang Fund	568,600	5.29%	568,600	3.69%	568,600	2.53%
Purple Cow	181,800	1.69%	181,800	1.18%	181,800	0.81%
Pingtan Dingfu	—	—	45,455	0.30%	45,455	0.20%
Kangyuan Heart	—	—	39,773	0.26%	39,773	0.18%
Beijing Security Software **	—	—	4,545,455	29.55%	11,590,909.55	51.68%
Total registered capital	**10,750,400**	**100%**	**15,381,083**	**100%**	**22,426,537.55**	**100%**

Note:

* Pursuant to the Capital Injection Agreement, ZHANG Wenlong shall transfer his equity interests in the Target Company to an ESOP platform to be established upon completion of the Capital Injection. The ESOP platform is a designated entity agreed by the shareholders of the Target Company, which is expected to be an independent third party of the Company and its connected person.

** Under the Proposed Investment, Beijing Security Software agreed to subscribe for RMB4,545,455 in the registered capital of the Target Company. On the assumption that the exercise price of the Beijing Security Software Warrant is US$8.8 (equivalent to approximately HK$68.3) for RMB1.0 in the registered capital of the Target Company and the Beijing Security Software Warrant is fully exercised, Beijing Security Software will further subscribe for RMB7,045,454.55 in the registered capital of the Target Company under the Beijing Security Software Warrant.

*** The shareholding percentages in the above table have been subject to rounding adjustments.

Upon Completion and completion of the Proposed Investment, the Target Company would be accounted for as a joint venture of Cheetah, and Cheetah would be an associate of the Company. Upon Completion and full exercise of the Beijing Security Software assuming there is no other change in the share capital of the Target Company from the Latest Practicable Date to the exercise date, the Target Company would be accounted for as a subsidiary of Cheetah, and Cheetah would continue to be an associate of the Company.

3.4 Reasons for and Benefits of the Proposed Investment

The Target Company is primarily engaged in the research, development and sale of the intelligent voice system and intelligent robots. Cheetah sees great potentials in the Target Company. Cheetah's main business is to develop mobile utility applications and generate advertising revenues by displaying advertisements on its mobile utility applications delivered from third party advertising platform. As shown in its latest quarterly earnings release, Cheetah's main business is approaching a mature stage and the relevant revenues start to flat out. It needs to quickly identify and enter into a new field with large growth potentials. AI is the emerging trend that is closely related to Cheetah's business. Investment in an AI company with well-established technologies and fully functional team is an efficient way to quickly build up presence in AI technologies. Having considered the functions and prospects of the intelligent voice system and intelligent robots of the Target Company as elaborated above, the Company believes that through investment in the Target Company by Beijing Security Software, Cheetah will open a new frontier in the robotics industry, allowing it to seize new business development opportunities, which in turn will bring long-term shareholder values to the Company and its Shareholders as a whole.

By virtue of both being major shareholders in the Target Company, the Proposed Investment will align Cheetah with Mr. FU more closely. On one hand, Mr. FU will supervise the management and operation of the Target Company, as a shareholder of the Target Company and senior management of Cheetah. On the other hand, Mr. FU will focus more on the management and operation of Cheetah Group, considering that the Target Company will be likely to become a subsidiary of Cheetah upon exercise of the Beijing Security Software Warrant.

The Directors consider that the terms of the Capital Injection Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

3.5 Listing Rules Implications

As of the Latest Practicable Date, Mr. FU held approximately 74.42% equity interest in the Target Company. The Target Company is an associate of Mr. FU and a connected person of the Company under the Listing Rules. The Proposed Investment constitutes a connected transaction of the Company. As one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Proposed Investment exceeds 1%, the Proposed Investment is subject to notification and announcement requirements under Chapter 14A of the Listing Rules. Further, the Proposed Investment is a transaction under Chapter 14 of the Listing Rules. As all of the applicable percentage ratios do not exceed 5%, the Proposed Investment is exempt from the disclosure requirements under Chapter 14 of the Listing Rules. The Proposed Investment is subject to the Independent Shareholders' approval as the signing of the Capital Injection Agreement is a condition precedent to the Proposed Delegation.

With respect to the exercise of the Beijing Security Software Warrant, the Company will comply with the applicable requirements of the Listing Rules (if any) when Beijing Security Software exercises the Beijing Security Software Warrant in part or in whole, provided that Beijing Security Software is a subsidiary of the Company at the time being.

With respect to the grant of Mr. FU's Option, as the option is exercisable at the discretion of Mr. FU subject to certain conditions as specified in the Capital Injection Agreement, the Company will submit the grant of Mr. FU's Option and the possible transaction contemplated thereunder as part of the Proposed Investment for the Independent Shareholders' approval at the EGM.

3.6 Information Regarding the Parties

Mr. FU is a founder of the Target Company.

Shougang Fund is mainly engaged in investment. The ultimate beneficial owner of Shougang Fund is Shougang Group, a large PRC state-owned enterprise which principally engages in manufacture of iron and steel, and at the same time other comprehensive business including mineral exploitation, equipment manufacturing, real estate, trans-regional trading, etc..To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of Shougang Fund and Shougang Group is a third party independent of the Company and its connected persons.

Purple Cow is mainly engaged in investment. Mr. FU, as a limited partner of Purple Cow, held less than 30% interest in Purple Cow as of the Latest Practicable Date. To the best of the Director's knowledge, information and belief having made all reasonable enquiry, Purple Cow, all limited partners of Purple Cow (other than Mr. FU), the general partner of Purple Cow and their ultimate beneficial owners (if any) are third parties independent of the Company and its connected person.

Pingtan Dingfu is mainly engaged in investment. The ultimate beneficial owner of Pingtan Dingfu is Mr. Huang Mingming, a PRC citizen. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of Pingtan Dingfu and Mr. Huang Mingming is a third party independent of the Company and its connected persons.

Kangyuan Heart is mainly engaged in investment. The ultimate beneficial owners of Kangyuan Heart are Shougang Group (as the ultimate controlling person of the general partner of Kangyuan Heart) and employees of Shougang Fund (as limited partners of Kangyuan Heart). To the best of the Director's knowledge, information and belief having made all reasonable enquiry, Kangyuan Heart, all of its limited partners, its general partner and their ultimate beneficial owners (if any) are third parties independent of the Company and its connected persons.

ZHANG Wenlong is a PRC citizen. He is not an employee of the Target Company and holds the shares on behalf of its employees as designated by the Target Company. To the best of the Director's knowledge, information and belief having made all reasonable enquiry, ZHANG Wenlong is a third party independent of the Company and its connected persons.

4. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 33 to 34 of this Circular which contains its recommendation to the Independent Shareholders on the terms of the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction 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 35 to 54 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 Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder), the casting of votes for or against the resolutions approving the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder), as well as the principal factors and reasons considered by it in concluding its advice.

As of the Latest Practicable Date, Mr. FU can exercise the voting right in respect of 141,000 Shares at the Company's general meeting, representing 0.01% equity interest in the Company. In view of his interest in the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder), Mr. FU will abstain from voting in favour of the resolutions approving the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder).

Save as disclosed above, to the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no other Shareholder or any of their respective associates have material interest in the Proposed Delegation or the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder), thus no other Shareholder is required to abstain from voting in favour of the resolution approving the Proposed Delegation or the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder).

None of the Directors was considered to have a conflict of interest in the Proposed Delegation or the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder). Therefore, none of the Directors was required to abstain from voting at the resolutions in relation to the Voting Proxy Agreement or the Capital Injection Agreement.

The Directors consider that the terms of the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder) are fair and reasonable and in the interest 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.

5. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices 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, 14 September 2017

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS: PROPOSED DELEGATION OF VOTING RIGHTS IN CHEETAH; AND PROPOSED INVESTMENT IN ROBOTICS BUSINESS

We refer to the circular issued by the Company to its Shareholders dated 14 September 2017 (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 Proposed Delegation constitutes a major and connected transaction of the Company and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder) constitutes a connected transaction of the Company.

We have been appointed by the Board to consider the terms of the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder) and to advise the Independent Shareholders in connection therewith and as to whether, in our opinion, the terms of the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder) are fair and reasonable, and whether the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction 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 Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder) are fair and reasonable, and the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder) is on normal commercial terms, not in the ordinary and usual course of business of the Group. In view of the above, we consider that the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction thereunder) are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions approving the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Option and the possible transaction 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

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 Delegation and the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder) for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

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

14 September 2017

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

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTIONS PROPOSED DELEGATION OF VOTING RIGHTS IN CHEETAH AND PROPOSED INVESTMENT IN ROBOTICS BUSINESS

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 Delegation and the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder), details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 14 September 2017 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 February 2017, the Company entered into the Voting Proxy Agreement with Mr. FU, the chief executive officer and director of Cheetah, to delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah to Mr. FU (as the representative of the management of Cheetah), subject to certain conditions.

On 26 May 2017, Beijing Security Software entered into the Capital Injection Agreement with Mr. FU, the Target Company, Shougang Fund, Pingtan Dingfu, Purple Cow, Kangyuan Heart and ZHANG Wenlong in relation to the Capital Injection. Pursuant to the Capital Injection Agreement, Beijing Security Software, Pingtan Dingfu and Kangyuan Heart agreed to subscribe for RMB4,545,455, RMB45,455 and RMB39,773 in the registered capital of the Target Company in consideration of respective RMB amounts equivalent to US$40 million, US$0.4 million and US$0.35 million. Further, the Beijing Security Software Warrant was granted to Beijing Security Software, subject to the terms and conditions as set out in the Capital Injection Agreement.

With reference to the Board Letter, the Proposed Delegation constitutes deemed disposal, major and connected transaction of the Company and is therefore subject to notification, announcement and independent shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules. The Proposed Investment also constitutes a connected transaction of the Company.

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 Delegation and the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder) are 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 Delegation and the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder) 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

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.

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 Delegation and the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder). 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.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group and the Target Company and we have not been furnished with any such evaluation or appraisal, save as and except for the Valuation Report on the Target Company as set out in Appendix I to the Circular. The Valuation Report was prepared by Crowe Horwarth, and is in compliance with the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors and International Valuation Standards published by the International Valuation Standards Council. Since we are not experts in the valuation of companies, we have relied solely upon the Valuation Report for the market value of the Target Company as at 30 June 2017 (i.e. the Valuation Date).

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, Cheetah, the Target Company or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder). 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Delegation (including the Proposed Investment), we have taken into consideration the following principal factors and reasons:

I. THE PROPOSED DELEGATION

1. Background of and reasons for the Proposed Delegation

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 *(audited)* *RMB in million*	**For the year ended 31 December 2015** *(audited)* *RMB in million*	**For the year ended 31 December 2014** *(audited)* *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 *(unaudited)* *RMB in million*	**For the six months ended 30 June 2016** *(unaudited)* *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

As illustrated in the above tables, Cheetah Group was a substantial revenue source of the Group. 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 2014 ("**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, 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).

As stated in the 2016 Annual Report, driven by the steady and sustained revenue growth generated by its utility applications, total revenue, mobile revenue and overseas revenue of Cheetah Group all hit record highs in the fourth quarter of 2016. Cheetah Group implemented a number of strategic initiatives in 2016, particularly in its content strategy, to counter the headwinds its business faced early in the year. Looking ahead, Cheetah Group will remain focused on connecting its over 600 million global mobile monthly active users with more personalized and richer content by capitalizing on emerging artificial intelligence technologies to establish a sustainable and profitable business model for the long term.

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.

During the six months ended 30 June 2017, the operation of Cheetah Group is reclassified as a discontinued operation of the Group. The discontinued operation of the Group was involved in research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices through Cheetah Group.

Information on Cheetah Group

With reference to the Board Letter, Cheetah is a non-wholly-owned subsidiary of the Company, whose American depositary shares, each representing 10 class A ordinary shares in Cheetah, have been listed on the New York Stock Exchange in the United States of America since May 2014. Cheetah Group primarily engages in research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices.

Set out below is the consolidated financial results of Cheetah Group for the three years ended 31 December 2016 and the six months ended 30 June 2017:

	For the year ended 31 December 2016 (audited) RMB'000	For the year ended 31 December 2015 (audited) RMB'000	For the year ended 31 December 2014 (audited) RMB'000	Change from 2015 to 2016 %
Revenue	4,564,650	3,773,877	1,763,579	20.95
Gross profit	3,020,833	2,817,524	1,360,167	7.22
Income/(loss) before taxes	(68,896)	238,377	90,904	N/A
Net income/(loss)	(56,707)	174,637	66,911	N/A

	For the three months ended 30 June 2017 (unaudited) RMB '000	For the three months ended 31 March 2017 (unaudited) RMB '000
Revenue	1,201,561	1,190,703
Gross profit	740,472	732,750
Income before taxes	78,020	95,462
Net income	73,356	90,550

As illustrated in the above table, Cheetah Group experienced substantial growth in revenue, gross profit and net income from FY2014 to FY2015. The growth in revenue and gross profit continued in FY2016. Nevertheless, Cheetah Group recorded loss before taxes and net loss for FY2016 primarily due to:

(a) Cost of revenues increased by 61.4% year over year to RMB1,543.8 million (a) in 2016, which was primarily driven by increased investments in content for Cheetah Group's content-driven applications, higher bandwidth and internet data center costs associated with increased user traffic worldwide, and data analytics. The content-driven products focus on providing users with online content in various forms (e.g., articles, news, videos) and content-related services, such as News Republic, a global personalized news content application, and Live.me, a global live video streaming application;

(b) Research and development expenses increased by 30.3% year over year to RMB905.9 million in 2016, which was primarily driven by an increase in personnel-related costs associated with the Company's increased investments in big data analytics and new product development, particularly the development of new content-driven mobile applications and services;

(c) Selling and marketing expenses increased by 9.6% year over year to RMB1,650.6 million in 2016, primarily due to increased product promotional activities for the content-driven applications, which was partially offset by reduced spending on product activities for utility applications; and

(d) Other expenses, net recorded RMB56.4 million in 2016 compared to other income, net of RMB21.5 million in 2015. Other expenses, net mainly resulted from impairment loss on previous long-term strategic equity investments in certain internet and technology companies recognized in 2016, which was partially offset by some disposal gain of investment.

The content-driven products were new business initiatives and a new focus for Cheetah, which started to generate revenue in the second quarter of 2016. These businesses were at investment stage in FY2016 and did not generate sufficient revenue to offset the related costs and expenses, which caused more than RMB500 million losses (excluding share-based compensation expenses) for Cheetah in FY2016.

Cheetah Group recorded net income of approximately RMB90.55 million for the three months ended 31 March 2017 and approximately RMB73.36 million for the three months ended 30 June 2017.

Assuming there is no other change in the shareholding structure of Cheetah from the Latest Practicable Date to the completion of the Proposed Delegation and the Tencent Delegation, the equity interest and voting power of the shareholders in Cheetah will be as follows:

	As of the Latest Practicable Date		As of the date of the completion of the Proposed Delegation and the Tencent Delegation *(Note 1)*	
	Equity interest	**Voting power**	**Equity interest**	**Voting power**
The Company	**46.8%**	**63.2%**	**46.8%**	**25.2%**
Tencent	16.3%	21.1%	16.3%	16.6%
Mr. FU *(Note 2)*	6.8%	6.0%	6.8%	48.5%*(Note 3)*
Cheetah's core management (excluding Mr. FU)	3.5%	3.1%	3.5%	3.1%
Mr. FU and Cheetah's core management (excluding Mr. FU)	10.3%	9.1%	10.3%	51.6%
Other shareholders	26.6%	6.6%	26.6%	6.6%

Notes:

1. *This table is prepared on the assumption that the Proposed Delegation and the Tencent Delegation complete simultaneously for illustration purpose only. For details of the Tencent Delegation (including the status and expected timetable), please refer to the paragraph headed "2.6 The Tencent Delegation" under the Board Letter.*

2. *The calculation of equity interest percentage and voting power percentage of Mr. FU in Cheetah has included the vested but unissued shares granted to Mr. FU under the ESOP plans of Cheetah.*

3. *The 48.5% voting power held by Mr. FU includes 38.0% voting power delegated by the Company, 4.5% voting power delegated by Tencent, and 6.0% voting power owned by himself.*

Information on Mr. FU

According to the 2016 Annual Report, Mr. FU is currently a senior vice president of the Company and the CEO of Cheetah who is responsible for the overall internet security business of the Group. Mr. FU joined the Company in November 2010. Mr. FU was the product manager of 3721 Internet Real Name and 3721 Internet Assistant, as well as the general manager of 360 Security Guard. He was the vice president of Matrix Partners China from November 2008, and CEO and chairman of Conew Network Technology

(Beijing) Co., Ltd. from September 2009. Mr. FU co-founded Purple Bull Startups with other partners in September 2015, which has been dedicating to angel investment and incubation for early stage start-ups. Mr. FU has become a senior vice president of the Company since 7 March 2011. Mr. FU graduated from the faculty of Information Management and Information System in Shandong Institute of Business and Technology in 1999.

Principal terms of the Voting Proxy Agreement

On 12 February 2017, the Company entered into the Voting Proxy Agreement with Mr. FU, the chief executive officer and director of Cheetah, to delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah to Mr. FU (as the representative of the management of Cheetah), subject to certain conditions. The principle terms of the Voting Proxy Agreement are summarized as follows:

Date: 12 February 2017

Parties:

(i) the Company; and

(ii) Mr. FU

Delegated voting rights: the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah

Consideration and conditions:

(i) Mr. FU will not participate or have any direct investment in any business which may compete with the principal businesses of Cheetah Group and the Group; and

(ii) Mr. FU will use his best endeavour to procure that the core management team of Cheetah Group will remain stable.

The consideration and conditions for the Proposed Delegation were determined after arm's length negotiations between the Company and Mr. FU, taking into account the factors set out in the paragraph headed "2.3 REASONS FOR AND BENEFITS OF THE PROPOSED DELEGATION" in the letter from the Board of the circular.

Revocation: In the event that the Company forms a view that Mr. FU may have become in breach of the Undertakings, the Company will, within 10 business days, notify Mr. FU in writing to request that Mr. FU ceases and rectifies the breach. If Mr. FU fails to do so within 10 business days upon receipt of such notice, the Company has the right to revoke the Proposed Delegation by way of a written notice, and the Voting Proxy Agreement will be terminated as such.

The Board will take into account various factors to determine whether to revoke the Proposed Delegation. Such factors include but not limited to (a) the seriousness of the breach and the likely negative impact of such breach on the Company and Cheetah Group; (b) the then business scope, development and operation of the Company and Cheetah Group; and (c) the economic and financial impact on the Company and Cheetah Group as a result of the revocation of the Proposed Delegation.

The effective date of the revocation will be determined by the Company and be set out in the written notice, which is to be determined after taking into account of various factors, such as the time required for the Company to comply with the applicable compliance obligations (if any) under the Listing Rules in connection with the revocation.

The Company will comply with the applicable requirements of the Listing Rules if the Board decides to or not to revoke the Proposed Delegation pursuant to the Voting Proxy Agreement.

Disposal restriction: In the event that the Company proposes to dispose of its shares in Cheetah, the Company agrees that it will dispose of its other shares in Cheetah (excluding the Delegated Shares) first. For the avoidance of doubt, the Voting Proxy Agreement does not restrict the Company from further disposing of the Delegated Shares after it has disposed of all its remaining shares in Cheetah. If a part of the Delegated Shares are disposed by the Company, the actual voting power delegated to Mr. FU under the Voting Proxy Agreement will decrease accordingly. If all Delegated Shares are disposed by the Company, the voting power delegated to Mr. FU under the Voting Proxy Agreement will decrease to naught.

Board composition: To improve Cheetah's management efficiency, the parties agree to change the composition of the board of Cheetah following completion of the Proposed Delegation and the Tencent Delegation as follows: three directors from Cheetah's management, one director designated by the Company, one director designated by Tencent and six independent directors.

Conditions precedent The Voting Proxy Agreement will become effective subject to the fulfilment of the following conditions precedent:

(i) the Independent Shareholders' approval in relation to the Proposed Delegation; and

(ii) the signing of the definitive agreement in relation to the Possible Investment between Cheetah and Mr. FU.

As at the Latest Practicable Date, condition precedent (ii) has been fulfilled through signing the Capital Injection Agreement on 26 May 2017. For details, please refer to the section headed "3. Proposed Investment in Robotics Business" in the letter from the Board of the circular.

For the avoidance of doubt, the completion of the Proposed Investment is not a condition precedent to the Completion. This is also the result of mutual negotiation between the Company and Mr. FU. The following factors have been taken into account: (a) the transaction size and financial impact of the Proposed Investment is comparatively small to the Group; (b) the Target Company's business is not a competing business of the Group and Cheetah Group; and (c) the parties, based on the current available information, are not aware of any matter that may hinder the completion of the Proposed Investment.

According to the current timetable, the parties expect that the completion of the Proposed Investment will take place immediately after the Company obtaining the Independent Shareholders' approval at the EGM and the effective date of the Proposed Delegation will be 1 October 2017.

Reasons for and benefits of the Proposed Delegation

Detailed reasons for and benefits of the Proposed Delegation are set out under the section headed "2.3 REASONS FOR AND BENEFITS OF THE PROPOSED DELEGATION" of the Board Letter.

Leadership of Mr. FU

According to the Board Letter, Mr. FU joined the Group as the CEO and director of Cheetah Group in November 2010. Mr. FU was the product manager of 3721 Internet Real Name and 3721 Internet Assistant, as well as the general manager of 360 Security Guard. He was the vice president of Matrix Partners China from November 2008, and CEO and chairman of Conew Network from September 2009. Mr. FU has become a senior vice president of the Company since 7 March 2011. Mr. FU graduated from the faculty of Information Management and Information System in Shandong Institute of Business and Technology in 1999.

Mr. FU has rich experiences in the internet industry for over 17 years. It has been demonstrated that Mr. FU's expertise in internet industry contributed a lot to the business development of internet companies by his past working experiences, in particular Cheetah Group. Since he joined the Group in 2010. Mr. FU has been responsible for the daily operation and overall management of Cheetah Group. Mr. FU has been an important leader in Cheetah Group and made several key strategic decisions to seize business opportunities that lead to Cheetah Group's current success. With the leadership of Mr. FU, Cheetah transformed into an internet company from a traditional software company, entered into the fast-expanding mobile market at an early stage from experienced but slowed-down business at PC end, and expanded its business globally. The leadership and contributions of Mr. FU played an important role in making Cheetah a NYSE listed company. Under the six-year leadership of Mr. FU, Cheetah Group has been operating successfully and developing fast. The revenue of Cheetah Group has increased more than 32 times from RMB140 million in 2011 to RMB4,564 million in 2016. Based on Mr. FU's experiences and expertise in the internet industry and his past great contribution to Cheetah Group, the Company believes that the future success of Cheetah Group depends substantially on the continued efforts of its management team and key employees, in particular, Mr. FU. Cheetah Group will maintain strong growth momentum to achieve new highs in the future under the management of Mr. FU and the management team of Cheetah.

We noticed from a summary as set out under Cheetah's annual report for the year ended 31 December 2015 that the revenue and gross profit of Cheetah Group was continuously improved from the year ended 31 December 2011 ("**FY2011**") to FY2015. Cheetah Group recorded net loss for FY2011. Since the year ended 31 December 2012 ("**FY2012**"), Cheetah Group recorded net income and the net income was continuously improved from FY2012 to FY2015. Although Cheetah Group recorded net loss for FY2016 which was mainly due to the reasons as set out under the section headed "Information on Cheetah Group" above. The Directors believe that the artificial intelligence and mobile content driven strategy of Cheetah Group will help to seize the great opportunities in the era of artificial intelligence and will bring the long-term rewards to the Shareholders. Subsequently, Cheetah Group recorded net income of approximately RMB90.55 million for the three months ended 31 March 2017 and approximately RMB73.36 million for the three months ended 30 June 2017.

Having considered the historical financial performance of Cheetah Group and Mr. FU's profile, we concur with the Directors' view on Mr. FU's importance to the Cheetah Group's operation and business development.

Flexibility in Cheetah's management

With reference to the Board Letter, the Group (excluding Cheetah Group) and Cheetah Group are leading PRC internet companies, whose businesses all require the management and operation led by the management team with professional knowledge and rich experiences. After years of business development, the Group (excluding Cheetah Group) and Cheetah Group have been exploring their respective future business development strategies. It is desirable for Cheetah Group, being a fast growing and expanding business, to develop its business and to formulate its business strategies more freely.

We noted from the memorandum of association of Cheetah that "No business except for the appointment of a chairman for the meeting shall be transacted at any general meeting unless a quorum of shareholders is present at the time when the meeting proceeds to business. At least two holders of Shares being not less than an aggregate of one-third in aggregate voting power of all Shares in issue and entitled to vote present in person or by proxy or, if a corporation or other non-natural person, by its duly authorised representative, shall be a quorum for all purposes.".

Following the completion of the Proposed Delegation and the Tencent Delegation, Mr. FU and the management team of Cheetah will control the exercise of over 50% voting power in Cheetah (which is more than the required one-third in aggregate voting power to form a quorum of shareholders as aforesaid) and will be able to exercise positive and effective control over the general meeting in Cheetah, thus allowing him and the management team of Cheetah to assert greater influence over the operation and management of Cheetah Group. With confidence in Mr. FU's leadership, the Company believes that the Proposed Delegation will facilitate the operation and management of Cheetah Group, which in turn will, through the Company's shareholding in Cheetah, bring long-term shareholder value to the Company and the Shareholders.

In addition, by virtue of being the shareholder who has the largest portion of voting rights on one hand and the senior management of Cheetah on the other hand, the core management can implement the business development strategies and fulfil the business development goal of Cheetah more efficiently, allowing the core management of Cheetah to assert greater influence over the operation and management of Cheetah Group.

With reference to the Board Letter and as confirmed by the Directors, the Directors expect Mr. Fu to exercise the voting power in accordance with the applicable laws and regulations. In addition, the Company believes that Mr. FU will exercise the voting power in the interest of Cheetah Group and its shareholders as a whole. The Company, as a shareholder of Cheetah, will monitor closely how Mr. FU exercises the voting power in Cheetah's general meeting. The Company may also consult its legal advisors on compliance with applicable laws and regulations by Mr. Fu's exercise of the voting power. Furthermore, as a public company on NYSE, Cheetah is required to have all its shareholders to vote in compliance with its memorandum of association, relevant laws and regulations, and rules of NYSE.

Besides, the parties to the Voting Proxy Agreement agree to change the composition of the board of Cheetah following completion of the Proposed Delegation and the Tencent Delegation as follows: three directors from Cheetah's management, one director designated by the Company, one director designated by Tencent and six independent directors.

With reference to the Board Letter, as of the Latest Practicable Date, Mr. FU and Tencent are in the course of negotiation on the terms of the definitive agreement in relation to the Tencent Delegation. As informed by Mr. FU, the agreement is expected to be entered into on or around the effective date of the Proposed Delegation, after taking into account the negotiation process and Tencent's internal approval process. The Tencent Delegation and the Proposed Delegation are independent of each other and are not inter-conditional. The Tencent Delegation will not affect the completion of the Proposed Delegation.

The Undertakings

Mr. FU has provided the Undertakings in favour of the Group under the Voting Proxy Agreement..

Pursuant to the Undertakings, Mr. FU shall use his best endeavour to procure that the core management team of Cheetah Group will remain stable. The core management team of Cheetah Group includes Mr. FU and Mr. Ming XU ("**Mr. XU**"), the president of Cheetah. Mr. XU has been the president of Cheetah since November 2014. Mr. XU had served as Cheetah's chief technology officer from October 2010 to February 2016. Mr. XU has more than 10 years of experience in the research and development of anti-virus and internet security. Prior to joining the Group, between September 2008 and October 2010, Mr. XU served as the chief technology officer of Conew.com Corporation. Between 2005 and August 2008, Mr. XU worked at Qihoo, where he was the technical director of 360 department, a division then in charge of developing 360 products. Between 2003 and 2005, Mr. XU worked in various Internet companies, including Yahoo! Inc. and Beijing 3721 Technology Co., Ltd. as a software engineer. Mr. XU received a master's degree and a bachelor's degree in engineering from Harbin Institute of Technology, China, in 2002 and 1999, respectively.

Mr. FU will serve as senior management or a director and devote the majority of his time to the management of Cheetah Group so long as the Proposed Delegation remains effective. Meanwhile, Mr. FU shall use his best endeavour to procure that Mr. XU will continue to serve as the senior management of Cheetah Group for at least 4 years upon Completion, except in the situation that he is unable to do so due to health reason, or that he shall cease to serve as the senior management due to his material violation of laws or internal policies, failure to perform his duties as a senior management to the satisfaction of Cheetah, or other reasons as agreed by the Company and Cheetah. Mr. FU will take the following measures to procure that the core management team of Cheetah Group will remain stable: (1) to provide competitive remuneration package (including share incentive package) to the core management team of Cheetah Group; (2) to align the career development goal of the core management team of Cheetah Group with Cheetah Group's business development strategy; and (3) to provide guidance and feedback to the core management from time to time.

As confirmed by Mr. FU, Mr. FU currently does not participate in or have any direct investment in any business (including Mr. FU's current investment in the Target Company) which may compete with the principle business of the Group or Cheetah Group. The Target Company focuses on the research, development and sale of the intelligent voice system and intelligent robot. The Company has not engaged in and will not engage in the intelligent voice system and intelligent robot business in the foreseeable future. As such, the Target Company's robotics business is not a competing business of the Company.

The Company will implement the internal control procedures to monitor Mr. FU's compliance of the Undertakings as follows:

(i) The Company is entitled to appoint one director in the board of Cheetah upon completion of the Proposed Delegation and the Tencent Delegation. The board representative nominated by the Company will monitor the corporate actions of Cheetah and evaluate Mr. FU's compliance with the Undertakings;

(ii) the Company will monitor publicly available information and information released by Cheetah to its shareholders with an aim to evaluate Mr. FU's compliance with the Undertakings;

(iii) the Board will review Mr. FU's compliance with the Undertakings on an annual basis; and

(iv) Mr. FU will provide all necessary information required (including an annual declaration on his compliance with the Undertakings) for the Board's annual review of compliance with the Undertakings.

We consider the above internal control procedures can help the Company to monitor Mr. FU's compliance of the Undertakings.

Given the above, the Undertakings will ensure the stability of Cheetah's core management team and the contribution of Mr. FU to Cheetah Group.

Focus on the Group's remaining business and no change in the Company's interest

With reference to the Board Letter, the Directors also considered that the Proposed Delegation will allow the Group to focus on its remaining business and there will be no change in the Company's equity attributable to owners as a results of the Proposed Delegation.

The Proposed Investment

As aforementioned, the signing of the definitive agreement in relation to the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder) between Cheetah and Mr. FU is one of the conditions precedent of the Voting Proxy Agreement. Such condition had been fulfilled through signing of the Capital Injection Agreement on 26 May 2017.

The Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder) is in the interest of the Company and the Shareholders as a whole (detailed analysis is set out under the below section headed "II. THE PROPOSED INVESTMENT IN ROBOTICS BUSINESS" of this letter).

We noticed that there is no monetary consideration for the Proposed Delegation and that there is not many comparable transactions conducted by Hong Kong listed companies in 2016 and 2017. Nevertheless, in light of the aforesaid reasons for and benefits of the Proposed Delegation, we are of the view that although the Proposed Delegation is not conducted under ordinary and usual course of business of the Company, (i) the Proposed Delegation is in the interest of the Company and the Shareholders as a whole; and (ii) the terms of the Voting Proxy Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Possible financial effects of the Proposed Delegation

With reference to the Board Letter, upon the completion of the Proposed Delegation, the Group will lose control over Cheetah and Cheetah will not be accounted for as a subsidiary of the Company. The Group will de-recognise the assets and liabilities of Cheetah from the consolidated statement of financial position as well as the carrying amount of non-controlling interests in Cheetah; and will account for its investment in Cheetah as investment in an associate at its fair value when control is lost; and recognise share of profit or loss in investment in Cheetah using the equity method of accounting, subsequently.

The fair value in respect of the Company's equity interests in Cheetah as at the date of the Completion is determined by market share price of Cheetah, as Cheetah is a NYSE listed company.

The fair value of the Company's equity interests in Cheetah and the net asset value of Cheetah attributable to the Company are approximately RMB5 billion and RMB2 billion, respectively, with reference to the market value of Cheetah and unaudited management accounts of Cheetah as at 30 June 2017. The deemed disposal gain as a results of the Proposed Delegation to be recognized in the Group's consolidated statement of profit or loss is expected to be approximately RMB3 billion based on aforesaid basis.

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.

II. THE PROPOSED INVESTMENT IN ROBOTICS BUSINESS

Information on the Target Company

With reference to the Board Letter, the Target Company is a company established in the PRC in September 2016. The Target Company's principal businesses include the research, development, sale and operation of the intelligent voice system and intelligent robots. The first product with the Target Company's far-field voice interactive operating system, Xiaoya AI Speaker, was released on 20 June 2017 and is on pre-sale. Through the voice interactive platform, users could command a smart device (i.e. the light, television, oven, etc.) to perform certain tasks by giving direct far-field voice instructions, which will bring convenience to daily life. Starting from the second half of 2017, the Target Company expects to generate revenues from the sale of hardware and services of its far-field voice control & assistant system and share revenues with business partners from the sale of internet content through such system.

Further, the Target Company expects to launch its first intelligent robot in 2019. The target consumers of the intelligent robots are consumers who are can afford and are interested in new cutting-edge high-tech devices. The intelligent robots will interact with users for entertainment purpose, including provision of oline content (such as music, news, online searches, etc.) and vocal interactions (such as chatting with users). Moreover, they are expected to perform more complicated tasks which are able to provide certain functional services to users.

Set out below is the unaudited financial results of the Target Company for the period from its establishment to 31 December 2016:

	From establishment to 31 December 2016	**For the six months ended 30 June 2017**
	RMB '000	*RMB '000*
Loss before tax	(27,750.34)	(56,631.97)
Loss after tax	(27,750.34)	(56,631.97)

The unaudited total assets and net liabilities of the Target Company as at 30 June 2017 amounted to approximately RMB37.21 million and RMB39.39 million, respectively. With reference to the Board Letter, the Target Company has not yet generated any turnover as the first product with the Target Company's intelligent voice technology has just been recently released and the intelligent robots are currently at the research and development stage. As advised by the Directors, the Target Company made loss for the period from its establishment to 30 June 2017 which was primarily due to the expenditures in research and development of intelligent voice system and intelligent robot.

A table setting out the shareholding structure of the Target Company on the assumption that there is no other change in the shareholding structure of the Target Company from the Latest Practicable Date to the exercise date of the Cheetah Warrant is contained under the section headed "3.3 INFORMATION OF THE TARGET COMPANY" of the Board Letter.

Reasons for and benefits of the Proposed Investment

With reference to the Board Letter, the Target Company is primarily engaged in the research, development, sale and operation of the intelligent voice system and intelligent robot. Cheetah sees great potentials in the Target Company. Cheetah's main business is to develop mobile utility applications and generate advertising revenues by displaying advertisements on its mobile utility applications delivered from third party advertising platform. As shown in its latest quarterly earnings release, Cheetah's main business is approaching a mature stage and the relevant revenues start to flat out. It needs to quickly identify and enter into a new field with large growth potentials. AI is the emerging trend that is closely related to Cheetah's business. Investment in an AI company with well-established technologies and fully functional team is an efficient way to quickly build up presence in AI technologies. Having considered the functions and prospects of the intelligent voice system and intelligent robot of the Target Company as elaborated above, the Company believes that through investment in the Target Company by Beijing Security Software, Cheetah will open a new frontier in the robotics industry, allowing it to seize new business development opportunities, which in turn will bring long-term shareholder values to the Company and its Shareholders as a whole.

By virtue of both being major shareholders in the Target Company, the Proposed Investment will align Cheetah with Mr. FU more closely. On one hand, Mr. FU will supervise the management and operation of the Target Company, as a shareholder of the Target Company and a senior management of Cheetah. On the other hand, Mr. Fu will focus more on the management and operation of Cheetah Group, considering that the Target Company will be likely to become a subsidiary of Cheetah upon exercise of the Beijing Security Software Warrant.

According to a press release published by International Data Corporation ("**IDC**") on 10 January 2017, the worldwide spending on robotics and related services will more than double by 2020, growing from US$91.5 billion in 2016 to more than US$188 billion in 2020. Robotics spending will be more than double in Asia Pacific over the 2015–2020 forecast period, making it the fastest growing region followed by the Americas, which will edge ahead of Europe, the Middle East and Africa in total spending by 2018. According to the website of IDC, IDC is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy.

With reference to another press release published by International Federation of Robotics ("**IFR**") on 20 December 2016, the worldwide number of domestic household robots will rise to 31 million between 2016 and 2019, representing more than 8 times of the number of domestic household robots in 2014 and 2015. According to the website of IFR, IFR was established as a non-profit organization in 1987, whose members comes from the robotics industry, national or international industry associations and research & development institutes.

According to the Executive Summary World Robotics 2016 Industrial Robots released by IFR, between 2010 and 2015, the robot sales increased from 121,000 units to 254,000 units, representing a compound annual growth rate (the "**CAGR**") of approximately 16%. China has significantly expanded its leading position as the biggest market with a share of 27% of the total supply in 2015. With reference to an IFR Press Conference in Frankfurt on 29 September 2016, the annual supply of industrial robots to China increased from 15,000 units in 2010 to 69,000 units in 2015, representing a CAGR of approximately 35.69%.

Given the above, we consider that the robotics market to be generally positive in foreseeable future.

Having also considered the reasons for and benefits of the Proposed Investment as set out above, we are of the view that the Proposed Investment is in the interest of the Company and the Shareholders as a whole.

Principal terms of the Capital Injection Agreement

Date

26 May 2017

Parties

(i) Beijing Security Software, Pingtan Dingfu and Kangyuan Heart (as the new investors);

(ii) the Target Company (as the company); and

(iii) Mr. FU, ZHANG Wenlong, Shougang Fund and Purple Cow (as the existing shareholders).

Registered capital

Upon completion of the Capital Injection, the registered capital of the Target Company will be increased by RMB4,630,683 to RMB15,381,083.

Capital injection

Beijing Security Software agreed to subscribe for RMB4,545,455 in the registered capital of the Target Company at consideration of a RMB amount equivalent to US$40 million, representing approximately 29.55% of the registered capital of the Target Company upon completion of the Capital Injection assuming there is no other change in the registered capital of the Target Company.

Pingtan Dingfu agreed to subscribe for RMB45,455 in the registered capital of the Target Company in a consideration of a RMB amount equivalent to US$0.4 million, representing approximately 0.30% of the registered capital of the Target Company upon completion of the Capital Injection assuming there is no other change in the registered capital of the Target Company.

Kangyuan Heart agreed to subscribe for RMB39,773 in the registered capital of the Target Company in a consideration of a RMB amount equivalent to US$0.35 million, representing approximately 0.26% of the registered capital of the Target Company upon completion of the Capital Injection assuming there is no other change in the registered capital of the Target Company.

Consideration

The considerations for the Capital Injection represents the investment price of US$8.8 for RMB1.0 in the registered capital of the Target Company (the "**Investment Price**"), which was determined after arm's length negotiation among the parties to the Capital Injection Agreement having taken into account, among others, the following factors: (i) huge opportunities in Chinese artificial intelligence market; (ii) the need for Cheetah to quickly enter into AI field; (iii) the prospects of the Target Company's robotics business; (iv) the previous investment price in the Target Company; (v) the competency and background of the core employees of the Target Company; (vi) the recent fund raisings for comparable AI companies in the market. Details of the aforesaid factors are set out under the section headed "Consideration" of the Board Letter.

We understand that trading multiples analysis such as price to earnings ratio, enterprise value over earnings before interest, tax, depreciation and amortisation, and price to book ratio are commonly adopted for assessment of the pricing of investment. Nevertheless, as (i) the Target Company is in its development stage; (ii) the Target Company generated no revenue for the period from its establishment to 31 December 2016; (iii) the Target Company's assets/liabilities position may not derive a meaningful trading multiple as the Target Company is still in its development stage, the trading multiples analysis is impractical for the assessment of the Proposed Investment.

The Valuation Report

For the purpose of assessing the fairness and reasonableness of the consideration for the Capital Injection, the Company engaged Crowe Horwath, a valuer independent to the Group, to conduct the valuation of 100% equity interest of the Target Company (i.e. the Valuation) as at 30 June 2017 (i.e. the Valuation Date). According to the Valuation Report, the Valuation as at the Valuation Date was RMB772,400,000. Details of the Valuation Report (including assumptions and parameters) are set out under Appendix I to the Circular.

Based on the Target Company's existing total registered capital of RMB10,750,400, the appraised value per RMB1 in the Target Company's existing total registered capital was approximately US$10.46 as at the Valuation Date (the "**Appraised Price**"). The Investment Price represents a discount of approximately 15.87% to the Appraised Price.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Crowe Horwath with the Company; (ii) Crowe Horwath's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by Crowe Horwath for conducting the Valuation. From the mandate letter and other relevant information provided by Crowe Horwath and based on our interview with them, we are satisfied with the terms of engagement of Crowe Horwath as well as their qualification and experience for preparation of the Valuation Report. Crowe Horwath also confirmed that they are independent to the Group and the Target Company.

The Valuation Report was prepared by Crowe Horwath using the discounted cash-flow method under the income approach. As confirmed by Crowe Horwath, the discounted cash-flow method under the income approach is one of the commonly adopted approaches for valuation of companies and is also consistent with normal market practice.

We have further reviewed and enquired into Crowe Horwath on the methodology adopted and the basis and assumptions adopted in arriving at the Valuation in order for us to understand the Valuation Report. We also obtained and discussed the supporting calculation/documents for the key assumptions and parameters (e.g. revenue and costs, capital expenditure, weighted average cost of capital and lack of marketability discount) under the Valuation Report. After review of the supporting documents including market news and data, internal budgeting and academic supports; and our discussion with Crowe Horwath, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

From Appendix II to the Circular, we noted that in the Company's reporting accountants' opinion, so far as the accounting policies and calculations are concerned, the underlying forecast of the Valuation has been properly complied in accordance with the assumptions adopted by the Directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. From Appendix III to the Circular, we noted that the Board confirmed that the underlying forecast of the Valuation was made after due and careful enquiry by the Directors. Accordingly, we consider the principal bases and assumptions adopted for the Valuation to be fair and reasonable and the Valuation to be reliable.

Shougang & Purple Cow Investments

We notice that the investment price of the Capital Injection is equivalent to each of the prices in relation to the equity investments by Shougang Fund and Purple Cow in the Target Company in November 2016 and May 2017, respectively (the "**Shougang & Purple Cow Investments**"), all being US$8.8 for RMB1.0 in the registered capital of the Target Company. With reference to the Board Letter, Beijing Security Software believes that Shougang Fund, the ultimate beneficial owner of which is Shougang Group as a large PRC state-owned enterprise with stringent internal control measures (especially in equity investments) in compliance with relevant PRC laws and regulations, had negotiated the previous investment price with the Target Company on an arm's length basis).

Although the terms of agreements of the Shougang & Purple Cow Investments are not exactly the same with the Capital Injection Agreement (e.g. the Capital Injection Agreement is associated with the Beijing Security Software Warrant and the Mr. FU's Option), the nature of investments of the Shougang & Purple Cow Investments and the Proposed Investment is comparable with each other. Accordingly, we consider that the investment prices of the Shougang & Purple Cow Investments (as recent transactions) can provide reference for the "market price" of equity investment in the Target Company.

Having considered the above, in particular, (i) the Investment Price represents a discount of approximately 15.87% to the Appraised Price; and (ii) the Investment Price of the Capital Injection is equivalent to each of the prices in relation to the Shougang & Purple Cow Investments, we are of the opinion that the Investment Price is fair and reasonable so far as the Independent Shareholders are concerned.

Beijing Security Software Warrant

Within 2 years after the closing of the Capital Injection, provided that the Proposed Delegation remains effective under the Voting Proxy Agreement, Beijing Security Software is entitled to subscribe for the registered capital of the Target Company with an equivalent value of up to US$62 million at the price for the Capital Injection (i.e. US$8.8 for RMB1.0 in the registered capital of the Target Company, subject to any adjustment due to any subsequent share split, share consolidation, share dividend, anti-dilution or other actions that may affect the exercise price).

For the avoidance of doubt, Beijing Security Software shall still enjoy the Beijing Security Software Warrant if the Proposed Delegation is revoked as a result of the Relevant Event(s).

Notwithstanding the above entitlement, should (i) there be a round of equity financing with a pre-money valuation of US$500 million and financing proceeds of at least US$10 million within 2 years after the Capital Injection; and (ii) Beijing Security Software choose to exercise the Beijing Security Software Warrant in whole or in part, unless all shareholders of the Target Company reach a consensus, Beijing Security Software shall exercise no less than 80% of the Beijing Security Software Warrant prior to the closing of the Qualified Financing.

As advised by the Company, it will comply with the applicable requirements of the Listing Rules (if any) when Beijing Security Software exercises the Beijing Security Software Warrant in part or in whole, provided that Beijing Security Software is a subsidiary of the Company at the time being.

Given that the investment price of the registered capital of the Target Company under the Beijing Security Software Warrant is the same with (i) investment price under the Capital Injection; and (ii) the prices in relation to the equity investments by Shougang Fund and Purple Cow in the Target Company in November 2016 and March 2017, we are of the opinion that the terms of the Beijing Security Software Warrant are fair and reasonable so far as the Independent Shareholders are concerned.

Mr. FU's Option

If the Company revokes part or all of the Proposed Delegation, Mr. FU shall be entitled to purchase from Beijing Security Software part or all shares of the Target Company through exercise of the Beijing Security Software Warrant at a price determined by the higher value of (a) the fair market value of the Beijing Security Software Warrant Shares as determined by an independent valuer which is appointed by Beijing Security Software and Mr. FU, or (b) the exercise price paid by Beijing Security Software to acquire such Beijing Security Software Warrant Shares under the Beijing Security Software Warrant plus the interests incurred thereof at a simple interest of 8% per annum (the "**Minimum Return**").

The simple interest of 8% per annum was determined upon arm's length negotiations between the parties with reference to the previous investment returns of Cheetah Group's other investments in independent third parties. The Board believes that the simple interest of 8% per annum is not less favorable than the previous investment returns of Cheetah Group's other investments in independent third parties. For the avoidance of doubt, Mr. FU shall not be entitled to Mr. FU's Option if the Proposed Delegation is revoked as a result of the Relevant Event(s). The exercise of Mr. FU's Option is at Mr. FU's discretion, subject to the conditions as ascribed under the Capital Injection Agreement.

Upon our enquiry, we were advised by the Company that (i) the grant of Mr. FU's Option was determined after arm's length negotiation with Mr. FU having taken into account the grant of Beijing Security Software Warrant; and (ii) the Minimum Return of 8% was determined after arm's length negotiation with Mr. FU having taken into account the investment return of Cheetah Group's other investment. For our due diligence purpose, we have obtained the list of Cheetah Group's principal investments made during the year ended 31 December 2016 which have conditional redemption rights with predetermined rate of return. We noticed that the Minimum Return of 8% is comparable to the aforesaid predetermined rates of return.

Given that the Mr. FU's Option shall be exercised at a price determined by the fair market value of the Beijing Security Software Warrant Shares as determined by an independent valuer which is appointed by Beijing Security Software and Mr. FU (which we consider to be a fair and reasonable method for determining the fair market value) or a price associated with the Minimum Return of 8% (which is comparable to the investment return of Cheetah Group's other investment), we are of the view that the terms of Mr. FU's Option are on normal commercial term, fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

Taking into account the principal terms of the Capital Injection Agreement, we consider that the terms of the Capital Injection Agreement (including the Mr. FU's Option) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Proposed Delegation and the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder) are 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 Delegation and the Proposed Investment (including the grant of Mr. FU's Options and the possible transaction thereunder) and the 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.*

Board of the Directors
Kingsoft Corporation Limited
12 September 2017

Dear Sirs,

RE: Valuation of 100% Equity Interest of the Beijing OrionStar Technology Co., Ltd

In accordance with an instruction from Kingsoft Corporation Limited (the "**Instructing Party**") for us to conduct on the market value basis of 100% equity interest (the "**Equity Interest**") of Beijing OrionStar Technology Co., Ltd (the "**Target Company**"), as at 30 June 2017 (the "**Valuation Date**").

We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the 100% Equity Interest of the Target Company. This valuation is complied with the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors ("**RICS**") and International Valuation Standards ("**IVS**") published by the International Valuation Standards Council.

The purpose of this report is to express an independent opinion on the market value of the Equity Interest of the Target Company for the Instructing Party's Public Circular purpose only.

1 Background of the Target Company and its subsidiaries

The Target Company is a company established in the PRC in September 2016, whose principle businesses include the research and development and sale of the voice interactive system and intelligent robot. Starting the second half of 2017, the Target Company expects to generate revenues from services of its voice interactive platform and share revenues with business partners from the sale of internet content through such platform.

The board the Instructing Party announces that on 26 May 2017, Beijing Security Software (a wholly-owned subsidiary of Cheetah Mobile Inc (a subsidiary of the Instructing Party, or the "**Cheetah**")) and a non-wholly-owned subsidiary of the Instructing Party entered into a capital injection agreement in relation to the Target Company.

Pursuant to the capital injection agreement, three investors agreed to subscribe for RMB4,545,455, RMB45,455 and RMB39,773 in the registered capital of the Target Company in consideration of respective RMB amounts equivalent to US$40 million, US$0.4 million and US$0.35 million (equivalent to approximately HK$310.25 million, HK$3.10 million and HK$2.71 million, respectively). Further, a warrant was granted to Beijing Security Software (the "**Beijing Security Software Warrant**"), subject to the terms and conditions as set out in the Capital Injection Agreement.

Upon completion of the Capital Injection, Beijing Security Software will hold approximately 29.55% equity interest in the Target Company on the assumption that there is no other change in the shareholding structure of the Target Company from the date of this announcement to the completion date. If the Beijing Security Software Warrant is exercised in full, Beijing Security Software will hold approximately 51.68% equity interest in the Target Company on the assumption that there is no other change in the shareholding structure of the Target Company from the date of this announcement to the exercise date.

The Target Company is primarily engaged in the research, development and sale of the voice interactive system and intelligent robot. Cheetah sees great potentials in the Target Company. Through investment in the Target Company by Beijing Security Software, Cheetah will open a new frontier in the robotics industry, allowing it to seize new business development opportunities, which in turn will bring long-term shareholder values to the Instructing Party and its shareholders as a whole.

The directors of the Instructing Party consider that the terms of the capital injection agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms, and in the interests of the Instructing Party and the shareholders as a whole.

2 Valuation Methodology

There are three generally accepted valuation approaches in valuation of Equity Interest of the Target Company.

2.1 Asset Approach (or Cost Approach)

Asset approach (or known as cost approach) is an asset-based rather than a market-oriented method. It requires valuing the business on an individual basis to add up to the total valuations of business.

Under this approach, the expenses or costs on replacing or re-acquiring individual items or parts are estimated by valuers on an itemised basis, thus arriving at the valuation of target business.

2.2 Market Approach

Market approach is the most straightforward valuation method in determining market value of assets. Under this approach, valuers seek to identify the transaction cases having been executed and qualified as a reference for value comparison. It is normally difficult to apply the approach to unique business, as there are a lack of sufficient comparable transactions for reference.

2.3 Income Approach

Income approach is an income-oriented valuation method assuming that the investors may invest in alternative business with similar characteristics but not necessarily identical with the subject business.

Under the income approach, business value equals to the present value of the future expected income or economic benefit brought by the business, which involves the principle of capitalisation. Generally, capitalisation is a process through which the expected benefit is discounted based on the required rate of return (risk factors).

2.4 Selection of Assessment Methodology

We considered that the market approach not applicable for the valuation. As the Target Company is expected to expand in the next a few years, its current financial indicators, such as earnings and book value may not be a good base to determine its market value. We also considered that cost approach not an adequate approach for the valuation, as this approach also does not take future growth potential into consideration. Thus, we determined that the income approach was the most appropriate valuation approach to value the Equity Interest. Discounted cash-flow method was used in this case of valuation.

*Discounted Cash-flow Method (the "**DCF Method**")*

The discounted cash-flow method is premised on the concept that the value is based on the present value of all future benefits that flow to the shareholder by applying an appropriate discount rate. These future benefits consist of current income distributions, appreciation in the asset, or a combination of both. In essence, this valuation method requires a forecast to be made of cash-flow, going out far enough into the future until an assumed stabilization occurs for the business being appraised. This methodology assumes that the forecasted income/cash-flow will not necessarily be stable in the near term but will stabilize in the future.

3 Discussion of Financial Forecast

Forecast Period

We have performed our valuation based on the financial forecast provided by the management of the Instructing Party. In the valuation of the Target Company, financial forecast is prepared based on management's understanding of the future business prospect. The forecasted period is from 2017 to 2024 (the "**Forecast Period**").

Projected Profit and Loss

We discussed the major projection assumptions, including revenue assumption, cost assumption, expense assumption, regarding the financial forecasts of different operation subsidiaries with the management of the Target Company.

Revenue

Revenue of the Target Company comes from the content distribution business as well as the robot business.

For the content distribution business, the Target Company is expected to record revenue starting from second half of 2017. The revenue from content distribution business is determined by 1) number of retained users and 2) average revenue per user (the "**APRU**").

The first product with the Target Company's far-field voice interactive operating system, Xiaoya AI Speaker, was released on 20 June 2017. According to the data published by Ximalaya (producer of Xiaoya AI Speaker), in June 2017 alone Xiaoya AI Speaker has received 50,000 pre-sale orders. It is expected that the number of the Target Company's retained users will reach 300,000 by the end of 2017. In addition, the Target Company has signed framework agreement with Xiaomi Inc and Midea Electric for further cooperation in application of intelligent voice system. The growth of retained users in 2018 and 2019 is relatively large, at 460% and 140% respectively, representing a CAGR of 267% from 2017 to 2019. As the business further expands, from 2020 to 2024 the growth rate of retained users is expected to gradually decrease from 100% to 29%.

Globally speaking, the market of AI speaker products started to grow in November 2014, when Amazon introduced its Amazon Echo product. With reference to the research "The 2017 Voice Report by VoiceLabs" published by VoiceLabs, a company specializing in providing analytic tools for Amazon Alexa and Google Home developers, the sales volume of AI speaker products in United States from 2015 to 2016 is 1.7 million units and 6.5 million units, and the sales volume in 2017 is expected to be 24.5 million units, representing a CAGR of 280% from 2015 to 2017.

As the market of AI speaker products in China is still emerging, it would be reasonable to expect that China market could follow similar growth pattern, considering 1) large population, 2) increasing household income in recent years, and 3) China's faster growth in overall IT application market sector. The growth rates adopted appear to be supported.

As at the Valuation Date, the ARPU of the Target Company for the 2nd half of 2017 is estimated to be RMB 3.65, based on actual monthly figure. The ARPU in 2018 is estimated to be RMB 7.3, reflecting a full year period. From 2019 to 2024, the ARPU is expected to gradually grow to RMB 55, representing a CAGR of 40% in 6 years.

After 2024, the revenue from content distribution business is expected to maintain a perpetuate growth rate of 3%.

For the robot business, the Target Company is expected to record revenue starting from 2019. The revenue from robot business is determined by 1) number of robot sold and 2) price per robot.

In 2019, the expected sales volume of the robot is estimated to be 5,000 units, pricing at RMB80,000 per unit. The price per robot is determined with a 21.2% mark-up on the estimated cost per unit. From 2020 to 2024, sales volume is expected to grow from 10,000 units to 49,000 units, while the price per robot is expected to grow at 3% per annum.

We have further investigated on the proposed 21.2% mark-up proposed by the management. We have searched for market comparable companies to study the profitability of robot production business. Our selection criteria includes:

- Primarily be engaged in robot production business in China market;
- Operate in an economic environment similar to where the Target Company operates; and
- Information on the peer firms must be extracted from a reliable source.

The following comparable companies, representing active market players in robot production business in China, were considered:

- SIASUN Robot & Automation Co., Ltd. (300024.CH);
- Estun Automation Co., Ltd. (002747.CH);
- CSG Smart Science & Technology Co Ltd. (300222.CH); and
- Shanghai STEP Electric Corporation (002527.CH).

We have scrutinized the latest annual report/interim report published by the above companies within 2017, and noticed that the gross margins of their robot production segment range from 21.1% to 38.5%, which appears to be higher than that of the Target Company. Based on our discussion with management, a prudent pricing strategy was proposed to increase the competency of the future robot product and such pricing could also help boost the quantity growth. We are of the opinion that such pricing strategy is feasible.

The revenue of robot business is expected to grow from RMB400 million to RMB4,509 million. After 2024, the revenue is expected to maintain a perpetuate growth rate of 3%.

The above revenue projection is provided by the management of the Target Company. As the Target Company is in start-up stage and the market for AI speaker product, intelligent voice system and robot in China has been growing rapidly, faster growth rates are adopted in the first a few years of the forecast period. As the business expands the growth rates are expected to decrease in later years of the forecast period, and the Target Company is expected enter perpetual growth stage after 2024.

Nevertheless, we have considered the uncertainty associated with such growth rates and applied extra risk premium in our discount rate calculation. Please refer to Section 4 of this report for details.

Gross Margin

The cost of sales of the Target Company mainly consists of product costs, internet data center and bandwidth cost.

The product cost represents the estimated cost for robot, which is estimated to be RMB 66,000 per unit. We have obtained the schedule of estimated cost per unit provided by the management.

The internet data center and bandwidth cost is estimated based on 1) RMB 5 per user per annum, and 2) the number of total retained users for intelligent voice system and robot.

From 2017 to 2024, the gross margin is projected to range from 22.7% to 41.7%, and remains stable afterwards.

EBIT Margin

As per discussion with management, the operating expense of the Target Company mainly consists of staff costs, rental costs, advertising and promotion costs and depreciation costs.

The staff costs is estimated based on 1) the estimated headcount and 2) the estimated average salary per person. From 2017 to 2024, the total headcount of Target Company is expected to grow from 200 to 1,100 to cope with the future expansion of the business. The average salary per person is estimated to be RMB 400,000 per annum in 2017, and subsequently grow at 3% per annum during the forecast period.

The rental cost is estimated based on 1) the estimated headcount and 2) the estimated rental per headcount. From 2017 to 2024, the total headcount of Target Company is expected to grow from 200 to 1,100 to cope with the future expansion of the business. The rental per head count is RMB 67 per annum in 2017, and subsequently grow at 3% per annum during the forecast period.

The advertising and promotion cost from 2017 to 2020 is estimated to be RMB 20 million, RMB 35 million, RMB 50 million and RMB 90 million respectively. After 2021, the advertising and promotion cost is estimated to be 3% of the revenue. Such spending on advertising and promotion is consistent with management's business plan.

The depreciation expense is calculated from Target Company's fixed asset balance as well as the estimated spending on capital expenditure. Please refer to our later discussion on capital expenditure for details.

As the Target Company is in early stage of its business, the EBIT margin from 2017 to 2020 is expected to be negative. From 2021 to 2024, the EBIT margin is projected to increase from 0.8% to 26.6%, and remains stable afterwards.

Effective Tax Rate

According to relevant tax law applicable to the Target Company, 15% corporate tax rate is applied.

Capital Expenditure

The capital expenditure measures the amount of cashflow invested by the Target Company in particularly property, plant and equipment and intangible assets.

As per discussion with management, capital expenditure is required for meeting the projected expansion of business. There are two categories of capital expenditure: 1) purchase of GPU and CPU servers and 2) purchase of office facilities. Management has provided the estimated amount regarding the above items.

The Target Company is expected to engage 100 additional GPU servers from 2017 to 2024, and the cost per unit is estimated to be RMB 150,000. The GPU servers are renewed in five years.

The Target Company is expected to engage 20 additional CPU servers in 2017 and such need for CPU servers will grow to 3,273 in 2024. The number of CPU servers required is determined based on the number of retained users and the estimated network traffic volume. The cost per unit is estimated to be RMB 15,000. The CPU servers are renewed in five years.

The Target Company is also expected to spend RMB 10,000 per person on office facilities (mainly computer hardware) to equip the newly hired employee. Such office facilities are renewed in four years.

The annual capital expenditure is estimated to increase from RMB14.7 million in 2017 to RMB78.9 million in 2024. We have also calculated the depreciation expense based on such capital expenditure schedule. The annual depreciation expense and annual capital expenditure amount converges over long term.

Besides, the Target Company is estimated to spend an aggregate amount of RMB175 million research and development expense to develop its robot business, as well as an aggregate amount of RMB 16 million research and development expense for smart speaker testing centers. Such research and development is planned to be spent throughout the forecast period.

Required Net Working Capital

Required net working capital of the Target Company includes operation cash, account receivable, inventory, prepaid expense, account payable, salary payable, advance from customer and tax payable.

- *Account Receivable*

  The account receivable mainly comes from the credit sales of Target Company's products. The average collection days for the account receivable is assumed to be about 30 days within the forecast period.

- *Inventory*

  The inventory mainly represents the completed products kept by the Target Company to cope with future sales. The average turnover days for the inventory is assumed to be about 30 days within the forecast period.

- *Prepaid Expense*

  Prepaid expense is projected based on the days outstanding. For the Target Company, the days of prepaid expense outstanding is estimated to be about 20 days within the forecast period.

- *Account Payable*

  Account payable is projected based on the days outstanding. For the Target Company, the days of account payable outstanding is estimated to be about 30 within the forecast period.

- *Salary Payable*

  Salary payable is projected based on the days outstanding. For the Target Company, the days of salary payable outstanding is estimated to be about 30 days within the forecast period.

- *Advance from Customer*

  Advanced from customer is projected based on the days outstanding. For the Target Company, the days of advance from customer is estimated to be to be about 25 days within the forecast period.

- *Tax Payable*

  Tax payable is projected based on the days outstanding. For the Target Company, the days of income tax payable is estimated to be about 60 days within the forecast period.

Subsequent Financing

The Target Company is expected to obtain further financing to support its business expansion as well as its research and development. Based on the current financing plan from the management, it is estimated that a total of RMB900 million (USD130 million) external financing will be available to the Target Company from 2018 to 2019. This amount includes the USD62 million financing associated with the Beijing Security Software Warrant.

We have incorporated such financing in the financial forecast and adjusted the result accordingly.

Terminal Value

Since the Equity Interest is assessed based on an on-going concern, we determined the terminal value of the Target Company by the perpetual growth method. As per our discussion with management, the perpetual growth rate is estimated at 3%. The perpetual growth year begins in 2024.

Lack of Marketability Discount

We have adopted a lack of marketability discount of 20% in the valuation of the Equity Interest to compensate for the potential difficulty of selling the equity shares, which are not traded on a stock exchange, compared with those of the peer companies that are traded publicly in stock exchange markets.

The lack of marketability discount is sourced from the research paper — Valuation Discounts and Premiums published by National Association of Certified Valuators and Analysts (NACVA) in 2012. NACVA was found in 1991 and is headquartered in Salt Lake City, Utah. NACVA provides comprehensive research on various topic of valuation. We are of the view that such research is an authoritative guide in the market. This research draws conclusion from all business sectors and focus on samples observed in the US market, which is a developed market and we are of the opinion that such research also applicable to the Hong Kong market.

4 Discount Rate and Other Adjustments

We adopted the weight average cost of capital (the "**WACC**") as the benchmark discount rate in valuing the Equity Interest of the Target Company. WACC comprises two components: cost of equity and cost of debt. Cost of equity was developed using Capital Asset Pricing Model (the "**CAPM**"). The CAPM states that an investor requires excess returns to compensate systematic risks and an efficient market provides no excess return for other risks. Cost of debt was developed with reference to the long term prime lending rate.

For the Target Company, our selection criteria are that the comparable companies should:

- Primarily be engaged in information technology/smart electronic appliance development business;
- Operate in an economic environment similar to where the Target Company operates; and
- Information on the peer firms must be extracted from a reliable source.

The comparable companies used for the Target Company are exhaustive, fair and representative. They are shown as below table.

Ticker	**Company Name**	**Raw Beta**	**Adjusted Beta**
002241 CH Equity	GOERTEK INC -A	0.718	0.812
002681 CH Equity	SHENZHEN FENDA-A	1.455	1.303
002351 CH Equity	EDIFIER TECH-A	1.323	1.216
300458 CH Equity	ALL WINNER TEC-A	0.663	0.775
300183 CH Equity	QINGDAO EASTSO-A	1.117	1.078
Average		**1.055**	**1.037**

Principal Business of Comparable Companies

- GoerTek Inc. manufactures wireless communication products. The Company offers wireless communication devices armed with wireless technology, active noise cancellation headphones, VoIP devices, hands-free headsets, and other electro-acoustic devices. GoerTek serves the telecommunication and electro-acoustic industries worldwide.

- Shenzhen Fenda Technology Company Limited develops, manufactures and sells home and personal small household care electrical appliances. The Company's main products include multimedia speakers, and small hairdressing appliances.

- Edifier Technology Co., Ltd. develops computer software operating systems, manufactures and sales active speakers and related accessories. The Company's products include multimedia speakers, head phones and automobile stereo systems.

- Allwinner Technology Co Ltd is a fabless design company dedicated to smart application processor SoCs and smart analog ICs. The companies products are used on a global basis.

- Qingdao Eastsoft Communication Technology Company Limited engages in the development, manufacturing, distribution and servicing of low voltage power line carrier communication products, such as carrier communication chips, concentrator and so on.

WACC calculation for the Target Company is shown as below table:

Component	**Target Company**	**Notes**
Debt to equity ratio	0%	*1*
Risk free rate	3.57%	*2*
Equity risk premium	7.25%	*3*
Leveraged beta	1.04	*4*
Size premium	3.81%	*5*
Firm specific premium	5.00%	*6*
Cost of equity	**19.90%**	
Pre-tax cost of debt	4.90%	*7*
Effective tax rate	15.00%	*8*
After tax Cost of debt	**4.17%**	
Adopted WACC	**19.90%**	

Notes to the WACC parameters are as follows:

1. The debt to equity ratio is derived from the Target Company's balance sheet.

2. The risk-free rates are determined with reference to the China 10-Year sovereign bond yield, sourced from Bloomberg.

3. The equity risk premium is the China Equity Risk Premium, sourced from Aswath Damodaran database.

4. Leveraged beta is derived from a set of peer group companies

5. Size premium is added to reflect the effect of firm size on return, sourced from Dulf & Phelps 2016 Valuation Yearbook.

6. Firm specific premium is designed to account for additional risk factors specific to the Target Company, including but not limited to R&D risk in relation to its robot business, future expansion risk, market risk, size risk, etc.

7. The pre-tax cost of debt is determined with reference to the prime lending rate in China.

8. Corporate tax rate applicable to the Target Company.

5 Premise of Valuation and Basis of Valuation

Our valuation is based on market value basis and market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

5.1 Source of Information

Our investigation covers the discussion with the Target Company and the Instructing Party's representatives, the collection of information including the details of the Target Company.

We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the Target Company were prepared in reasonably care.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Target Company. We have also sought confirmation from the Target Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

5.2 Assumptions and Factors Considered

The assumptions considered in this valuation included, but were not limited to, the following:

- The assumption that the Target Group is expected to run the existing content distribution business;
- The assumption that the Target Group is expected to develop the robot business successfully and start record growth in 2019;
- The general robot demand market will show relatively fast growth in the coming projection period; and
- The assumption that the Target Group is expected to obtain proper financing to supporting its future expansion;

The factors considered in this valuation included, but were not limited to, the following:

- The nature and history of the Target Group;
- The financial conditions of the Target Group;
- Operation and financial risks of the Target Group;
- Environmental policies set by the government that pertains to the Target Group;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of the Target Group including the continuity of income and the projected future results.

6 Disclaimer and Limitation

Our findings or conclusion of values of the subject(s) in this report are valid only for the stated purpose and at the Valuation Date(s), and for the sole use of the Instructing Party.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Any decision to purchase, sell or transfer any interest in the valuation subjects shall be the owners' sole responsibility, as well as the structure to be utilized and the price to be accepted. The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business might be concluded at a higher value or at a lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

7 Conclusion

The conclusion of value is based on the accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Instructing Party and/or Crowe Horwath.

Based on the valuation methodology adopted, we are of the opinion that the market values of 100% Equity Interest of **Beijing OrionStar Technology Co., Ltd**, as at 30 June 2017, was in the sum of **RMB772,400,000** (RENMINBI SEVEN HUNDRED SEVENTY TWO MILLION FOUR HUNDRED THOUSAND)

We hereby certify that we have neither present nor prospective interests in the Instructing Party or the value(s) reported.

Yours faithfully,
For and on behalf of

Stella Law, MRICS
Director

The following is the text of a letter from ZHONGHUI ANDA, relating to the Valuation, for, amongst other purposes, inclusion in the this circular in connection with the Proposed Investment.

中汇
ZHONGHUI

14 September 2017

The Board of Directors
Kingsoft Corporation Limited

Dear Sirs,

We have examined the principal accounting policies adopted in and the calculations of the discounted cash flow forecast (the "**Forecast**") in relation to the underlying valuation (the "**Valuation**") of Beijing OrionStar Technology Co., Limited (the "**Target Company**") performed by Crowe Horwath First Trust Appraisal Pte Ltd in respect of the appraisal of the fair value of the Target Company as at the reference date of 30 June 2017 in connection with the circular of Kingsoft Corporation Limited (the "**Company**") dated 14 September 2017 (the "**Circular**"). The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Directors' Responsibilities

The directors of the Company are solely responsible for the preparation of the Forecast and the reasonableness and validity of the assumptions based on which the Forecast is prepared (the "**Assumptions**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Forecast based on our procedures and to report our opinion solely to you, as a body, solely for the purpose in connection with the Circular and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

We conducted our engagement with reference to Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Forecast in accordance with the Assumptions adopted by the directors and as to whether the Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

The Assumptions include hypothetical assumptions about future events and management actions that may or may not necessarily be expected to occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Accordingly we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express opinion whatsoever thereon.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled in accordance with the Assumptions adopted by the directors as set out in Appendix I of the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group.

Yours faithfully,
ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Hong Kong

The following is the text of a letter from the Board relating to the Valuation, for, amongst other purposes, inclusion in the this circular in connection with the Proposed Investment.

Kingsoft Corporation Limited
金山軟件有限公司

(Continued into the Cayman Islands with limited liability)
(Stock Code: 03888)

Hong Kong, 14 September 2017

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS: PROPOSED DELEGATION OF VOTING RIGHTS IN CHEETAH; AND PROPOSED INVESTMENT IN ROBOTICS BUSINESS

We refer to the circular issued by the Company to its Shareholders dated 14 September 2017 (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.

We engaged Crowe Horwath, a valuer independent to the Group, to conduct the valuation of the 100% equity interest of the Target Company which constitutes a profit forecast under paragraph 29(2) of Appendix 1B to the Listing Rules. We have reviewed the bases and assumptions based upon which the Valuation has been prepared by Crowe Horwarth for which Crowe Horwarth is responsible. We have also considered the report dated 14 September 2017 from ZHONGHUI ANDA, regarding whether the calculations upon which the Valuation set out in the Valuation Report is based.

On the basis of the foregoing, as required under paragraph 29(2) of Appendix 1B to the Listing Rules, we confirm that the underlying forecast of the Valuation was made after due and careful enquiry.

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

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 are disclosed in the annual reports of the Company for the years ended 31 December 2014, 2015 and 2016. These annual reports are published on the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.kingsoft.com/):

- annual report of the Company for the year ended 31 December 2014 published on 21 April 2015 (pages 78–208);
- annual report of the Company for the year ended 31 December 2015 published on 14 April 2016 (pages 76–216); and
- annual report of the Company for the year ended 31 December 2016 published on 19 April 2017 (pages 70–216).

2. INDEBTEDNESS

At the close of business on 15 August 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained in this indebtedness statement, the Group had an aggregate outstanding indebtedness of approximately RMB1,698,604,000 which comprised of:

	RMB'000
Interest-bearing bank loans:	
Bank loans:	
Guaranteed	—
Secured	333,445
Unsecured	473,266
Total interest-bearing bank loans	**806,711**
Convertible bonds (unguaranteed, unsecured)	891,893
Repayable:	
Within one year	1,275,642
In the second year	185,945
In the third to fifth years, inclusive	237,017
Over five years	—
Total	**1,698,604**

As at the close of business on 15 August 2017, some of the Group's bank loans were secured by the pledge of time deposits with original maturity of more than three months.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, at the close of business on 15 August 2017, the Group did not have any outstanding debts securities, bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptances credits, material hire purchase commitments, mortgages or charges, which were either guaranteed, unguaranteed, secured or unsecured.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 15 August 2017.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account of the Group's internal resources, cash flow from operations, the present facilities available and also the effect of the Proposed Delegation and the Proposed Investment, the Group will have sufficient working capital to satisfy its present requirements, that is, for at least the next 12 months from the date of this circular in the absence of unforeseen circumstances.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

During the second quarter of 2017, the Company achieved remarkable progress in all business segments. The flagship PC game JX Online III enjoyed a substantial annual growth of 47%. Meanwhile, Kingsoft Cloud has maintained rapid and strong growth in every verticals and launched new services in the artificial intelligence field. In addition, WPS Office proposed A-share listing on the ChiNext board of the Shenzhen Stock Exchange to strengthen its market influence. In the second half of 2017, the Group are striving to maintain the growth momentum in online games, cloud services, and office software and services businesses.

In the future, the Company will continue to focus on product innovation, accelerate market expansion, and actively seek business collaboration with potential partners in order to enlarge the user base and enhance market competency. In order to enhance game business market competency in the long run, the Group will focus on our mobile game expansion in the new market and the distribution of JX Online III revamped version in the second half of this year, which may temporarily affect the Group's profitability performance in the third quarter. Meanwhile, the Company will further integrate resources advantage within each business segment to bolster synergies across all operations. Capitalizing on the industry uptrend, the Group shall strive for sustainable growth and are confident of taking the business to new heights in the coming quarters and bringing solid returns to shareholders and partners.

1. RESPONSIBILITY STATEMENT

This circular, for which the directors of the Company, 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	16.03	Long position
	Other	142,714,003	10.89	Long position
		Total: 352,830,251 *(Note 2)*	**Total: 26.92**	Long position
Pak Kwan KAU	Interest of controlled corporation	108,032,566 *(Note 3)*	8.24	Long position
Yuk Keung NG	Beneficial owner	2,600,000	0.20	Long position
Tao ZOU	Beneficial owner	7,409,307	0.57	Long position

Notes:

1. % of issued share capital was calculated on the basis of the total number of issued shares of the Company as at 31 August 2017, which was 1,310,575,387.

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 are held by a wholly-owned subsidiary of Xiaomi Corporation, 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.

As at the Latest Practicable Date, Mr. Chi Ping LAU is the director of Tencent. 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.

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

Cheetah

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	4.23	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. Cheetah is a non-wholly owned subsidiary of the Company listed on the NYSE.

2. % of issued share capital in class was calculated on the basis of the issued Class A Cheetah Shares of Cheetah as at 30 June 2017, which was 417,432,298.

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 Corporation, a company controlled by Mr. Jun LEI under the SFO.

Seasun Holdings Limited

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL IN CLASS *(NOTE 2)*	NATURE OF SHARES INTERESTED
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 30 June 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:

NAME OF SUBSTANTIAL SHAREHOLDER	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL *(NOTE 1)*	NATURE OF SHARES HELD
Color Link Management Limited *(Note 2)*	Beneficial owner	174,818,191	13.34	Long position
Topclick Holdings Limited *(Note 3)*	Beneficial owner	108,032,566	8.24	Long position
Tencent Holdings Limited *(Note 4)*	Interest of controlled corporation	106,784,515	8.15	Long position

Note:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 31 August 2017, which was 1,310,575,387.

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 Limted.

4. These shares are held by TCH Saffron Limited, a wholly-owned subsidiary of Tencent. As such, Tencent, 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. Mr. Chi Ping LAU is a director of Tencent Holdings Limited.

4. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as known to the Directors, there was no litigation, arbitration or claim of material importance in which the Group is engaged or pending or threatened against the Group.

5. 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.

6. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and/or members of the Group and are or may be material:

(a) the share purchase agreement dated 27 March 2015 and entered into by the Company, IDG Investor, Kingsoft Cloud Group, Certain KSC Shareholders and the Officers, pursuant to which, among others, Kingsoft Cloud agreed to issue and the Company and IDG Investor agreed to subscribe for 79,873,872 and 67,199,728 Series B Preferred Shares, respectively, for a consideration of US$28.60 million and US$24.06 million, respectively.

(b) the share purchase agreement dated 5 February 2016 and entered into by the Company, AMC Investors, Kingsoft Cloud Group, Certain KSC Shareholders and the Officers in relation to the subscription of series C preferred shares of Kingsoft Cloud by the Company in consideration of US$60 million;

(c) the share purchase agreement dated 26 February 2016 and entered into by the Company, Xiaomi and other Zhigu Shareholders, pursuant to which, among other things, the Company agreed to sell and Xiaomi agreed to purchase 199,600,000 shares held by the Company in Zhigu (representing 23.08% of the equity interest of Zhigu as at the date of this announcement) at an aggregate consideration of US$7,485,000;

(d) the share purchase agreement dated 6 May 2016 and entered into by the Company, Buddies Team Limited, Kingsoft Cloud Group, Certain KSC Shareholders and the Officers in relation to the subscription of series C preferred shares of Kingsoft Cloud by the Company in consideration of US$28.90 million;

(e) the share purchase agreement dated 21 April 2017 and entered into by Kingsoft Entertainment (a wholly-owned subsidiary of the Company), Image Frame Investment (a wholly-owned subsidiary of Tencent), WestGame Holdings Limited, United Websoft Inc and Seasun Holdings Limited in relation to the disposal of 39,819,466 shares of Seasun Holdings Limited by Kingsoft Entertainment to Image Frame Investment at a consideration of US$62,617,989.29;

(f) the share purchase agreement dated 12 September 2017 and entered into by the Company, Liyue Investor, Kingsoft Cloud Group, Certain KSC Shareholder and the Officer, pursuant to which, among others, Kingsoft Cloud agreed to issue and 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, respectively;

(g) the Voting Proxy Agreement; and

(h) the Capital Injection Agreement.

7. 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.

8. 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.

9. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given their opinions or advices contained in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
ZHONGHUI ANDA CPA Limited	Certified Public Accountants, Hong Kong
Crowe Horwath First Trust Appraisal Pte Ltd	Independent Professional Valuer

As at the Latest Practicable Date, each of the above-mentioned experts 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, each of the above-mentioned experts 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.

Each of the above-mentioned experts 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.

10. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Yuk Keung NG, who is a professional accountant, and a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, and the Institute of Chartered Accountants in England and Wales.

(b) The registered office of the Company is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands;

(c) The head office and principal place of business of the Company is Kingsoft Tower, No.33 Xiaoying West Road, Haidian District, Beijing, the PRC;

(d) The share registrar of the Company is Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;

(e) The English texts of this circular shall prevail over their respective Chinese texts in case of inconsistency.

11. 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 Voting Proxy Agreement;

(c) the Capital Injection Agreement;

(d) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(e) the annual reports of the Company for each of the three financial years ended 31 December 2014, 2015 and 2016;

(f) the letter from the Independent Board Committee to the Independent Shareholders dated 14 September 2017, the text of which is set out on pages 33 to 34 of this circular;

(g) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders dated 14 September 2017, the text of which is set out on pages 35 to 54 of this circular;

(h) the Valuation Report on the Target Company, the text of which is set out in Appendix I of this circular;

(i) the letter from ZHONGHUI ANDA on the forecast of the underlying Valuation, the text of which is set out in Appendix II of this circular;

(j) the letter from the Board on the forecast of the underlying Valuation, the text of which is set out in Appendix IV of this circular;

(k) the written consents referred to in the section headed "Experts and Consents" in this appendix; and

(l) 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 Friday, 29 September 2017 at 2:00 p.m. to consider and, if thought fit, passing the following ordinary resolutions 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 14 September 2017 (the "**Circular**"):

ORDINARY RESOLUTION

"**THAT**

(i) the voting proxy agreement dated 12 February 2017 entered into between the Company and Mr. FU Sheng in relation to the delegation of part of the Company's voting power in Cheetah Mobile Inc. to Mr. FU Sheng with effect from 1 October 2017, 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 capital injection agreement dated 26 May 2017 entered into among Beijing Kingsoft Internet Security Software Co., Ltd., Pingtan Dingfu Investment Management Co., Ltd., Beijing Kangyuan Heart Management Consulting Centre, Limited Partnership, Beijing OrionStar Technology Co., Ltd., Mr. FU Sheng, Beijing Shougang Fund Co., Ltd., Tianjin Purple Cow Asset Management Limited Partnership and ZHANG Wenlong in relation to, among other things, the proposed investment by Beijing Kingsoft Internet Security Software Co., Ltd. in Beijing OrionStar Technology Co., Ltd., 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 (including the grant of Mr. FU's Option and the possible transactions contemplated thereunder) contemplated thereunder and the implementation thereof and any other agreements or documents in connection herewith be and are hereby approved, ratified and confirmed; and

(iii) 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 voting proxy agreement dated 12 February 2017 and the capital injection agreement dated 26 May 2017 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, 14 September 2017

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

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 announcement, 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.*