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**Kingsoft Corporation Limited**

**金山軟件有限公司**

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

**(Stock Code: 03888)**

## **CONTINUING CONNECTED TRANSACTIONS GAME OPERATION AGREEMENT WITH TENCENT SHENZHEN**

On 19 February 2016, Season and Tencent Shenzhen entered into the Game Operation Agreement, pursuant to which, the Group will license Tencent Group to operate and Tencent Group will operate the on-line games developed and owned by the Group or the on-line games licensed to be operated by the Group.

Season is a subsidiary of the Company. Tencent is a substantial shareholder of Cheetah, a subsidiary of the Company. Tencent Shenzhen is a subsidiary of Tencent. Therefore, Tencent Shenzhen is a connected person of the Company at the subsidiary level. As such, the Game Operation Agreement entered into between Season and Tencent Shenzhen and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Directors have approved such transactions and the independent non-executive Directors have confirmed that the terms of such transactions are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole, the Game Operation Agreement is only subject to the announcement and annual review requirements but exempted from independent shareholders' approval.

### **1 INTRODUCTION**

On 19 February 2016, Season and Tencent Shenzhen entered into the Game Operation Agreement, pursuant to which, the Group will license Tencent Group to operate and Tencent Group will operate the on-line games developed and owned by the Group or the on-line games licensed to be operated by the Group.

## 2 PRINCIPAL TERMS OF THE GAME OPERATION AGREEMENT

The principal terms of the Game Operation Agreement are summarized as follows:

Date	19 February 2016
Term	19 February 2016 to 31 January 2019
Parties	Seasun Tencent Shenzhen
Subject matter	The Group will license Tencent Group to operate and Tencent Group will operate the on-line games (including but not limited to mobile games and PC games) developed and owned by the Group or the on-line games (including but not limited to mobile games and PC games) licensed to be operated by the Group, through platforms such as website, software, PC products and mobile products, etc. The operation of such on-line games by Tencent Group includes but is not limited to the distribution of on-line games, operation by way of exclusive licensing or joint operation of on-line games and etc.
Pricing basis	<p>With reference to the quality of the on-line game, the scope of licensed area, the licensed operation platform and the operation model, the parties agreed on two types of pricing methods for determining the fees payable by Tencent Group to the Group for operating the on-line games under the Game Operation Agreement, namely (i) sharing the revenue generated from the operation of the on-line games in an agreed proportion; and (ii) sharing the revenue generated from the operation of the on-line games in an agreed proportion plus charging the licensing fees for the on-line games.</p> <p>The agreed proportion and the licensing fees shall be determined based on the prevailing fair market price in the same industry, the price offered by or reasonable profit margin of an independent third party when conducting the similar transactions.</p>

The operation department of the relevant subsidiary of the Company is responsible for the initial determination of the pricing of the on-line games. For the operation of relevant on-line game by Tencent Group, the operation department of the relevant subsidiary of the Company will recommend a fee proposal with primary reference to the game development costs, the number of users of the operation platform, the operation model and the terms of similar transactions in the same industry. To ensure the fees charged to Tencent Group are fair and reasonable and no more favorable than those charged to independent third parties by the Group, the Group has adopted relevant supervision and internal control procedures to ensure that the pricing basis for each of the transactions are carried out in accordance with the above terms, including requiring documentation and performance of fair pricing analysis, final review and approval by the chief executive officer and the person in charge of finance of the relevant subsidiary of the Company who are independent of Tencent Group.

Payment terms	To be settled with reference to the prevailing market payment terms of the transactions of a similar kind.
Individual contracts	The Group and Tencent Group will enter into individual contracts for the transactions contemplated under the Game Operation Agreement.

### 3 ANNUAL CAPS AND BASIS OF DETERMINATION

The table below sets out the actual transaction amounts payable by Tencent Group to the Group for operating the on-line games for the year ended 31 December 2015. The table also sets out the proposed annual caps under the Game Operation Agreement for the period from 19 February 2016 to 31 December 2016, the year ending 31 December 2017, the year ending 31 December 2018 and the period from 1 January 2019 to 31 January 2019, respectively.

	Historical amount		Proposed annual caps		
	For the year ended 31 December 2015	For the period from 19 February 2016 to 31 December 2016	For the year ending 31 December 2017	For the year ending 31 December 2018	For the period from 1 January 2019 to 31 January 2019
Fees payable by Tencent Group to the Group	29.67	393.48	960.37	583.59	36.74

*RMB' million*

The following factors have been taken into consideration for setting the proposed annual caps of the fees payable by Tencent Group to the Group for operating the on-line games under the Game Operation Agreement: (i) historical and projected demand for on-line game operation of the Group; (ii) the estimated number of users of the on-line games provided by the Group; (iii) the purchase price of virtual items of such on-line games; and (iv) two mobile games newly developed by Seasun in which Seasun has devoted significant resources that will be licensed to and operated by Tencent Group. The one-off licensing fees (where applicable) of on-line games and the prepaid revenue payable by Tencent Group to the Group are amortized to the contract term of the Game Operation Agreement for estimating the proposed annual caps.

In order to ensure that the amount of transactions contemplated under the Game Operation Agreement will not exceed the proposed annual caps, the Group will carry out periodical monitoring of the total historical transactions amount and estimating the amount of transactions that may possibly be incurred.

#### **4 REASONS FOR AND BENEFITS OF THE TRANSACTIONS**

Tencent is a leading provider of internet value-added services. The Company believes that the operation by Tencent Group of the on-line games developed and owned by the Group or the on-line games licensed to be operated by the Group is expected to attract more game users for the on-line games provided by the Group, which in return will generate revenue for the Group. In addition, such arrangement will also promote the potential long-term business relationship and coordination between the Group and Tencent Group.

The Directors, including the independent non-executive Directors, consider that the terms of the Game Operation Agreement are entered into on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

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

Seasun is a subsidiary of the Company. Tencent is a substantial shareholder of Cheetah, a subsidiary of the Company. Tencent Shenzhen is a subsidiary of Tencent. Therefore, Tencent Shenzhen is a connected person of the Company at the subsidiary level. As such, the Game Operation Agreement entered into between Seasun and Tencent Shenzhen and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the Directors have approved such transactions and the independent non-executive Directors have confirmed that the terms of such transactions are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole, the Game Operation Agreement is only subject to the announcement and annual review requirements but exempted from independent shareholders' approval.

Given that Mr. Chi Ping LAU is a director of Tencent, he has, therefore, abstained from voting in respect of the relevant Board resolution approving the Game Operation Agreement. Save as stated above, none of the Directors has a material interest in the Game Operation Agreement nor has any of them abstained from voting in respect of the relevant Board resolution.

## **6 INFORMATION ABOUT THE PARTIES**

The Group is a leading internet based software developer, distributor and service provider and principally engaged in research, development and operation of online games and office application software, information security software, internet browser, mission critical mobile applications, and provision of cloud storage, cloud computation, online marketing services and internet value-added services across device.

Seasun is mainly engaged in the research and development of on-line and mobile games.

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

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

## 7 DEFINITIONS

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“BVI”	British Virgin Islands
“Cayman”	Cayman Islands
“Cheetah”	Cheetah Mobile Inc. (formerly known as Kingsoft Internet Software Holdings Limited), a company incorporated under the laws of the Cayman and a non-wholly owned subsidiary of the Company
“Company”	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the BVI on 20 March 1998 and discontinued in the BVI and continued into the Cayman on 15 November 2005, with its shares listed on the Stock Exchange (stock code: 3888)
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Game Operation Agreement”	the On-line Game Operation Strategic Cooperation Agreement entered into between Season and Tencent Shenzhen on 19 February 2016, pursuant to which, the Group will license Tencent Group to operate and Tencent Group will operate the on-line games developed and owned by the Group or the on-line games licensed to be operated by the Group
“PRC”	the People’s Republic of China, which, for the purpose of this announcement only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Season”	Season Holdings Limited, a non-wholly owned subsidiary of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Tencent”	Tencent Holdings Limited, a limited liability company organised and existing under the laws of Cayman and the shares of which are listed on the Stock Exchange
“Tencent Group”	Tencent and its subsidiaries and their respective associates
“Tencent Shenzhen”	Shenzhen Tencent Computer Systems Company Limited ( 深圳市騰訊計算機系統有限公司 ), a subsidiary of Tencent
%	percent

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

Hong Kong, 19 February 2016

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