
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to 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 adviser.

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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

**(1) CONTINUING CONNECTED TRANSACTIONS
BETWEEN THE GROUP AND XIAOMI GROUP:
PROVISION OF CLOUD SERVICES
AND PROMOTION SERVICES BY THE GROUP,
AND JOINT OPERATION OF GAMES PROVIDED BY THE GROUP;
(2) AMENDMENTS TO THE SEASON SHARE OPTION SCHEME;
(3) AMENDMENTS TO THE KINGSOFT CLOUD
SHARE OPTION SCHEME; AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders
with respect to the Non-exempt Transactions**



**建泉融資有限公司
VBG Capital Limited**

A letter from the Board is set out on pages 3 to 15 of this circular and a letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on page 16 of this circular. A letter of advice from VBG Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 32 of this circular.

A notice convening the EGM of the Company to be held at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC on Monday, 26 December 2016 at 2:00 p.m. is set out on pages 41 to 42 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.

Hong Kong, 10 December 2016

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	3
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	16
LETTER FROM VBG CAPITAL	17
APPENDIX I — GENERAL INFORMATION	33
APPENDIX II — DETAILS OF THE PROPOSED AMENDMENTS TO THE SEASUN SHARE OPTION SCHEME	38
APPENDIX III — DETAILS OF THE PROPOSED AMENDMENTS TO THE KINGSOFT CLOUD SHARE OPTION SCHEME	39
NOTICE OF EXTRAORDINARY GENERAL MEETING	41

DEFINITIONS

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

“associate”	has the meaning as ascribed thereto in the Listing Rules
“Board”	the board of the Directors
“Company”	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its shares listed on the Stock Exchange
“connected person”	has the meaning as ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC on Monday, 26 December 2016 at 2:00 p.m.
“Framework Agreement”	the agreement entered into between the Company and Xiaomi on 6 December 2016, pursuant to which (i) the Group will provide various services to Xiaomi Group, mainly including the cloud services and the promotion services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) Xiaomi Group will provide various services to the Group, mainly including the promotion services; and (iv) Xiaomi Group will provide its products to the Group (please refer to the announcement of the Company dated 6 December 2016 for details)
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“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 Non-exempt Transactions and the Proposed Annual Caps
“Independent Financial Adviser” or “VBG Capital”	VBG Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, acting as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions and their respective Proposed Annual Caps
“Independent Shareholders”	the shareholders of the Company who are not required to abstain from voting in respect of the Non-exempt Transactions and their respective Proposed Annual Caps
“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

DEFINITIONS

“Kingsoft Cloud Share Option Scheme”	the share option scheme of Kingsoft Cloud adopted by ordinary resolutions of the shareholders of Kingsoft Cloud and the Company on 27 February 2013
“Latest Practicable Date”	7 December 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Non-exempt Transactions”	the non-exempt transactions between the Group and Xiaomi Group under the Framework Agreement which are subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements pursuant to the Listing Rules, namely the provision of cloud services and promotion services by the Group to Xiaomi Group and the joint operation of games provided by the Group with Xiaomi Group
“PRC” or “China”	the People’s Republic of China which, for the purpose of this circular only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Proposed Annual Caps”	the respective proposed annual caps for the three years ending 31 December 2019 in respect of the fees payable by Xiaomi Group for the Non-exempt Transactions
“RMB”	Renminbi, the lawful currency of the PRC
“Seasun”	Seasun Holdings Limited, previously known as Westhouse Holdings Limited, a subsidiary of the Company as of the Latest Practicable Date
“Seasun Share Option Scheme”	the share option scheme of Seasun adopted by ordinary resolutions of the shareholders of Seasun and the Company on 27 June 2013
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning as ascribed thereto in the Listing Rules
“Substantial shareholder(s)”	has the same meaning as ascribed thereto in the Listing Rules
“Xiaomi”	Xiaomi Corporation, a limited liability company organized under the laws of the Cayman Islands
“Xiaomi Group”	Xiaomi and its subsidiaries
“%”	percent



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

Clifton House

75 Fort Street

P.O. Box 1350 GT

George Town

Grand Cayman KY1-1108

Cayman Islands

Principal Place of Business

in Hong Kong

Unit 1309A, 13/F

Cable TV Tower

No. 9 Hoi Shing Road

Tsuen Wan, N.T.

Hong Kong

Hong Kong, 10 December 2016

To the Shareholders

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS
BETWEEN THE GROUP AND XIAOMI GROUP:
PROVISION OF CLOUD SERVICES
AND PROMOTION SERVICES BY THE GROUP,
AND JOINT OPERATION OF GAMES PROVIDED BY THE GROUP
(2) AMENDMENTS TO THE SEASUN SHARE OPTION SCHEME
(3) AMENDMENTS TO THE KINGSOFT CLOUD
SHARE OPTION SCHEME**

1. INTRODUCTION

References are made to the (i) announcement of the Company dated 1 December 2014 in relation to the framework agreement entered into between the Company and Xiaomi to regulate the various ongoing transactions between the two parties for the two years ending 31 December 2016; and (ii) the announcement of the Company dated 6 December 2016 in relation to the Framework Agreement entered into between the Company and Xiaomi to regulate the ongoing transactions between the two parties for the three years ending 31 December 2019, among which the Non-exempt Transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to the Listing Rules.

LETTER FROM THE BOARD

References are made to the circular of the Company dated 11 June 2013 and the announcement of the Company dated 27 June 2013 in relation to the adoption of the Season Share Option Scheme. The Company proposes to amend certain terms of the Season Share Option Scheme, which is subject to the Shareholders' approval pursuant to the Listing Rules.

References are also made to the circulars of the Company dated 7 February 2013, 11 June 2013 and 21 April 2015 and the announcements of the Company dated 27 February 2013, 27 June 2013 and 20 May 2015 in relation to the adoption and amendments of the Kingsoft Cloud Share Option Scheme. The Company proposes to amend certain terms of the Kingsoft Cloud Share Option Scheme, which is subject to the Shareholders' approval pursuant to the Listing Rules.

The purpose of this circular is to provide you with information, among others, (i) further details of the Non-exempt Transactions; (ii) the proposed amendments to the Season Share Option Scheme; (iii) the proposed amendments to the Kingsoft Cloud Share Option Scheme; (iv) the letter of recommendation from Independent Board Committee to the Independent Shareholders in respect of the Non-exempt Transactions and the Proposed Annual Caps; (v) the letter from VBG Capital to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions and the Proposed Annual Caps; and (vi) a notice of the EGM, to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the EGM.

2. THE NON-EXEMPT TRANSACTIONS

2.1 Background

The Group has set up a stable long-term business relationship with Xiaomi Group. On 1 December 2014, the Company and Xiaomi entered into a framework agreement to regulate the various ongoing transactions between the two parties for the two years ending 31 December 2016.

In order to renew the transactions under the previous framework agreement for the next three years ending 31 December 2019, the Company and Xiaomi entered into the Framework Agreement. Pursuant to the Framework Agreement, (i) the Group will provide various services to Xiaomi Group, mainly including the cloud services and the promotion services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) Xiaomi Group will provide various services to the Group, mainly including the promotion services; and (iv) Xiaomi Group will provide its products to the Group. For details, please refer to the announcement of the Company dated 6 December 2016.

Each of the highest percentage ratios (as defined in the Listing Rules) in respect of (1) the proposed annual caps for the fees payable by Xiaomi Group to the Group in connection with the provision of promotion services and cloud services by the Group for the three years ending 31 December 2019; and (2) the proposed annual caps for the fees payable by Xiaomi Group to the Group in connection with the joint operation of games provided by the Group for the three years ending 31 December 2019 exceeds 5%. As such, the Non-exempt Transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In order to enable the Independent Shareholders to make an informed decision, the Company sets out further details of the Non-exempt Transactions.

LETTER FROM THE BOARD

2.2 Principal Terms of the Non-Exempt Transactions

Agreement date:	6 December 2016
Parties:	the Company; and Xiaomi
Terms:	three years from 1 January 2017 to 31 December 2019
Condition precedent:	The Non-exempt Transactions under the Framework Agreement are subject to the Independent Shareholders' approval.
Scope of the Non-exempt Transactions:	<p>(i) <i>Provision of cloud services by the Group</i></p> <p>The Group will provide Xiaomi Group the cloud services developed by the Group, including but not limited to the cloud storage and cloud computing services.</p> <p>(ii) <i>Provision of promotion services by the Group</i></p> <p>The Group will also provide Xiaomi Group the promotion services via the Group's products and websites for the sale of Xiaomi Group's smart devices and related products.</p> <p>(iii) <i>Joint operation of games provided by the Group</i></p> <p>The Group will license Xiaomi Group to operate and Xiaomi Group will operate games developed and owned by the Group or the games licensed to be operated by the Group, through platforms such as website, software, PC products and mobile products. Such operation will mainly include operation by way of exclusive licensing and operation by way of non-exclusive licensing.</p> <p>Under the operation by way of exclusive licensing, Xiaomi Group has exclusive rights to operate the games provided by the Group. The Group will be primarily responsible for game content and relevant updates, and Xiaomi Group will be primarily responsible for platforms operation, online promotion, distribution of games and customer services.</p> <p>Under the operation by way of non-exclusive licensing, the Group has the right to license a third party other than Xiaomi Group to operate the games provided by the Group. The Group will be primarily responsible for game content, relevant updates and customer services, and Xiaomi Group will be primarily responsible for operation on its own platforms and online promotion.</p>

LETTER FROM THE BOARD

Pricing principle:

The fees for the Non-exempt Transactions shall be determined based on the following principles:

(i) *With respect to cloud services provided by the Group:*

- (a) the fees charged for cloud services are calculated with reference to the cloud storage space provided and the volume of cloud data transferred;
- (b) the fees shall be determined after arm's length negotiation with Xiaomi Group after taking into account the costs for providing the services, the volume of the services rendered and a reasonable profit of the Group; and
- (c) the fees shall be no more favorable to Xiaomi Group than those provided to independent third parties for services rendered on similar technical specifications and volume.

The Company does not have a pre-determined formula for the fee proposal. The sales department of the Group is responsible for the initial determination of the pricing of the cloud services. When Xiaomi Group approaches the Group in respect of the potential services, the sales department of the Group will recommend a fee proposal with primary reference to the costs, number of users, purchase volume and prevailing market price. Fees charged for each unit will be relatively lower for a larger purchase volume as the unit user cost will be lower with a larger user base. Other factors, such as resources and technology required will also be considered. The more sophisticated and cutting-edge the resources and technology involved are, the more fees will be charged by the Company for providing such services. In addition to the above factors, there are no specific range of mark-up to be included in the fee. Upon final review by chief executive officer and/or sales director of the relevant subsidiary of the Company who are independent of Xiaomi Group, the fee proposal will be proposed to Xiaomi Group for consideration and negotiation.

(ii) *With respect to promotion services provided by the Group:*

- (a) the fees shall be determined with reference to a number of factors including the position of the advertisement, the features selected, the term of the promotion, website traffic and data flow of the Group's products and websites; and

LETTER FROM THE BOARD

- (b) such fees should also be applicable to all clients for the same kind of services.

As there are many variables in determining the price of promotion services, such as the popularity of the products that carry the advertisement, the position of the advertisement, volume, features selected, term of the promotion and website traffic and data flow, it is difficult to set a benchmark for comparable promotional services offered by different providers, not to mention the determination of a “prevailing market price” in this regard.

The Company does not have a pre-determined formula for the fee proposal. The sales department of the Group is responsible for the initial determination of the pricing of the promotion services. When Xiaomi Group approaches the Group in respect of the potential services, the sales department of the Group will recommend a fee proposal with primary reference to the position of the advertisement and the features selected. Other factors, such as the term of the promotion, website traffic and data flow of the Group’s products and websites will also be considered. Generally, the fees charged for the promotion services will be higher when: (i) the website traffic and data flow of the websites where the advertisement is placed are relatively heavier; (ii) the size of the advertisement is larger; (iii) the click rate of the advertisement is higher; and/or (iv) the promotion encounters a peak advertising season or the term of the promotion is longer. In addition to the above factors, there are no specific range of mark-up to be included in the fee. Upon final review by the sales director and chief marketing officer of the relevant subsidiary of the Company who are independent of Xiaomi Group, the fee proposal will be proposed to Xiaomi Group for consideration and negotiation.

- (iii) *With respect to joint operation of games provided by the Group:*

With reference to the quality of the game, the scope of licensed area, the licensed platform and the operation model, the Group and Xiaomi Group agreed on two types of pricing principals, namely (i) sharing the allocable revenue generated from the operation of the games in an agreed proportion; (ii) sharing the allocable revenue generated from the operation of the games in an agreed proportion plus charging the licensing fees for the games.

The agreed proportion and the licensing fees shall be based on the prevailing fair market pricing rules adopted in the same industry. Under the prevailing fair market pricing rules, the proportion of allocable revenue is determined with reference to the scale, quality and estimated rate of return of products.

LETTER FROM THE BOARD

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 determining the proportion of allocable revenue and the licensing fees, it will select several comparable games in the market of similar category, scale, quality for reference of market price and also take into account the game development costs, the number of users of the operation platform and the operation model. Upon final review by the chief executive officer of the relevant subsidiary of the Company who are independent of Xiaomi Group, the fee proposal will be proposed to Xiaomi Group for consideration and negotiation.

The Company will also compare the price with those offered under at least two transactions of comparable nature (if any) with independent third party clients to ensure the fees charged are fair and reasonable and no more favorable to Xiaomi Group than those offered to independent third parties. At this stage, the Company does not have a substantial number of customers for its cloud services and promotion services of similar nature. The Company considers that choosing two available transactions of comparable nature with independent third parties as benchmarks is sufficient to ensure fees charged to Xiaomi are fair and reasonable and no more favorable to Xiaomi Group than those offered to independent third parties. If the minimum number of comparable transactions from independent third party clients is not obtained, the Company will simply follow the pricing principles as disclosed in this circular in determining the price.

The Directors are of the view that the aforementioned pricing terms are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Payment terms:

For the cloud services provided by the Group, the fees shall be payable by Xiaomi Group within 30 days upon receipt of relevant invoice.

For the promotion services provided by the Group, the fees shall be payable by Xiaomi Group within 20 days upon receipt of relevant invoice.

For the joint operation of games provided by the Group, the fees shall be payable by Xiaomi Group within approximately 30 days upon the confirmation of revenue by both parties for each settlement period.

The general payment terms above were determined with reference to similar transactions in the market and such payment terms may be revised by individual agreements.

LETTER FROM THE BOARD

2.3 Proposed Annual Caps

The table below sets out the historical amounts for the two years ended 31 December 2015 and the eight months ended 31 August 2016:

	For the year ended 31 December 2014	For the year ended 31 December 2015	For the eight months ended 31 August 2016	the annual cap for the year ending 31 December 2016
				<i>RMB million</i>
Provision of cloud services by the Group	56.93	126.66	113.07	1,400.00
Provision of promotion services by the Group	4.09	0.11	0.02	100.00
Joint operation of games provided by the Group	4.86	25.90	14.77	80.00

The Company proposes to set up the Proposed Annual Caps for the three years ending 31 December 2019 as follows:

	For the year ending 31 December 2017	For the year ending 31 December 2018	For the year ending 31 December 2019
			<i>RMB million</i>
Provision of cloud and promotion services by the Group	650.20	864.30	1025.60
Joint operation of games provided by the Group	362.90	458.90	500.10

(i) With respect to the provision of cloud services by the Group

The proposed annual caps for the fees payable by Xiaomi Group to the Group in respect of the provision of cloud services by the Group for the three years ending 31 December 2019 are determined with reference to the following factors:

- (a) *the historical transaction amount for the four years ended 31 December 2015 and the eight months ended 31 August 2016*

As referred to in the circular published by the Company on 5 December 2014, the historical amounts of fees paid by Xiaomi Group to the Group for the provision of cloud services were approximately RMB0.82 million and RMB4.98 million for the two years ended 31 December 2013 respectively. The growth rate of cloud services fee reached approximately 507.32% for the year 2013. The past two years ended 31 December 2015 and the eight months ended 31 August 2016 also witnessed a significant increase in the historical amount

LETTER FROM THE BOARD

of the fees payable by Xiaomi Group to the Group for the provision of the cloud services. The cloud services fee for the year 2014 and the year 2015 amounted to RMB56.93 million and RMB126.66 million respectively, representing an increase of approximately 1,043.17% and 122.48% as compared with that for the preceding year respectively. The compounded annual growth rate of fees paid by Xiaomi Group to the Group for the provision of cloud services exceeds 400% from 2012 to 2015. The cloud services fee for the eight months ended 31 August 2016 amounted to RMB113.07 million, which is close to the transaction amount of the entire year of 2015. For the remaining months of 2016, it is expected that the cloud services demand of Xiaomi Group from the Group will remain strong.

The cloud service is still a relatively new technology under rapid-developing stage in the PRC. With the development of the Group's cloud business, including the rapid expansion of cloud services to new market sectors, and the solid growth of cloud services demand of Xiaomi Group from the Group, the Company believes that such historical growth rate will continue in the remaining months of 2016 and the three years ending 31 December 2019. Based on the historical transaction amounts and the historical growth rate, it is expected that the services fees for the three years ending 31 December 2019 will keep increasing.

(b) the adequate buffer for the Group in case of unanticipated transactions

As the internet industry is changing rapidly, the Group and Xiaomi Group have to keep adjusting their businesses. It is possible that some unanticipated transactions which require cloud services will arise. As Xiaomi's business develops, including its live broadcast and storage business, more applications and businesses of Xiaomi will use the cloud services of the Group.

Besides, the cloud business is a dynamic business in the internet industry in which the investment market has strong confidence. Due to the rapid development of cloud technology, the application of cloud services has been expanded to various new business sectors (for example, game industry and video industry) and may be expanded to more business sectors. Thus, the Group and Xiaomi Group have to keep adjusting their businesses in a timely manner in order to cope with the possible unanticipated transactions which may require substantial amount of cloud services. It is highly likely that the cloud business will grow dramatically in the foreseeable future and the transactions in respect of the provision of cloud services by the Group to Xiaomi Group may significantly increase. As such, based on the Group's capacity of providing cloud services and the potential expansion of cloud technology application by Xiaomi Group, the Group would like to have an adequate buffer for the three years ending 31 December 2019 for the cloud services.

(ii) With respect to the provision of promotion services by the Group

The transaction amount in connection with the promotion services provided by the Group to Xiaomi Group for the year ended 31 December 2015 and the eight months ended 31 August 2016 decreased dramatically, as compared with that for the year ended 31 December 2014. The main reason is that a substantial portion of the promotion services provided by the Group to Xiaomi Group had discontinued in September 2014 due to the decrease in demand for promotion services of Xiaomi Group from the Group.

As of the Latest Practicable Date, the Group and Xiaomi Group were under negotiation of a new business cooperation in the promotion services area for certain years, among which the office-

LETTER FROM THE BOARD

software-related products of the Company may be used as the promotion platform for Xiaomi products for the first time. The new promotion channels have a stable and large user base and the Company estimates that Xiaomi Group will allocate more resources in its marketing budget for utilizing such new promotion channels.

The transaction amount in connection with the promotion services provided by the Group to Xiaomi Group had reached RMB4.09 million in the year 2014. The Company believes that based on the recovery of demand from Xiaomi Group for the promotion services of the Group and the contract amount that are currently under negotiation, the amount of fees payable by Xiaomi Group for the promotion services will recover to the level of 2014 soon and continue to increase with the deepening of the new cooperation. Considering that the transaction amount in connection with the promotion services provided by the Group to Xiaomi Group increased over 50% from RMB2.72 million to RMB4.09 million from the year 2013 to the year 2014, the Company arrived at the proposed annual caps in connection with the promotion services provided by the Group to Xiaomi Group with an adequate buffer of approximately 20%.

(iii) With respect to the joint operation of games provided by the Group

The proposed annual caps for the fees payable by Xiaomi Group to the Group in respect of the joint operation in games provided by the Group for the three years ending 31 December 2019 are determined with reference to the following factors:

(a) the recent launch of JXSJ Online Mobile Game

At the end of this September, the Group launched a new online mobile game, JXSJ Online Mobile Game (劍俠世界手機遊戲). The Group has currently operated JXSJ Online Mobile Game with Xiaomi Group through exclusive licensing to Xiaomi Group by the Group.

With great game content and successful promotion, JXSJ Online Mobile Game topped the sales and download charts of Xiaomi platform right after its launch. Relying on the core IP of JX series games (劍俠系列遊戲), the Company believes that JXSJ Online Mobile Game will have strong performance as the Group's flagship game in 2016. As of the Latest Practicable Date, the Group's revenue generated from the joint operation of JXSJ Online Mobile Game since its launch had exceeded the aggregate revenue generated from the joint operation of the other games provided by the Group to Xiaomi Group since the beginning of 2016. It is expected that the fees payable by Xiaomi Group for the joint operation of JXSJ Online Mobile Game will continue to account for a significant portion of the total fee payable by Xiaomi Group for the joint operation of all games provided by the Group for the coming three years ending 31 December 2019.

Having taken into account the recent launch of JXSJ Online Mobile Game and its performance, the Company expects that the fees payable by Xiaomi Group to the Group in respect of the joint operation in games provided by the Group will increase dramatically in the three years ending 31 December 2019.

LETTER FROM THE BOARD

- (b) *the expected introduction of new games that will be jointly operated by the Group and Xiaomi Group*

Currently, there are ten games (including JXSJ Online Mobile Game launched in September 2016) jointly operated by the Group and Xiaomi Group. The Company plans to launch more games which will be jointly operated by the two parties in the next three years ending 31 December 2019, which will also bring revenue to the Group.

2.4 Reasons for and Benefits of the Non-exempt Transactions

The Group has been proactively looking for new opportunities in the areas of Internet based software development, provision of services, and distribution of games in an effort to broaden its income sources and obtain greater market share. Xiaomi Group has long been a cooperation partner of the Group in business operation and development, especially in the realm of mobile applications. Riding on the reputation and widening acceptance of Xiaomi's series of smart phones in China, which are renowned for their advanced specifications and competitive pricing, the Directors believe that through the Non-exempt Transactions, the Group will not only benefit from increased revenue arising from the services rendered to Xiaomi Group, but will also be able to utilize Xiaomi's smart phone platform as an additional channel to promote the Group's online services and products to the ultimate mobile phone users.

The Board (including the independent non-executive Directors), having taken into account the advice of VBG Capital, is of the view that the Non-exempt Transactions are in ordinary and usual course of business of the Group, the terms of the Framework Agreement in relation to the Non-exempt Transactions (including the Proposed Annual Caps) are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2.5 Implications under the Listing Rules

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial Shareholder of the Company. Mr. Jun LEI holds a majority of voting power in Xiaomi, while other interests of Xiaomi are held by independent third parties. As such, Xiaomi is a connected person of the Company. Therefore, the Non-exempt Transactions under the Framework Agreement will become continuing connected transactions of the Company under the Listing Rules.

Each of the highest percentage ratios (as defined in the Listing Rules) in respect of (1) the proposed annual caps for the fees payable by Xiaomi Group to the Group in connection with the provision of promotion services and cloud services by the Group for the three years ending 31 December 2019; and (2) the proposed annual caps for the fees payable by Xiaomi Group to the Group in connection with the joint operation of games provided by the Group for the three years ending 31 December 2019 exceeds 5%. As such, the Non-exempt Transactions are subject to the announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, the Shareholders with a material interest in the Non-exempt Transactions and their respective associates shall abstain from voting on the relevant respective resolution(s). Xiaomi is an associate of Mr. Jun LEI. As at the Latest Practicable Date, Mr. Jun LEI and his associates can exercise control over the voting right in respect of 352,830,251 Shares at the Company's general meeting, representing 27.07% equity interest in the Company. Among these 352,830,251 Shares, the 142,714,003 Shares are exercised by Mr. Jun LEI under a voting trust arrangement. Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, together holding 142,714,003

LETTER FROM THE BOARD

Shares, entered into a voting consent agreement with Mr. Jun LEI to vest their entire voting power in respect of the 142,714,003 Shares. In view of his interest in Xiaomi, Mr. Jun LEI has abstained from voting on the Board resolution approving the Framework Agreement.

Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under the Framework Agreement and none of them has abstained from voting on the relevant Board resolution.

2.6 Information on 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.

Xiaomi Group is one of the leading providers of smart devices in the PRC. It is principally engaged in the design, research, development and sales of smart devices and the provision of mobile internet services.

3. AMENDMENT TO THE SEANSUN SHARE OPTION SCHEME

3.1 Proposed Amendment to the Season Share Option Scheme

Season was previously known as Westhouse Holdings Limited when the Season Share Option Scheme was adopted on 27 June 2013. As of the Latest Practicable Date, Season is a non-wholly-owned subsidiary of the Company. The principal terms of the Season Share Option Scheme are set out in the circular of the Company dated 11 June 2013 in relation to the adoption of the Season Share Option Scheme.

To improve the attractiveness of the Season Share Option Scheme as incentive or reward to the eligible participants, the Board wishes to make certain amendments to the Season Share Option Scheme in accordance with the provisions of the Listing Rules. The full details of the proposed amendments are set out in **Appendix II** to this circular.

Apart from the proposed amendments as set out in the appendix, all other existing terms of the Season Share Option Scheme will remain unchanged.

3.2 Conditions of the Proposed Amendment to the Season Share Option Scheme

The proposed amendments to the Season Share Option Scheme are conditional upon the approvals of the shareholders of the Company and Season.

As no Shareholder has interest in the proposed amendment to the Season Share Option Scheme, none of the Shareholders is required to abstain from voting on the relevant resolution at the EGM.

LETTER FROM THE BOARD

4. AMENDMENT TO THE KINGSOFT CLOUD SHARE OPTION SCHEME

4.1 Proposed Amendment to the Kingsoft Cloud Share Option Scheme

As of the Latest Practicable Date, Kingsoft Cloud is a non-wholly-owned subsidiary of the Company. The principal terms of the Kingsoft Cloud Share Option Scheme are set out in the circular of the Company dated 7 February 2013 in relation to the adoption of the Kingsoft Cloud Share Option Scheme, which was further amended as set out in the circular of the Company dated 11 June 2013 and 21 April 2015.

To improve the flexibility of exercising options and because of the change of management of Kingsoft Cloud, the Board wishes to make certain amendments to the Kingsoft Cloud Share Option Scheme in accordance with the provisions of the Listing Rules. The full details of the proposed amendments are set out in **Appendix III** to this circular.

Apart from the proposed amendments as set out in the appendix, all other existing terms of the Kingsoft Cloud Share Option Scheme will remain unchanged.

4.2 Conditions of the Proposed Amendment to the Kingsoft Cloud Share Option Scheme

The proposed amendments to the Kingsoft Cloud Share Option Scheme are conditional upon the approvals of the shareholders of the Company and Kingsoft Cloud.

As no Shareholder has interest in the proposed amendment to the Kingsoft Cloud Share Option Scheme, none of the Shareholders is required to abstain from voting on the relevant resolution at the EGM.

5. EGM

The EGM which will be held at 2:00 p.m. on Monday, 26 December 2016 at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC, to consider and, if thought fit, approve, among other matters, (i) the Framework Agreement, the Non-exempt Transactions and the Proposed Annual Caps; (ii) the proposed amendments to the terms of the Season Share Option Scheme; and (iii) the proposed amendments to the terms of Kingsoft Cloud Share Option Scheme.

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.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the EGM must be taken by poll. The Chairman of the EGM will demand a poll for the resolutions to be proposed at the EGM in accordance with the memorandum and articles of association of the Company. The results of the voting will be announced in accordance with Rule 2.07C of the Listing Rules after conclusion of the EGM.

LETTER FROM THE BOARD

6. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 16 of this circular. Your attention is also drawn to the letter of advice from VBG Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders set out on pages 17 to 32 of this circular.

The Board (including the independent non-executive Directors) recommends that the Shareholders should vote in favour of the ordinary resolutions as set out in the notice of the EGM.

7. ADDITIONAL INFORMATION

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

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



Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

Hong Kong, 10 December 2016

To the Independent Shareholders

Dear Sir or Madam,

**PROVISION OF CLOUD SERVICES,
PROVISION OF PROMOTION SERVICES AND
JOINT OPERATION OF GAMES PROVIDED BY THE GROUP**

We refer to the circular dated 10 December 2016 issued by the Company to the Shareholders (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Framework Agreement in relation to the Non-exempt Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

VBG Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. We wish to draw your attention to the letter of advice issued by VBG Capital which is set out on pages 17 to 32 of the Circular.

Having considered the advice of VBG Capital, we are of the view that the Non-exempt Transactions are in ordinary and usual course of business of the Group, and the terms of the Framework Agreement in relation to the Non-exempt Transactions (including the Proposed Annual Caps) are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution regarding the Framework Agreement (including the Proposed Annual Caps) as set out in the notice of 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

LETTER FROM VBG CAPITAL

Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions for the purpose of inclusion in this circular.



18/F., Prosperity Tower
39 Queen's Road Central
Hong Kong

10 December 2016

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS BETWEEN THE GROUP AND THE XIAOMI GROUP

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 Non-exempt Transactions, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 10 December 2016 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Terms used in this letter of advice shall have the same meanings as ascribed to them under the section headed “Definitions” in the Circular unless the context requires otherwise.

The Group has set up a stable long-term relationship with the Xiaomi Group. On 1 December 2014, the Company and Xiaomi entered into a framework agreement to regulate the various ongoing transactions between the two parties for the two years ending 31 December 2016.

In order to renew the transactions under the previous framework agreement for the next three years ending 31 December 2019, the Company and Xiaomi entered into the Framework Agreement on 6 December 2016. Pursuant to the Framework Agreement, among other things, (i) the Group will provide the cloud services as well as the promotion services to the Xiaomi Group; and (ii) the Group will jointly operate games with the Xiaomi Group.

According to the Letter from the Board, the Non-exempt Transactions constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising, Mr. Shun Tak WONG, Mr. David Yuen Kwan TANG and Ms. Wenjie WU (all being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Non-exempt Transactions (including the Proposed Annual Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Non-exempt Transactions 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 Non-exempt Transactions at the EGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

LETTER FROM VBG CAPITAL

BASIS OF OUR OPINION

In formulating our opinion with regard to the Non-exempt Transactions, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the announcement of the Company regarding the Non-exempt Transactions dated 6 December 2016 and the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the Circular. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group 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 management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that 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 in the Circular 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 or future prospects of the Group, the Xiaomi Group or their respective shareholders, subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt Transactions. Our opinion is necessarily based on the market, financial, economic 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 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. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of such information.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from the existing engagement in connection with the Non-exempt Transactions, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Xiaomi or any of their respective associates. We consider ourselves independent to form our opinion in respect of the Non-exempt Transactions.

LETTER FROM VBG CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempt Transactions, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Non-exempt Transactions

Business and financial overview of the Group

The Group is a leading internet based software developer, distributor and service provider and is 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.

Set out below is a summary of the consolidated financial information of the Group for the six months ended 30 June 2016 and the two years ended 31 December 2015 and 2014 as extracted from the Company's interim report for the six months ended 30 June 2016 (the "**2016 Interim Report**") and its annual report for the year ended 31 December 2015 (the "**2015 Annual Report**"), respectively:

	For the six months ended 30 June 2016	For the year ended 31 December 2015	For the year ended 31 December 2014
	(unaudited)	(audited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3,516,575	5,676,106	3,350,133
— Online game	933,664	1,368,811	1,252,753
— Cheetah Mobile	2,099,200	3,561,739	1,674,060
— Cloud services, office software and others (<i>Note 1</i>)	483,711	745,556	423,320
Gross profit	2,486,383	4,356,707	2,760,478
Operating profit	227,260	542,049	507,957
(Loss) for the period/profit for year	(785,474) (<i>Note 2</i>)	341,704	866,567

Notes:

- (1) This business segment was defined as "Office software and others" for the two years ended 31 December 2015.
- (2) The Group recorded other losses of approximately RMB932.6 million for the six months ended 30 June 2016, as compared to gains of approximately RMB5.8 million in corresponding period of the prior year. According to the 2016 Interim Report, the losses in 2016 were mainly a result of the provisions for impairment on the carrying value of the Group's investments in XunLei Limited and 21Vianet Group, Inc.

LETTER FROM VBG CAPITAL

As depicted by the above table, the Group's total revenue increased by approximately 69% for the year ended 31 December 2015 as compared to the prior year. The Group derives its revenue from three principal businesses, namely the online game business, Cheetah Mobile business and the cloud services, office and software and others business.

With reference to the 2015 Annual Report, revenue from the online game business mainly consists of revenues from operations of proprietary PC-based online games, mobile games, and game licensing services, which are generated from the Group's companies other than Cheetah Mobile and its subsidiaries, through research, development and provision of online games across devices. During 2015, revenue from the online game business increased by approximately 9% as compared to the prior year. This was primarily attributable to the healthy growth of the Group's flagship game, JX Online III 《劍網3》 with growing user base through release of a series of expansion packs, improvement of game experiences, and to a lesser extent, the contribution from mobile games.

As for the revenue from Cheetah Mobile business, it mainly consists of revenues from online marketing services, internet value-added services, and internet security services and others, which are generated from Cheetah Mobile and its subsidiaries through research, development and operation of information security software, internet browser, mission critical mobile applications, and operation of games and provision of global content distribution channel for its business partners. During 2015, revenue from Cheetah Mobile business increased by approximately 113% as compared to the prior year. Such increase was primarily driven by Cheetah Mobile's organic business growth, which was attributable to its growing global mobile user base and substantial improvements in mobile monetization, especially in the overseas market.

Lastly, revenue from the office software and others business consists of revenues from all the other businesses, including office application software, cloud storage and computing services, dictionary services, etc. During 2015, revenue from the office software and others business increased by approximately 76% as compared to the prior year. This was primarily attributable to the rapid expansion of cloud services to new market sectors and solid growth of cloud storage demand from Xiaomi, together with the significant improvement in the monetization capabilities of WPS free user traffic.

As referred to in the 2016 Interim Report, revenues from the online game business, Cheetah Mobile business and the cloud services, office software and others business increased by approximately 50%, 35% and 124% respectively for the six months ended 30 June 2016, as compared to corresponding period of the prior year. Revenue from the online game business increased mainly due to the improvement on user engagement and monetization ability of JX Online III, supported by a series of innovative expansion packs and promotion activities; whereas revenue from Cheetah Mobile increased mainly due to the increase in Cheetah Mobile's mobile advertising revenue, which was driven by its growing global mobile user base, and increased demand from advertisers, as well as the monetization of light casual games through in-game advertising. With regard to revenue from the cloud services, office software and others business, the increase was mainly due to a combination of (i) robust growth momentum of cloud storage and cloud computation services of Kingsoft Cloud Holdings Limited, driven by rapidly increased usage of services, especially from mobile video and mobile game industries; (ii) the increase in online marketing revenue from WPS Office, driven by increased monetization of user activities of free user traffic of WPS PC version; and (iii) the steady growth in revenue from traditional WPS sales.

LETTER FROM VBG CAPITAL

Information on Xiaomi

As extracted from the Letter from the Board, the Xiaomi Group is one of the leading providers of smart devices in the PRC. It is principally engaged in the design, research, development and sales of smart devices and the provision of mobile internet services.

Market overview

According to a press release published by International Data Corporation (“IDC”), a global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets, on 10 August 2016, worldwide revenues from public cloud services are expected to reach more than United States Dollars (USD) 195 billion in 2020. This will be more than double the USD96.5 billion in revenues forecast for 2016 and represents a compound annual growth rate (CAGR) of approximately 20.4% over the 2015-2020 forecast period. On 14 September 2016, IDC also revealed that the public cloud services market in Asia/Pacific (excluding Japan) (APeJ) territories showed strong year on year growth of approximately 41.9% in 2015.

As extracted from the latest quarterly update of the Global Games Market Report (the “Update”) released by Newzoo, a global market intelligence firm specialised in games, esports and mobile with offices in Amsterdam, San Francisco and Shanghai and partner offices in six other cities around the world, on 21 April 2016, gamers worldwide will generate a total of approximately USD99.6 billion in revenues in 2016, up by approximately 8.5% as compared to 2015. For the first time, mobile gaming will take a larger share than personal computer. The Asia Pacific (APAC) territories continue to dominate worldwide, accounting for approximately 47% of the market. The PRC alone accounts for one quarter of all global game revenues. Newzoo expects the global market to grow with a CAGR of approximately 6.6% towards 2019, eventually reaching approximately USD118.6 billion with mobile gaming at approximately USD52.5 billion.

As also extracted from the Update, the APAC territories will generate approximately USD46.6 billion in 2016, or approximately 47% of total global game revenues. Such growth represents an approximate 10.7% year on year increase. The PRC alone accounts for half of the APAC’s revenues, reaching approximately USD24.4 billion in 2016 to cement its place as the largest games market in the world, ahead of the United States’ anticipated market size of approximately USD23.5 billion. The mobile online game segment in the PRC is growing even faster than estimated and will reach approximately USD10.0 billion in 2016, up by approximately 41% from USD7.1 billion in 2015. The PRC will remain the largest games market for the foreseeable future, expanding to approximately USD28.9 billion by 2019.

Reasons for and possible benefits of the Non-exempt Transactions

According to the Letter from the Board, the Group has been proactively looking for new opportunities in the areas of internet based software development, provision of services, and distribution of games in an effort to broaden its income sources and obtain greater market share. The Xiaomi Group has long been a cooperation partner of the Group in business operation and development, especially in the realm of mobile applications. Riding on the reputation and widening acceptance of Xiaomi’s series of smart phones in the PRC, which are renowned for their advanced specifications and competitive pricing, the Directors believe that through the Non-exempt Transactions, the Group will not only benefit from increased revenue arising from the services

LETTER FROM VBG CAPITAL

rendered to the Xiaomi Group, but will also be able to utilise Xiaomi's smart phone platform as an additional channel to promote the Group's online services and products to the ultimate mobile phone users.

In light of (i) the favourable statistics as presented under the sub-section headed "Market overview" of this letter of advice; and (ii) the above reasons for and possible benefits of the Non-exempt Transactions, we concur with the Directors that the Non-exempt Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Non-exempt Transactions

A summary of the principal terms of the Non-exempt Transactions as stipulated under the Framework Agreement is set out below:

Date:	6 December 2016
Parties:	The Company; and Xiaomi
Term:	Three years from 1 January 2017 to 31 December 2019
Condition precedent:	The Framework Agreement is subject to the Independent Shareholders' approval.
Scope of the Non-Exempt Transactions:	<p>(i) <i>Provision of cloud services</i></p> <p>The Group will provide the Xiaomi Group the cloud services developed by the Group, including but not limited to the cloud storage and cloud computing services.</p> <p>(ii) <i>Provision of promotion services</i></p> <p>The Group will also provide the Xiaomi Group the promotion services via the Group's products and websites for sale of the Xiaomi Group's smart devices and related products.</p> <p>(iii) <i>Joint operation of games provided by the Group</i></p> <p>The Group will license the Xiaomi Group to operate and the Xiaomi Group will operate games developed and owned by the Group or the games licensed to be operated by the Group, through platforms such as website, software, PC products and mobile products. Such operation will mainly include operation by way of exclusive licensing and operation by way of non-exclusive licensing.</p>

LETTER FROM VBG CAPITAL

Under the operation by way of exclusive licensing, the Xiaomi Group has exclusive rights to operate the games provided by the Group. The Group will be primarily responsible for game content and relevant updates, and the Xiaomi Group will be primarily responsible for platforms operation, online promotion, distribution of games and customer services.

Under the operation by way of non-exclusive licensing, the Group has the right to license a third party other than the Xiaomi Group to operate the games provided by the Group. The Group will be primarily responsible for game content, relevant updates and customer services, and the Xiaomi Group will be primarily responsible for operation on its own platforms and online promotion.

Pricing principle:

The fees for the Non-exempt Transactions shall be determined based on the following principles:

- (i) *With respect to cloud services:*
 - (a) the fees charged for cloud services are calculated with reference to the cloud storage space provided and the volume of cloud data transferred;
 - (b) the fees shall be determined after arm's length negotiation with the Xiaomi Group after taking into account the costs for providing the services, the volume of the services rendered and a reasonable profit of the Group; and
 - (c) the fees shall be no more favourable to the Xiaomi Group than those provided to independent third parties for services rendered on similar technical specifications and volume.

LETTER FROM VBG CAPITAL

The Company does not have a pre-determined formula for the fee proposal. The sales department of the Group is responsible for the initial determination of the pricing of the cloud services. When the Xiaomi Group approaches the Group in respect of the potential services, the sales department of the Group will recommend a fee proposal with primary reference to the costs and number of users, purchase volume and prevailing market price. Fees charged for each unit will be relatively lower for a larger purchase volume as the unit user cost will be lower with a larger user base. Other factors, such as resources and technology required will also be considered. The more sophisticated and cutting-edge the resources and technology involved are, the more fees will be charged by the Company for providing such services. In addition to the above factors, there is no specific range of mark-up to be included in the fee. Upon final review by the president, Chief Executive Officer and/or sales director of the relevant subsidiary of the Company who are independent of the Xiaomi Group, the fee proposal will be proposed to the Xiaomi Group for consideration and negotiation.

(ii) *With respect to promotion services:*

- (a) the fees shall be determined with reference to a number of factors including the position of the advertisement, the features selected, the term of the promotion, website traffic and data flow of the Group's products and websites; and
- (b) such fees should also be applicable to all clients for the same kind of services.

As there are many variables in determining the price of promotion services, such as the popularity of the products that carry the advertisement, the position of the advertisement, volume, features selected, term of the promotion and website traffic and data flow, it is difficult to set a benchmark for comparable promotional services offered by different providers, not to mention the determination of a "prevailing market price".

LETTER FROM VBG CAPITAL

The Company does not have a pre-determined formula for the fee proposal. The sales department of the Group is responsible for the initial determination of the pricing of the promotion services. When the Xiaomi Group approaches the Group in respect of the potential services, the sales department of the Group will recommend a fee proposal with primary reference to the position of the advertisement and the features selected. Other factors, such as the term of the promotion, website traffic and data flow of the Group's products and websites will also be considered. Generally, the fees charged for the promotion services will be higher when: (i) the website traffic and data flow of the websites where the advertisement is placed are relatively heavier; (ii) the size of the advertisement is larger; (iii) the click rate of the advertisement is higher; and/or (iv) the promotion encounters a peak advertising season or the term of the promotion is longer. In addition to the above factors, there is no specific range of mark-up to be included in the fee. Upon final review by the sales director and Chief Marketing Officer of the relevant subsidiary of the Company who are independent of the Xiaomi Group, the fee proposal will be proposed to the Xiaomi Group for consideration and negotiation.

(iii) With respect to joint operation of games provided by the Company:

With reference to the quality of the game, the scope of licensed area, the licensed platform and the operation model, the Group and the Xiaomi Group agreed on two types of pricing principals, namely (i) sharing the allocable revenue generated from the operation of the games in an agreed proportion; and (ii) sharing the allocable revenue generated from the operation of the games in an agreed proportion plus charging the licensing fees for the games.

The agreed proportion and the licensing fees shall be based on the prevailing fair market pricing rules adopted in the same industry. Under the prevailing fair market pricing rules, the proportion of allocable revenue is determined with reference to the scale, quality and estimated rate of return of products.

LETTER FROM VBG CAPITAL

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 determining the proportion of allocable revenue and the licensing fees, it will select several comparable games in the market of similar category, scale, quality for reference of market price and also take into account the game development costs, the number of users of the operation platform and the operation model. Upon final review by the Chief Executive Officer of the relevant subsidiary of the Company who is independent of the Xiaomi Group, the fee proposal will be proposed to the Xiaomi Group for consideration and negotiation.

The Company will also compare the price with those offered under at least two transactions of comparable nature (if any) with independent third party clients to ensure the fees charged are fair and reasonable and no more favourable to the Xiaomi Group than those offered to independent third parties. At this stage, the Company does not have a substantial number of customers for its cloud services and promotion services of similar nature. The Company considers that choosing two available transactions of comparable nature with independent third parties as benchmarks is sufficient to ensure fees charged to Xiaomi are fair and reasonable and no more favourable to the Xiaomi Group than those offered to independent third parties. If the minimum number of comparable transactions from independent third party clients is not obtained, the Company will simply follow the pricing principles just disclosed in determining the price.

The Directors are of the view that the aforementioned pricing terms are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Payment terms:

For the cloud services provided by the Group, the fees shall be payable by the Xiaomi Group within 30 days upon receipt of relevant invoice.

For the promotion services provided by the Group, the fees shall be payable by the Xiaomi Group within 20 days upon receipt of relevant invoice.

For the joint operation of games provided by the Group, the fees shall be payable within approximately 30 days upon the confirmation of revenue by both parties for each settlement period.

The general payment terms above were determined with reference to similar transactions in the market and such payment terms may be revised by individual agreements.

LETTER FROM VBG CAPITAL

In relation to the provision of cloud services and promotion services, we understand from the Directors that the Company does not have pre-determined formulae for the respective fee proposals. Moreover, the Directors advised us that as there are many variables in determining the price of the promotion services, such as the popularity of the products that carry the advertisement, the position of the advertisement, volume, features selected, term of the promotion and website traffic and data flow, it is difficult to set a benchmark for comparable promotional services offered by different providers, not to mention the determination of a “prevailing market price”.

Despite the practical limitations as just explained, we noted that pursuant to the Framework Agreement, the fees for the cloud services shall be determined with reference to the cloud storage space provided and the volume of cloud data transferred taking into account the costs for providing the services, the volume of the services rendered and a reasonable profit of the Group and that the fees shall be no more favourable to the Xiaomi Group than those provided to independent third parties for services rendered on similar technical specifications and volume; whilst the fees for the promotion services shall be determined with reference to a number of factors including the position of the advertisement, the features selected, the term of the promotion, website traffic and data flow of the Group’s products and websites and that such fees should be applicable to all clients for the same kind of services. In addition, the fee proposals for both of the cloud services and the promotion services are subject to final review by the president, Chief Executive Officer and/or sale director (as the case may be) of the relevant subsidiary of the Company who are independent of the Xiaomi Group. We are of the opinion that the aforesaid pricing principles of the cloud services and the promotion services as stipulated under the Framework Agreement are objective and hence are acceptable.

On the other hand, pursuant to the Framework Agreement, the fees for the joint operation of games provided by the Company shall be determined with reference to the quality of the game, the scope of licensed area, the licensed platform and the operation model. The Group and the Xiaomi Group further agreed on two types of pricing principals, namely (i) sharing the allocable revenue generated from the operation of the games in an agreed proportion; and (ii) sharing the allocable revenue generated from the operation of the games in an agreed proportion plus charging the licensing fees for the games; whereby the agreed proportion and the licensing fees shall be based on the prevailing fair market pricing rules adopted in the same industry. In addition, the fee proposal is subject to final review by the Chief Executive Officer of the relevant subsidiary of the Company who is independent of the Xiaomi Group. As such, we are of the opinion that the aforesaid pricing principles of the joint operation of games provided by the Company as stipulated under the Framework Agreement are justifiable.

For our due diligence purpose, we have also reviewed the historical individual agreements entered into (i) between the Group (as service provider or joint operator (as the case may be)) and independent third party clients; and (ii) between the Group (as service provider or joint operator (as the case may be)) and the Xiaomi Group for the provision of the cloud services and the promotion services as well as the joint operation of games. We noted that the principal terms which the Group had previously provided to the Xiaomi Group are no more favourable than those it had provided to independently third party clients. Furthermore, the pricing principles of the historical transactions between the Group and the Xiaomi Group generally followed those which are stipulated under the Framework Agreement.

In view of the foregoing, we consider that the terms of the Non-exempt Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM VBG CAPITAL

3. The Proposed Annual Caps

The tables below set out (i) the historical amounts for the two years ended 31 December 2015 and the eight months ended 31 August 2016 in respect of the provision of cloud services, the provision of promotion services and the joint operation of games provided by the Group; and (ii) the Proposed Annual Caps for the three years ending 31 December 2019 in respect of the provision of cloud and promotion services and the joint operation of games provided by the Group:

	Historical amounts		
	For the year ended 31 December 2014	For the year ended 31 December 2015	For the eight months ended 31 August 2016
	<i>RMB' million</i>		
Provision of cloud services	56.93	126.66	113.07
Provision of promotion services	4.09	0.11	0.02
Joint operation of games provided by the Company	4.86	25.90	14.77

	Proposed Annual Caps		
	For the year ending 31 December 2017	For the year ending 31 December 2018	For the year ending 31 December 2019
	<i>RMB' million</i>		
Provision of cloud and promotion services	650.20	864.30	1,025.60
Joint operation of games provided by the Company	362.90	458.90	500.10

(i) With respect to the provision of cloud services

As confirmed by the Directors, the annual caps for the fees payable by the Xiaomi Group to the Group in respect of the provision of cloud services by the Group for the three years ending 31 December 2019 are determined with reference to the following factors:

- (a) *The historical transaction amounts for the four years ended 31 December 2015 and the eight months ended 31 August 2016*

From the above table, we noted that there had been a significant increase in the historical amount of fees paid by the Xiaomi Group to the Group for the provision of cloud services. During 2015, the cloud services fee amounted to approximately RMB126.66 million, more than double of the amount in 2014. Based on the historical amount for the eight months ended 31 August 2016, the annualised cloud services fee in 2016 would be approximately RMB169.61 million, representing an increase of approximately 34% as compared to the prior year. As a matter of fact, there has been persistent significant growth of the fees paid by the Xiaomi Group to the Group for the provision of cloud services since 2012. As referred to in the circular

LETTER FROM VBG CAPITAL

published by the Company on 5 December 2014, the historical amounts of fees paid by the Xiaomi Group to the Group for the provision of cloud services were approximately RMB0.82 million and RMB4.98 million for the two years ended 31 December 2013 respectively. That is to say, the year on year growth of the historical amount of fees paid by the Xiaomi Group to the Group for the provision of cloud services was approximately 507% and 1,043% from 2012 to 2013 and from 2013 to 2014, respectively. The CAGR of fees paid by the Xiaomi Group to the Group for the provision of cloud services exceeded 400% from 2012 to 2015. With the development of the Group's cloud business, including the rapid expansion of cloud services to new market sectors, and the solid growth of cloud services demand from the Xiaomi Group, the Company believes that such historical growth rate will continue in the three years ending 31 December 2019.

(b) The adequate buffer for the Group in case of unanticipated transactions

We have searched over the internet independently to obtain more information regarding the recent development of the cloud services market. Based on the result of our research as highlighted under the sub-section headed "Market overview" of this letter of advice, we concur with the Directors that the cloud services market is emerging worldwide with the PRC as no exception. Moreover, due to the rapid development of cloud technology, the application of cloud services has been expanding to various new business sectors, for example, game industry and video industry, and may be expanding to even more business sectors. Thus, the Group and the Xiaomi Group have to keep adjusting their businesses in a timely manner in order to cope with the possible unanticipated transactions which may require substantial amount of cloud services. For this reason, we also consider that it is reasonable for the Group to maintain certain buffer in the proposed annual caps for the three years ending 31 December 2019 for the cloud services based on the capacity of provision of cloud services and the potential expansion of cloud technology application by the Xiaomi Group.

Having considered the basis of determination of the proposed annual caps for the fees payable by the Xiaomi Group to the Group in respect of the provision of cloud services by the Group for the three years ending 31 December 2019, we are of the view that such proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

(ii) With respect to the provision of promotion services

From the above table, we noted that the transaction amount of fees in connection with the promotion services provided by the Group to the Xiaomi Group for the year ended 31 December 2015 and the eight months ended 31 August 2016 decreased dramatically, as compared to the year ended 31 December 2014. Based on our enquiry with the Directors, the main reason for such dramatic decrease was that a substantial portion of the promotion services provided by the Group to the Xiaomi Group through an anti-virus software platform of the Group had discontinued in September 2014 due to changes in business need of the Xiaomi Group.

Nevertheless, as at the Latest Practicable Date, the Group and the Xiaomi Group were under negotiation of new business cooperation in the promotion services area for certain years, among which the office-software-related products of the Company may be used as the promotion platform for Xiaomi products for the first time. The new promotion channels have a stable and large user base and the Company estimates that the Xiaomi Group will allocate more resources in its marketing budget for utilising such new promotion channels. As advised by the Directors, the transaction amount in connection with the promotion services provided by the Group to the Xiaomi Group had reached

LETTER FROM VBG CAPITAL

RMB4.09 million in 2014. The Company believes that based on the recovery of demand from the Xiaomi Group for the promotion services of the Group and the contract amount that is currently under negotiation, the amount of fees payable by the Xiaomi Group for the promotion services will recover to the level of 2014 soon and continue to increase with the deepening of new cooperation between them.

To substantiate the fairness and reasonableness of the proposed annual caps for the fees payable by the Xiaomi Group to the Group in respect of the promotion services provided by the Group to the Xiaomi Group, we noted from the circular published by the Company on 5 December 2014 that the historical amount of fees paid by the Xiaomi Group to the Group for the provision of promotion services was approximately RMB2.72 million for the year ended 31 December 2013; therefore there had been an increase of over 50% in such fees paid by the Xiaomi Group to the Group from 2013 to 2014. Besides, we have enquired into the Directors regarding information on the new contract which is currently under negotiation. Accordingly, we are of the view that the proposed annual caps with respect to the provision of promotion services are fair and reasonable so far as the Independent Shareholders are concerned.

(iii) With respect to the joint operation of games provided by the Company

As confirmed by the Directors, the annual caps for the fees payable by the Xiaomi Group to the Group in respect of the joint operation of games provided by the Group for the three years ending 31 December 2019 are determined with reference to the following factors:

(a) The recent launch of JXSJ Online Mobile Game

At the end of September 2016, the Group launched a new online mobile game, JXSJ Online Mobile Game (劍俠世界手機遊戲). The Group has currently operated JXSJ Online Mobile Game with the Xiaomi Group through exclusive licensing to the Xiaomi Group by the Group.

As advised by the Directors, with great game content and successful promotion, JXSJ Online Mobile Game topped the sales and download charts of Xiaomi platform right after its launch. Relying on the core internet protocol of JX series games (劍俠系列遊戲), the Company believes that JXSJ Online Mobile Game will have strong performance and become the Group's flagship game in 2016. The Directors advised us that as at the Latest Practicable Date, the Group's revenue generated from the joint operation of JXSJ Online Mobile Game since its launch had exceeded the aggregate revenue generated from the joint operation of the other games provided by the Group to the Xiaomi Group since the beginning of 2016. It is expected that the fee payable by the Xiaomi Group for the joint operation of JXSJ Online Mobile Game will continue to account for a significant portion of the total fee payable by the Xiaomi Group for the joint operation of all games provided by the Group for the coming three years ending 31 December 2019.

Having taken into account the recent launch of JXSJ Online Mobile Game and its outstanding performance, the Company expects that the fees payable by the Xiaomi Group to the Group in respect of the joint operation of games provided by the Group will increase dramatically in the three years ending 31 December 2019.

LETTER FROM VBG CAPITAL

(b) The expected introduction of other new games that will be jointly operated by the Group and the Xiaomi Group

Currently, there are ten games (including JXSJ Online Mobile Game launched in September 2016) jointly operated by the Group and the Xiaomi Group. The Directors advised us that the Company plans to launch more games which will be jointly operated by the two parties in the next three years ending 31 December 2019, which will also bring revenue to the Group.

We have obtained and discussed with the Directors regarding the detailed breakdown of the calculations for the proposed annual caps in respect of the joint operation of games provided by the Company, illustrating the estimated forecasted revenue together with the fees to be contributed by each of the games (including JXSJ Online Mobile Game) to be jointly operated by the Group and the Xiaomi Group. Furthermore, as demonstrated under the sub-sections headed “Business and financial overview of the Group” and “Market overview” of this letter of advice respectively, the Group’s revenue from the online game business increased by approximately 50% for the six months ended 30 June 2016 as compared to corresponding period of the prior year, and the PRC alone accounts for one quarter of all global game revenues in 2016 and its mobile online game segment is growing even faster than estimated and will reach approximately USD10.0 billion in 2016, up by approximately 41% from approximately USD7.1 billion in 2015. The PRC will also remain the largest games market for the foreseeable future, expanding to approximately USD28.9 billion by 2019.

Having (i) studied the detailed breakdown of the calculations for the proposed annual caps in respect of the joint operation of games provided by the Company, illustrating the estimated forecasted revenue together with the fees to be contributed by each of the games (including JXSJ Online Mobile Game) to be jointly operated by the Group and the Xiaomi Group; and (ii) considered (a) the recent substantial increase of the Group’s revenue from the online game business and (b) the positive prospects of the PRC online games market, we consider that the proposed annual caps in respect of the joint operation of games provided by the Company are fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that as the Proposed Annual Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2019, and they do not represent forecasts of revenues or costs to be recorded from the Framework Agreement. Consequently, we express no opinion as to how closely the actual revenues and costs to be incurred under the Framework Agreement will correspond with the Proposed Annual Caps.

LETTER FROM VBG CAPITAL

4. Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the values of the Non-exempt Transactions must be restricted by the Proposed Annual Caps for the years concerned under the Framework Agreement; (ii) the terms of the Framework Agreement (together with the Proposed Annual Caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the Framework Agreement (together with the Proposed Annual Caps) must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the Non-exempt Transactions are carried out in accordance with the pricing policies of the Company, and the Proposed Annual Caps are not being exceeded. In the event that the total amounts of the Non-exempt Transactions exceed the Proposed Annual Caps, or that there is any material amendment to the terms of the Framework Agreement, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Non-exempt Transactions under the Framework Agreement (including the Proposed Annual Caps) and thus the interests of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Non-exempt Transactions (including the Proposed Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Non-exempt Transactions are conducted in the ordinary and usual course of business of the Group and 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 Non-exempt Transactions and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Doris Sing
Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 12 years of experience in corporate finance.

1. RESPONSIBILITY STATEMENT

This 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 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	16.12	Long position
	Other	142,714,003	10.95	Long position
	Total:	352,830,251 <i>(Note 2)</i>	Total: 27.07	Long position
Pak Kwan KAU	Interest of controlled corporation	108,032,566 <i>(Note 3)</i>	8.29	Long position
Yuk Keung NG	Beneficial owner	2,600,000	0.20	Long position
Tao ZOU	Beneficial owner	409,307	0.03	Long position

Notes:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 30 November 2016, which was 1,303,349,687.

2. Among these 352,830,251 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a British Virgin Islands company owned as to 100% by Mr. Jun LEI; (ii) 35,298,057 shares was 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. Shuen Lung CHEUNG will vote in the same way as Mr. Jun LEI with these shares.
3. These shares are held by Topclick Holdings Limited, a British Virgin Islands 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 Holdings Limited. Save as disclosed above, as at the Latest Practicable Date, none of the directors of the Company 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 corporation of the Company, Cheetah Mobile Inc. (Note 1)

NAME OF DIRECTOR	CAPACITY	NUMBER OF SHARES INTERESTED	% OF ISSUED SHARE CAPITAL (NOTE 2)	NATURE OF SHARES INTERESTED
Jun LEI	Interest of controlled corporation	17,660,294 (Note 3)	4.30	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 Mobile is a non-wholly owned subsidiary of the Company listed on the NYSE.
2. % of issued share capital in class was calculated on basis of the issued Class A Cheetah Shares of Cheetah Mobile as at 30 November 2016, which was 410,608,263.
3. Among the 17,660,294 shares, (i) 3,374,580 shares are held by Go Corporate Limited, a British Virgin Islands 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.

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	Beneficial owner	174,818,191 (Note 2)	13.41	Long position
Topclick Holdings Limited	Beneficial owner	108,032,566 (Note 3)	8.29	Long position
Tencent Holdings Limited	Interest of controlled corporation	106,784,515 (Note 4)	8.19	Long position

Note:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at 30 November 2016, which was 1,303,349,687.
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.
3. These shares are held by Topclick Holdings Limited, a British Virgin Islands 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.
4. These shares are held by TCH Saffron Limited, a wholly-owned subsidiary of Tencent Holdings Limited. As such, Tencent Holdings Limited, MIH TC Holdings Limited and Naspers Limited, its beneficial owners, are deemed to be interested in TCH Saffron Limited's interests in the Company pursuant to Part XV of the SFO.

4. SERVICE CONTRACTS

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

5. ARRANGEMENT AFFECTING DIRECTORS

As at the Latest Practicable Date:

- (a) None of the Directors is interested, directly or indirectly, in any assets which have, since 31 December 2015, the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date as entered into by any member of the Group and which is significant in relation to the business of the Group.
- (c) None of the Directors and his/her close associates had any competing interests that would be required to be disclosed under Rule 8.10 of the Listing Rules as if he/she was a controlling shareholder of the Company.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2015, the date to which the latest published audited consolidated financial statements of the Group were made up.

7. EXPERT AND CONSENTS

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

Name	Qualification
VBG Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO

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

As at the Latest Practicable Date, VBG Capital had no direct or indirect interest in any assets which had been, since 31 December 2015 (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.

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

8. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the original framework agreement entered into between the Company and Xiaomi on 1 December 2014;
- (b) the Framework Agreement;
- (c) the current Season Share Option Scheme;
- (d) the revised Season Share Option Scheme;
- (e) the current Kingsoft Cloud Share Option Scheme;
- (f) the revised Kingsoft Cloud Share Option Scheme;
- (g) the letter from the Independent Board Committee to the Independent Shareholders dated 10 December 2016, the text of which is set out on page 16 of this circular;
- (h) the letter from VBG Capital to the Independent Board Committee and the Independent Shareholders dated 10 December 2016, the text of which is set out on page 17 to 32 of this circular; and
- (i) the written consent referred to in the section headed “Expert and Consents” in this appendix.

The changes proposed to be made to the Season Share Option Scheme are set out in this appendix. For ease of reference, the text of those provisions of the Season Share Option Scheme which are subject to amendments is reproduced in full. Words that are struck represent proposed deletions and words that are underlined represent proposed additions.

Definitions

“Amendment-I Adoption Date” 26 December 2016, the date on which this Amendment-I is conditionally adopted by the shareholders of the Company and Kingsoft Corporation Limited in general meeting;

Clause 6.03 (a)

in the event of the Grantee ceasing to be a Participant for any reason other than his or her death or the termination of his or her employment on one or more of the grounds specified in Clause 7(g), the Grantee shall be entitled to exercise the vested Option(s) in full (to the extent which has become exercisable and not already exercised) within a period of one (1) month from the date of such cessation (or such longer period as the Board may determine), which will be taken to be the last day on which the Grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not;

Clause 6.07 (b)

In the events of the Grantee ceasing to be a Participant for any reason other than the termination of his or her employment on one or more of the grounds specified in Clause 7(g), the Company shall have the right (but not obligation) to, at any time and from time to time, repurchase from the Grantee:

(b) all vested but unexercised Options held by him at a price mutually agreed between the Company and the Grantee, which, unless otherwise determined by the Board in its absolute discretion, shall in no event exceed the difference between the Subscription Price of such Options and the Maximum Repurchase Price.

Clause 7 (g)

An Option, (i) if vested, shall automatically lapse (to the extent not already exercised), or (ii) if unvested, shall automatically be cancelled and cease vesting, in each case on the earliest of:

(g) the date on which the Grantee ceases to be a Participant by reason of ~~(i)~~ the termination of his or her employment on any one or more of the grounds that he or she has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the Grantee’s service contract with the Company or the relevant Subsidiary or the relevant Invested Entity, ~~or (ii) the Grantee’s voluntary or unilaterally termination of his or her employment.~~ A resolution of the Board or the board of directors of the relevant Subsidiary or the board of directors of the relevant Invested Entity to the effect that employment of a Grantee has or has not been terminated on one or more of the grounds specified in this Clause 7(g) shall be conclusive and binding on the Grantee;

The changes proposed to be made to the Kingsoft Cloud Share Option Scheme are set out in this appendix. For ease of reference, the text of those provisions of the Kingsoft Cloud Share Option Scheme which are subject to amendments is reproduced in full. Words that are struck represent proposed deletions and words that are underlined represent proposed additions.

Definitions**“Amendment-III Adoption Date”**

26 December 2016, the date on which this Amendment-III is conditionally adopted by the shareholders of the Company and Kingsoft Corporation Limited in general meeting;

“Commitment Period”

shall mean the minimum time period that the Grantee shall commit and actually work for the Group or the Invested Entity as employee or other service provider as agreed between the Grantee as one party and the Group or the Invested Entity as the other party;

in respect of any particular Option, unless otherwise determined by the Board in its absolute discretion and notify to the Grantee in writing,

- (a) in the event that the maximum number of shares that the Grantee is entitled to purchase upon exercise of all Options granted to him or her under this Scheme is equal to or more than 1,000,000 shares as of the date on which such Grantee ceases to be a Participant,
 - (i) with respect to any Option that the maximum number of shares that the Grantee is entitled to purchase upon the exercise of such Option and all the Option(s) granted to him or her before the grant of such Option under the Scheme (if any) is less than 1,000,000 shares, 2 (two) years commencing from the Commencement Date specified in the Offer of such particular Option to him or her; and
 - (ii) with respect to all the other Option(s), 3 (three) years commencing from the Commencement Date specified in the Offer of such particular Option to him or her;
- (b) in the event that the maximum number of shares that the Grantee is entitled to purchase upon exercise of all Options granted to him or her under this Scheme is less than 1,000,000 shares as of the date on which such Grantee ceases to be a Participant, 2 (two) years calculated from the Commencement Date specified in the Offer of such particular Option to him or her;

Clause 6.03 (a)

in the event of the Grantee ceasing to be a Participant for any reason other than his or her death or the termination of his or her employment on one or more of the grounds specified in Clause 7(g), the Grantee shall be entitled to exercise the vested Option(s) in full (to the extent which has become exercisable and not already exercised) within a period of one (1) month (unless a longer time period as the Board may otherwise determine in its sole discretion) from the date of such cessation, which will be taken to be the last day on which the Grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not;

Clause 6.06

The Grantee shall, unless otherwise approved by the Board in writing, irrevocably and unconditionally constitute and appoint ~~Mr. ZHANG Hongjiang (張宏江) or any other director~~ any one of the directors of the Company serving as an Eligible Employee as determined by the Board from time to time with full power of substitution as the Grantee's true and lawful attorney and irrevocable proxy, for and on behalf of the Grantee, to vote each of the Shares allotted to him/her upon the exercise of an Option as the Grantee's proxy, at every meeting of the shareholders of the Company or any adjournment thereof or in connection with any written consent of the Company's shareholders. The foregoing proxy shall be irrevocable and coupled with an interest prior to the Company's Initial Public Offering, and shall automatically terminate upon the Company's Initial Public Offering. The Grantee shall revoke any proxies previously granted by the Grantee with respect to the Shares on the Commencement Date.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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 Monday, 26 December 2016 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 10 December 2016 (the “Circular”):

ORDINARY RESOLUTIONS

1. **THAT** the Framework Agreement dated 6 December 2016 and entered into between the Company and Xiaomi and the Non-exempt Transactions contemplated thereunder (including the Proposed Annual Caps) be and are hereby approved and confirmed, and the Directors of the Company be and are hereby authorised, for and on behalf of the Company, to take all steps and do all acts and things as they consider to be necessary, appropriate or expedient in connection with and to implement or give effect to the Framework Agreement and the Non-exempt Transactions (including the Proposed Annual Caps), and to execute all such other documents, instruments and agreements (including the affixation of the Company’s common seal) deemed by them to be incidental to, ancillary to or in connection with the Framework Agreement and the Non-exempt Transactions (including the Proposed Annual Caps).
2. **THAT** the proposed amendments to the terms of the Season Share Option Scheme as set out in the revised Season Share Option Scheme, a copy of which is tabled at the meeting and marked “B” and initiated by the chairman of the meeting for identification purpose, be and are hereby approved and confirmed; any Director of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to do all such acts or things and to execute and enter into all documents and arrangements as may be necessary or expedient for the purpose of, or in connection with, the implementation of the amendments to the Season Share Option Scheme.
3. **THAT** the proposed amendments to the terms of the Kingsoft Cloud Share Option Scheme as set out in the revised Kingsoft Cloud Share Option Scheme, a copy of which is tabled at the meeting and marked “C” and initiated by the chairman of the meeting for identification purpose, be and are hereby approved and confirmed; any Director of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to do all such acts or things and to execute and enter into all documents and arrangements as may be necessary or expedient for the purpose of, or in connection with, the implementation of the amendments to the Kingsoft Cloud Share Option Scheme.

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

Hong Kong, 10 December 2016

NOTICE OF EXTRAORDINARY GENERAL MEETING

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.