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**Kingsoft Corporation Limited**

**金山軟件有限公司**

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

**(Stock Code: 03888)**

## **CONTINUING CONNECTED TRANSACTIONS THE FRAMEWORK AGREEMENT BETWEEN THE COMPANY AND XIAOMI**

Reference is made to 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 various ongoing transactions between the two parties for the three years ending 31 December 2019.

The Group has set up a stable long-term business relationship with Xiaomi Group. On 6 December 2016, the Company and Xiaomi entered into a framework agreement to regulate the various ongoing transactions between the two parties for the three years ending 31 December 2019.

In order to renew the transactions under the previous framework agreement for the next three years ending 31 December 2022, the Company and Xiaomi entered into the Framework Agreement. Pursuant to the Framework Agreement, (i) the Group will provide various comprehensive services to Xiaomi Group, mainly including the cloud services, the promotion services, the mailbox customized development services and advertising agency services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) the Group will provide hardware products (mainly including server, storage devices, load balancer and other hardware products manufactured by independent third parties) to Xiaomi Group; (iv) Xiaomi Group will provide various comprehensive services to the Group, mainly including the promotion services, the software development services, the canteen services and other ancillary services; and (v) Xiaomi Group will provide products to the Group, for a term of three years ending 31 December 2022.

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 entering into the Framework Agreement between the Company and Xiaomi and the transactions contemplated thereunder will become continuing connected transactions of the Company under the Listing Rules.

As each of the highest percentage ratios (as defined in the Listing Rules) in respect of the proposed annual caps for (1) the fees payable by Xiaomi Group to the Group in connection with the joint operation of games provided by the Group, (2) the fees payable by Xiaomi Group to the Group in connection with the provision of hardware products by the Group and (3) the fees payable by the Group to Xiaomi Group in connection with the provision of the promotion, software development and canteen services and other ancillary services by Xiaomi Group for the three years ending 31 December 2022 exceeds 0.1% but is less than 5%, such transactions and their respective proposed annual caps are subject to the reporting, announcement, annual review, but exempted from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As each of the highest percentage ratios (as defined in the Listing Rules) in respect of the proposed annual caps for (1) the fees payable by Xiaomi Group to the Group in connection with the provision of the cloud, promotion, mailbox customized development and advertising agency services by the Group and (2) the fees payable by the Group to Xiaomi Group in connection with the provision of products by Xiaomi Group for the three years ending 31 December 2022 exceeds 5%, such Non-exempt Transactions and their respective proposed annual caps are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) further details of the Framework Agreement in relation to the provision of the cloud, promotion, mailbox customized development and advertising agency services by the Group to Xiaomi Group and the provision of products by Xiaomi Group to the Group; (ii) a letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders on the provision of the cloud, promotion, mailbox customized development and advertising agency services by the Group to Xiaomi Group and the provision of products by Xiaomi Group to the Group and the proposed annual caps; (iii) the recommendation of the Independent Board Committee regarding the provision of the cloud, promotion, mailbox customized development and advertising agency services by the Group to Xiaomi Group and the provision of products by Xiaomi Group to the Group and the proposed annual caps to the Independent Shareholders; and (iv) a notice of the extraordinary general meeting will be despatched to the Shareholders on or before 16 December 2019.

## **1 BACKGROUND**

Reference is made to 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 various ongoing transactions between the two parties for the three years ending 31 December 2019.

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In order to renew the transactions under the previous framework agreement for the next three years ending 31 December 2022, the Company and Xiaomi entered into the Framework Agreement. Pursuant to the Framework Agreement, (i) the Group will provide various comprehensive services to Xiaomi Group, mainly including the cloud services, the promotion services, the mailbox customized development services and advertising agency services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) the Group will provide hardware products (mainly including server, storage devices, load balancer and other hardware products manufactured by independent third parties) to Xiaomi Group; (iv) Xiaomi Group will provide various comprehensive services to the Group, mainly including the promotion services, the software development services, the canteen services and other ancillary services; and (v) Xiaomi Group will provide products to the Group, for a term of three years ending 31 December 2022.

## 2 THE FRAMEWORK AGREEMENT

The principal terms of the Framework Agreement are summarized as follows:

<b>Agreement Date:</b>	2 December 2019
<b>Parties:</b>	the Company; and  Xiaomi
<b>Terms:</b>	three years from 1 January 2020 to 31 December 2022
<b>Conditions precedent:</b>	The Non-exempt Transactions under the Framework Agreement are subject to the Independent Shareholders' approval
<b>Scope of the cooperation and pricing principle:</b>	<p><i>I. Comprehensive services provided by the Group</i></p> <p><i>(i) Provision of cloud services</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>The fees for the cloud services provided by the Group shall be determined based on the following principles:</p> <p>(a) the fees charged for cloud services are calculated with reference to the cloud storage space provided and the volume of cloud data transferred;</p>

- (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) Provision of promotion services*

The Group will 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.

The fees for the promotion services provided by the Group shall be determined based on the following principles:

- (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" 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) Provision of mailbox customized development services*

The Group will provide Xiaomi Group the mailbox customized development services, including but not limited to adapting the mailbox to new mobile models of Xiaomi Group, making adjustments to the mailbox based on the needs of operators in target regions, developing the mailbox based on new functions expected by Xiaomi Group and localizing the mailbox based on languages in different countries and regions.

With reference to market price of comparable services, the price of the mailbox customized development services shall be determined among arm's length negotiation between the two parties considering actual workload, cost and gross profit of relevant services.

*(iv) Provision of advertising agency services*

The Group will provide Xiaomi Group the advertising agency services, including but not limited to the advertising agency services which facilitate third parties to advertise via Xiaomi Group's products.

With respect to the provision of advertising agency services, Xiaomi Group will pay agency fees to the Group in the agreed proportion of the revenue generated from the services as set out in specific agreements.

***II. Joint operation of games provided by the Group***

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.

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.

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.

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.

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.

### ***III. Hardware products provided by the Group***

The Group will provide hardware products, mainly including server, storage devices, load balancer and other hardware products manufactured by independent third parties to Xiaomi Group. Particularly, Xiaomi Group will purchase hardware products such as server from the Group. More details of the hardware products shall be determined in individual agreements entered into between the Group and Xiaomi Group.

The selling price of the hardware products shall be determined on an arm's length basis with reference to the cost and number of the products provided and the reasonable profits received by the Group.

### ***IV. Comprehensive services and products provided by Xiaomi Group***

#### ***(i) Provision of promotion services***

Xiaomi Group will provide the Group promotion services via Xiaomi Group's products, including but not limited to the pre-paid installation of the Group's products in Xiaomi devices.

The fees payable by the Group for pre-paid installation of the Group's products in Xiaomi's devices will be calculated by the unit price multiplying the number of installed products. The unit price shall be determined among arm's length negotiation between the two parties with reference to various factors including the user base of the products, the quantity of installations and the estimated revenue of the installation.

The operation department of the relevant subsidiary of the Company is responsible for the initial determination of the unit price of pre-installation. Upon the final review by the chief executive officer and chief financial officer of the relevant subsidiary of the Company, the fees acceptable by the Group will be proposed to Xiaomi Group for consideration and negotiation.

*(ii) Provision of software development services*

Xiaomi Group will provide the Group software development services, including but not limited to blockchain financial platform construction services and relevant technology services.

The fees for the software development services provided by Xiaomi Group shall be determined among arm's length negotiation between the two parties with reference to market price, and the price shall be no more favorable than those provided to independent third parties by Xiaomi Group.

*(iii) Provision of canteen services and other ancillary services*

Xiaomi Group will provide the Group canteen services and other ancillary services including utility, property services and network in Xiaomi New Industrial Park ultimately provided by third party property companies. Xiaomi Group will be responsible for daily management of canteen venues, equipment, facilities, cleaning and safety, while the Group will be responsible for providing catering services in the leased canteen area. For the utility, property services and network ultimately provided by third party property companies, the Group will be responsible to pay the service fees to Xiaomi Group and Xiaomi Group will then pay the price to third party property companies.

The fees for the canteen services and other ancillary services provided by Xiaomi Group shall be determined among arm's length negotiation between the two parties with reference to market price, and the price shall be no more favorable than those provided to independent third parties by Xiaomi Group.

*(iv) Provision of products*

The Group will purchase products from Xiaomi Group, including but not limited to Xiaomi cell phones, Xiaomi Boxes, Xiaomi televisions, Xiaomi routers and the relevant accessories.

The purchase price shall be based on the market price of the products of Xiaomi Group as set out on Xiaomi's official website <http://www.mi.com> from time to time. The administrative department of the Company is responsible for collecting the price of Xiaomi's products and such price is subject to the final review of the manager of administrative department and the vice president in charge.

In addition to the respective pricing basis of each transaction as set out above, 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/suppliers to ensure (i) the fees charged by the Group are fair and reasonable and no more favorable to Xiaomi Group than those offered to independent third parties; and (ii) the fees charged by Xiaomi Group are fair and reasonable and no less favorable to the Group than those charged by independent third parties.

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 one month upon receipt of relevant invoice in accordance with the market practice.

For the mailbox customized development services provided by the Group, the fees shall be payable by Xiaomi Group after acceptance of the monthly statements submitted by the Group. The payment of each month shall be made within the last business day of next month.

For the advertising agency services provided by the Group, the fees shall be payable by Xiaomi Group within approximately 90 days upon the 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.

For the hardware products provided by the Group, the fees shall be made according to the payment method for similar business in the market at the time of the transaction.

For pre-paid installation of the Group's products in Xiaomi devices, the fees shall be payable by the Group after acceptance of the monthly statements submitted by Xiaomi Group. The payment of each month shall be made within the last business day of next month.

For the software development services provided by Xiaomi Group, the fees shall be payable by the Group within one month upon receipt of relevant invoice in accordance with the market practice.

For the canteen services and other ancillary services provided by Xiaomi Group, the fees shall be payable by the Group within one month upon receipt of relevant invoice in accordance with the market practice.

For the products provided by Xiaomi Group, the fees shall be payable by the Group before delivery of products.

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.

### 3 ANNUAL CAPS UNDER THE FRAMEWORK AGREEMENT

The table below sets out the historical amounts for the two years ended 31 December 2018 and the eight months ended 31 August 2019:

	For the year ended 31 December 2017	For the year ended 31 December 2018	For the eight months ended 31 August 2019	the annual cap for the year ending 31 December 2019
<i>RMB: million</i>				
<b>Fees payable by Xiaomi Group</b>				
Provision of cloud services by the Group	335.91	559.19	405.99	1,025.60 <i>(Note 1)</i>
Provision of promotion services by the Group	5.22	7.18	1.63	— <i>(Note 1)</i>
Provision of mailbox customized development services by the Group	—	—	1.99	—
Provision of advertising agency services by the Group	—	1.83	26.41	— <i>(Note 1)</i>
Joint operation of games provided by the Group	53.30	22.32	8.79	500.10
Provision of hardware products by the Group	—	—	23.12	90.00

*Note 1: The annual cap for provision of cloud services, promotion services and advertising agency services for the year ending 31 December 2019 was calculated together under the annual cap for “provision of cloud and promotion services by the Group for the year ending 31 December 2019” as set out in the announcement of the Company dated 6 December 2016 in relation to the framework agreement, being RMB1,025.60 million in total.*

#### **Fees payable by the Group**

Provision of promotion, software development and canteen services and other ancillary services by Xiaomi Group	53.13	110.74	23.33	165.00
Provision of products by Xiaomi Group	9.12	6.73	4.16	20.00

The Company confirms that the total actual transaction amount for each of the transactions contemplated under the Framework Agreement for the eight months ended 31 August 2019 has not exceeded the annual cap for the year ending 31 December 2019, and will continue to monitor to ensure that the total transaction amount for each of the transactions contemplated under the Framework Agreement for the year ending 31 December 2019 will not exceed the annual cap for the year ending 31 December 2019. For more details, please see the section headed “Internal control procedures on continuing connected transactions” below.

The Company proposes to set up the proposed annual caps for the three years ending 31 December 2022 as follows:

	<b>For the year ending 31 December 2020</b>	<b>For the year ending 31 December 2021</b>	<b>For the year ending 31 December 2022</b>
			<i>RMB: million</i>
<b>Fees payable by Xiaomi Group</b>			
Provision of cloud services by the Group	816.97	963.20	1,249.50
Provision of promotion services by the Group	15.00	15.00	15.00
Provision of mailbox customized development services by the Group	10.00	0	0
Provision of advertising agency services by the Group	22.64	24.91	28.30
Joint operation of games provided by the Group	10.79	7.67	5.64
Provision of hardware products by the Group	39.20	54.90	76.80
<b>Fees payable by the Group</b>			
Provision of promotion, software development and canteen services and other ancillary services by Xiaomi Group	104.11	113.11	128.05
Provision of products by Xiaomi Group	58.00	180.40	392.50

**1) Reasons for setting up the annual caps for the fees payable by Xiaomi Group in respect of the provision of cloud services by the Group**

The annual caps for the fees payable by Xiaomi Group in respect of the provision of cloud services by the Group for the three years ending 31 December 2022 are determined with reference to (i) the expected needs of Xiaomi Group in relation to cloud services, taking into account the expansion of business of Xiaomi Group; and (ii) the estimated selling price of the cloud services to be provided by the Group.

**2) Reasons for setting up the annual caps for the fees payable by Xiaomi Group in respect of the provision of promotion services by the Group**

The annual caps for the fees payable by Xiaomi Group in respect of the provision of promotion services by the Group for the three years ending 31 December 2022 are determined with reference to (i) the historical transaction amount; (ii) the fair market rates for provision of similar services; (iii) the expected increase in demand of promotion services; and (iv) the estimated revenue increase generated from the promotion services.

**3) Reasons for setting up the annual caps for the fees payable by Xiaomi Group in respect of the provision of mailbox customized development services by the Group**

The annual caps for the fees payable by Xiaomi Group in respect of the provision of mailbox customized development services by the Group for the three years ending 31 December 2022 are determined with reference to (i) the historical transaction amount; (ii) the fair market rates for provision of similar services; (iii) the expected increase in demand of mailbox customized development services; and (iv) the estimated revenue increase generated from the mailbox customized development services.

**4) Reasons for setting up the annual caps for the fees payable by Xiaomi Group in respect of the provision of advertising agency services by the Group**

The annual caps for the fees payable by Xiaomi Group to the Group in respect of the provision of advertising agency services by the Group for the three years ending 31 December 2022 are determined with reference to (i) the historical transaction amount; (ii) the estimated transaction amount in the second half of 2019; (iii) the expected increase in demand of advertising agency services; and (iv) the estimated revenue generated from advertising agency services.

**5) Reasons for setting up the annual caps for the fees payable by Xiaomi Group in respect of the joint operation of games provided by the Group**

The annual caps for the fees payable by Xiaomi Group in respect of the joint operation of games provided by the Group for the three years ending 31 December 2022 are determined with reference to the estimation of aggregated transaction amount of each game jointly operated by the Group and Xiaomi Group, which is affected by the historical performance, future expectations and agreed profit distribution proportion (in accordance with the market practice) of each game.

**6) Reasons for setting up the annual caps for the fees payable by Xiaomi Group in respect of the provision of hardware products by the Group**

The annual cap for the fees payable by Xiaomi Group in respect of the provision of hardware products by the Group for the year ending 31 December 2022 is determined with reference to (i) the expected needs of Xiaomi Group in relation to hardware products, taking into account the expansion of business of Xiaomi Group; and (ii) the estimated selling price of the hardware products to be provided by the Group.

**7) Reasons for setting up the annual caps for the fees payable by the Group in respect of the provision of promotion services by Xiaomi Group**

The annual caps for the fees payable by the Group to Xiaomi Group in respect of the provision of promotion services by Xiaomi Group for the three years ending 31 December 2022 are determined with reference to (i) the fair market rates for provision of similar services; (ii) the number of users of Xiaomi's mobile products and the expected increase in such number of users; (iii) the expected increase in demand of promotion services as a result of the expansion of the Group's mobile internet business; and (iv) the estimated revenue increase generated from the new cooperation model between the Group and Xiaomi Group in relation to promotion services.

**8) Reasons for setting up the annual caps for the fees payable by the Group in respect of the provision of software development services by Xiaomi Group**

The annual caps for the fees payable by the Group in respect of the provision of software development services by Xiaomi Group for the three years ending 31 December 2022 are determined with reference to (i) the historical transaction amount; (ii) the fair market rates for provision of similar services; (iii) the expected increase in demand of software development services; and (iv) the estimated revenue increase generated from the software development services.

**9) Reasons for setting up the annual caps for the fees payable by the Group in respect of the provision of canteen services and other ancillary services provided by Xiaomi Group**

The annual caps for the fees payable by the Group in respect of the provision of canteen services and other ancillary services by Xiaomi Group for the three years ending 31 December 2022 are determined with reference to (i) the expected amount of employees who will use the canteen services provided by Xiaomi Group in respect of the canteen services; (ii) the area of property in respect of the property services fees; and (iii) the number of users in respect of utility and network.

#### **10) Reasons for setting up the annual caps for the fees payable by the Group in respect of the provision of products by Xiaomi Group**

The annual caps for the fees payable by the Group to Xiaomi Group in respect of the provision of products by Xiaomi Group for the three years ending 31 December 2022 are determined with reference to (i) the historical transaction amount; and (ii) the expected increase of the marketing and promotion activities of the Group which results in the increase in the variety of types of products to be purchased from Xiaomi Group.

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

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 transactions under the Framework Agreement, the Group will not only benefit from increased revenue arising from the services and products 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 Gram Capital, is of the view that the transactions under the Framework Agreement are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Framework Agreement and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **5 INTERNAL CONTROL PROCEDURES ON CONTINUING CONNECTED TRANSACTIONS**

To safeguard the rights and interests of the Shareholders, the Group adopts the following internal control procedures and corporate governance measures in relation to the continuing connected transactions under the Framework Agreement and the proposed annual caps thereunder:

- (i) The supply chain department of the Company will compare the price with those offered under at least two transactions of comparable nature (if any) with independent third party clients/suppliers to ensure (a) the fees charged by the Group are fair and reasonable and no more favorable to Xiaomi Group than those offered to independent third parties; and (b) the fees charged by Xiaomi Group are fair and reasonable and no less favorable to the Group than those charged by independent third parties.

- (ii) The finance department of the Company will trace, monitor and check the actual transaction amount and estimate the transactions that may possibly be incurred on a monthly basis;
- (iii) The audit committee of the Company will conduct internal assessments on the internal control measures of the Company on an annual basis to ensure that the internal control measures in respect of continuing connected transactions remain complete and effective, and review the annual report and financial report which consist of the implementation of and opinions on the continuing connected transactions during the relevant period in respect of the fairness of the continuing connected transactions and whether the actual transaction amount incurred are within the annual caps; and
- (iv) The independent non-executive Directors and auditors of the Company will also conduct annual review of the continuing connected transactions.

The Board believes that the internal control procedures and corporate governance measures above are appropriate and can ensure the pricing terms are carried out in accordance with the Framework Agreement and the fees received or paid by the Company will not be less favorable than transactions with independent third parties.

## **6 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 entering into the Framework Agreement between the Company and Xiaomi and the transactions contemplated thereunder will become continuing connected transactions of the Company under the Listing Rules.

As each of the highest percentage ratios (as defined in the Listing Rules) in respect of the proposed annual caps for (1) the fees payable by Xiaomi Group to the Group in connection with the joint operation of games provided by the Group, (2) the fees payable by Xiaomi Group to the Group in connection with the provision of hardware products by the Group and (3) the fees payable by the Group to Xiaomi Group in connection with the provision of the promotion, software development and canteen services and other ancillary services by Xiaomi Group for the three years ending 31 December 2022 exceeds 0.1% but is less than 5%, such transactions and their respective proposed annual caps are subject to the reporting, announcement, annual review, but exempted from the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As each of the highest percentage ratios (as defined in the Listing Rules) in respect of the proposed annual caps for (1) the fees payable by Xiaomi Group to the Group in connection with the provision of the cloud, promotion, mailbox customized development and advertising agency services by the Group and (2) the fees payable by the Group to Xiaomi Group in connection with the provision of products by Xiaomi Group for the three years ending 31 December 2022 exceeds 5%, such Non-exempt Transactions and their respective proposed annual caps are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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.

The Company will seek Independent Shareholders' approval at the extraordinary general meeting for the Non-exempt Transactions and their respective proposed annual caps contemplated thereunder. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Non-exempt Transactions.

A circular containing, among other things, (i) further details of the Framework Agreement in relation to the provision of the cloud, promotion, mailbox customized development and advertising agency services by the Group to Xiaomi Group and the provision of products by Xiaomi Group to the Group; (ii) a letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders on the provision of the cloud, promotion, mailbox customized development and advertising agency services by the Group to Xiaomi Group and the provision of products by Xiaomi Group to the Group and the proposed annual caps; (iii) the recommendation of the Independent Board Committee regarding the provision of the cloud, promotion, mailbox customized development and advertising agency services by the Group to Xiaomi Group and the provision of products by Xiaomi Group to the Group and the proposed annual caps to the Independent Shareholders; and (iv) a notice of the extraordinary general meeting will be despatched to the Shareholders on or before 16 December 2019.

## **7 INFORMATION ABOUT THE PARTIES**

The Group is principally engaged in the research and development of games, and the provision of online games, mobile games and casual game services; and provision of cloud storage, cloud computation, design, research and development, and sales and marketing of the office software products and services of WPS Office.

Xiaomi is an internet company with smart phones and smart hardware connected by an IoT platform at its core.

## **8 DEFINITION**

“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
“Framework Agreement”	the agreement entered into between the Company and Xiaomi on 2 December 2019, pursuant to which (i) the Group will provide various comprehensive services to Xiaomi Group, mainly including the cloud services, the promotion services, the mailbox customized development and the advertising agency services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) the Group will provide hardware products to Xiaomi Group; (iv) Xiaomi Group will provide various comprehensive services to the Group, mainly including the promotion services, the software development services, the canteen services and other ancillary services; and (v) Xiaomi Group will provide products to the Group, for a term of three years ending 31 December 2022
“Group”	the Company and its subsidiaries, together with their associates
“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 “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, acting as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions and the 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 the proposed annual caps
“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 announcement, annual review and Independent Shareholders’ approval pursuant to the Listing Rules, namely the provision of the cloud, promotion, mailbox customized development and advertising agency services by the Group to Xiaomi Group and the provision of products by Xiaomi Group to the Group
“PRC” or “China”	the People’s Republic of China which, for the purpose of this announcement only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“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 shareholders”	has the meaning as ascribed thereto in the Listing Rules
“Xiaomi”	Xiaomi Corporation, a limited liability company registered in the Cayman Islands and listed on the Stock Exchange (stock code: 1810)
“Xiaomi Group”	Xiaomi Corporation (stock code: 1810) and its subsidiaries, together with their associates
“Xiaomi New Industrial Park”	the property of Xiaomi Group which will be leased by the Group for a term of 6 years in a separate agreement
“%”	percent

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

Hong Kong, 2 December 2019

*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.*