On 1 August 2010, Kingsoft Entertainment, a subsidiary of the Company, and VNG, an independent third party as at the date of the Option Agreement, entered into the Option Agreement in relation to the grant of the Original Option by VNG to Kingsoft Entertainment.

On 24 October 2014, Kingsoft Entertainment and VNG mutually agreed to amend the Option Agreement in the form of the Exhibit, pursuant to which, among the other things, the Original Option is partially terminated to the effect that (1) the Terminated Option will be terminated with immediate effect; and (2) the Existing Option will subsist and continue to be valid.

As at the date of the Exhibit, VNG is an associate of Tencent Holdings Limited, who is the substantial shareholder of the Company. As such, VNG is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The termination of the Terminated Option constitutes a connected transaction of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the termination of the Terminated Option is higher than 0.1% but less than 5%, such termination of the Terminated Option is subject to the reporting and announcement requirements but exempted from independent shareholders’ approval under Chapter 14A of the Listing Rules.

1. BACKGROUND

On 1 August 2010, Kingsoft Entertainment, a subsidiary of the Company, and VNG, an independent third party as at the date of the Option Agreement, entered into the Option Agreement, pursuant to which VNG agreed to grant the Original Option to Kingsoft Entertainment for a consideration of US$1.00.

Pursuant to the Original Option, Kingsoft Entertainment was entitled to subscribe for an aggregate of 1,859,251 ordinary shares in VNG at a subscription price of US$8.0678 per share (subject to further adjustment from time to time).
The grant of the Original Option under the Option Agreement constituted a transaction under Chapter 14 of the Listing Rules. As the then highest applicable percentage ratio (as defined in the Listing Rules) in respect of the grant of the Original Option under the Option Agreement was less than 5%, the grant of the Original Option was exempted from the reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules. VNG is an independent third party of the Company as at the date of the Option Agreement. As such, the grant of the Original Option did not constitute a connected transaction of the Company.

2. PARTIAL TERMINATION OF THE ORIGINAL OPTION

On 24 October 2014, Kingsoft Entertainment and VNG mutually agreed to amend the Option Agreement in the form of the Exhibit, pursuant to which, among the other things, the Original Option is partially terminated to the following effect:

(a) the Terminated Option, being part of the Original Option representing the subscription right exercisable by Kingsoft Entertainment to subscribe for an aggregate of 826,334 ordinary shares in VNG, shall be terminated and become void as of 24 October 2014. No party shall have any claim or demand against the other party in relation to such termination; and

(b) the Existing Option, being part of the Original Option representing the subscription right exercisable by Kingsoft Entertainment to subscribe for the remaining 1,032,917 ordinary shares in VGN, shall continue to be valid and vested under the Option Agreement. Kingsoft Entertainment shall continue to have the right to exercise the Existing Option from time to time at its full discretion on or before 31 December 2020.

The subscription price for the exercise of the Existing Option shall continue to be US$8.0678 per VNG share (subject to further adjustment from time to time according to the Option Agreement).

3. REASONS FOR PARTIAL TERMINATION OF THE ORIGINAL OPTION

Kingsoft Entertainment is mainly engaged in operation and distribution of games and VNG is mainly engaged in provision of online games services in Vietnam. At the time of the grant of the Original Option in 2010, Kingsoft Entertainment and VNG shared the common goal in the development of PC online games. As the game industry develops in China, Kingsoft Entertainment has adjusted its business strategies and focuses on the development of mobile games sector. Given such adjustment of Kingsoft Entertainment’s business development strategies (which are no longer identical with those of VNG’s), VNG and Kingsoft Entertainment have agreed to terminate part of the Original Option.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Exhibit with respect to the partial termination of the Original Option was negotiated on an arm’s length basis, made on normal commercial terms, and that the terms of the Exhibit are fair and reasonable and in the interest of the Company and its shareholders as a whole.
4. IMPLICATIONS UNDER THE LISTING RULES

As at the date of the Exhibit, VNG is an associate of Tencent Holdings Limited, who is the substantial shareholder of the Company. As such, VNG is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The termination of the Terminated Option constitutes a connected transaction of the Company.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the termination of the Terminated Option is higher than 0.1% but less than 5%, such termination of the Terminated Option is subject to the reporting and announcement requirements but exempted from independent shareholders’ approval under Chapter 14A of the Listing Rules.

Given that Mr. Lau Chi Ping is the director of Tencent Holdings Limited, he has, therefore, abstained from voting in respect of the relevant Board resolution approving the termination of the Terminated Option. Save as stated above, none of the Directors has a material interest in the abovementioned transaction nor has any of them abstained from voting in respect of the relevant Board resolution.

5. INFORMATION ABOUT THE PARTIES

Kingsoft Entertainment is a subsidiary of the Company and is mainly engaged in investment holding, operation and distribution of games.

VNG is mainly engaged in operation and distribution of online games, research and development of software, online advertising, provision of web-based data and information access, data and information processing.

6. DEFINITION

“associate” has the meaning ascribed thereto under the Listing Rules

“Board” the board of directors of the Company

“BVI” British Virgin Islands

“Cayman” Cayman Islands

“Company” Kingsoft Corporation Limited, an exempted limited liability company incorporated in the BVI on 20 March 1998 and discontinued in the BVI and continued into the Cayman on 15 November 2005, with its shares listed on the Stock Exchange (stock code: 03888)

“connected person(s)” has the same meaning ascribed thereto under the Listing Rules

“Director(s)” the director(s) of the Company

“Exhibit” the exhibit signed by Kingsoft Entertainment and VNG to amend the Option Agreement
“Existing Option” the part of Original Option (representing the subscription right exercisable by Kingsoft Entertainment to subscribe for an aggregate of 1,032,917 ordinary shares in VNG) granted by VNG and exercisable by Kingsoft Entertainment under the Option Agreement, which has not been terminated by the Exhibit and will continue to be valid

“Group” the Company and its subsidiaries

“Hong Kong” the Hong Kong Special Administrative Region of the People’s Republic of China

“Kingsoft Entertainment” Kingsoft Entertainment Software Corporation Limited, a company established under the laws of Hong Kong and a subsidiary of the Company as at the date of this announcement

“Listing Rules” the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Option Agreement” the option agreement dated 1 August 2010 and entered into between Kingsoft Entertainment, a subsidiary of the Company, and VNG, the then independent third party, in relation to the grant of the Original Option to Kingsoft Entertainment

“Original Option” the option granted by VNG to Kingsoft Entertainment under the Option Agreement, pursuant to which Kingsoft Entertainment has the right to subscribe for an aggregated of 1,859,251 ordinary shares in VNG at a subscription price of US$8.0678 per share

“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

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“subsidiary” has the meaning ascribed thereto under the Listing Rules

“substantial shareholder” has the meaning ascribed thereto under the Listing Rules

“Terminated Option” the part of the Original Option (representing the subscription right exercisable by Kingsoft Entertainment to subscribe for an aggregate of 826,334 ordinary shares in VNG) which was terminated pursuant to the Exhibit
“US$” US dollars, the lawful currency of the United States

“VNG” VNG Corporation, a company established under the laws of the Socialist Republic of Vietnam and an associate of Tencent Holdings Limited as at the date of this announcement

% percent

By order of the Board

Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 24 October 2014

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