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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 KINGSOFT CLOUD

In order to regulate the ongoing transactions between the Group (excluding Kingsoft Cloud Group) and Kingsoft Cloud Group, the Company and Kingsoft Cloud entered into the Framework Agreement on 30 December 2014, pursuant to which, (i) the Group (excluding Kingsoft Cloud Group) will provide the comprehensive leasing services to Kingsoft Cloud Group, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative supports; (ii) Kingsoft Cloud Group will provide cloud services to the Group (excluding Kingsoft Cloud Group), including but not limited to the cloud storage and cloud computing services, for a term of three years ending 31 December 2017.

Kingsoft Cloud is a subsidiary of the Company. As at the date of this announcement, Xiaomi, the associate of Mr. Jun LEI, holds more than 10% voting power in Kingsoft Cloud and Mr. Jun LEI is a substantial shareholder of the Company. As such, Kingsoft Cloud is a connected subsidiary of the Company by virtue of Rule 14A.16 of the Listing Rules. Therefore, the entering into the Framework Agreement between the Company and Kingsoft Cloud and the transactions contemplated thereunder will become continuing connected transactions of the Company under the Listing Rules.

Each of the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the proposed annual caps for the transactions contemplated under the Framework Agreement exceeds 0.1% but is less than 5%, such transactions and their respective proposed annual caps are subject to the reporting, announcement and annual review requirements, but exempted from the independent shareholders' approval under Chapter 14A of the Listing Rules.

1. BACKGROUND

In order to regulate the ongoing transactions between the Group (excluding Kingsoft Cloud Group) and Kingsoft Cloud Group, the Company and Kingsoft Cloud entered into the Framework Agreement on 30 December 2014, pursuant to which, (i) the Group (excluding Kingsoft Cloud Group) will provide the comprehensive leasing services to Kingsoft Cloud Group, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative supports; (ii) Kingsoft Cloud Group will provide cloud services to the Group (excluding Kingsoft Cloud Group), including but not limited to the cloud storage and cloud computing services, for a term of three years ending 31 December 2017.

2. THE FRAMEWORK AGREEMENT

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

Date: 30 December 2014

Parties: the Company; and
Kingsoft Cloud

Terms: three years from 1 January 2015 to 31 December 2017

Scope of cooperation: *(a) Provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group) to Kingsoft Cloud Group*

The Group (excluding Kingsoft Cloud Group) will provide Kingsoft Cloud Group comprehensive leasing services in return for service fees, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative supports.

The fees for the comprehensive leasing services provided by the Group (excluding Kingsoft Cloud Group) shall be determined after arm's length negotiation between the parties with reference to the prevailing market price of the similar services, and such fees should not be more favorable to Kingsoft Cloud Group than the fees offered to the independent third party.

(b) Provision of cloud services by Kingsoft Cloud Group to the Group (excluding Kingsoft Cloud Group)

Kingsoft Cloud Group will provide cloud services to the Group (excluding Kingsoft Cloud Group) in return for service fees, including but not limited to the cloud storage and cloud computing services.

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

- (i) the fees shall be determined upon arm's length negotiation between the Group (excluding Kingsoft Cloud Group) and Kingsoft Cloud Group after taking into account the costs for providing the services, the volume of the services rendered and a reasonable profit of the Kingsoft Cloud Group; or
- (ii) the fees shall be no less favorable to the Group (excluding Kingsoft Cloud Group) than those provided to independent third parties for services rendered on similar technical specifications and volume.

Payment terms:

The payment terms shall be based on the individual agreements with reference to similar transactions in the market.

Individual agreements:

The Group (excluding Kingsoft Cloud Group) and Kingsoft Cloud Group may enter into individual agreements from time to time when necessary according to the principles and scope provided for under the Framework Agreement. Such individual agreements shall be entered into on normal commercial terms.

3. HISTORICAL AMOUNTS AND THE PROPOSED ANNUAL CAPS UNDER THE FRAMEWORK AGREEMENT

The table below sets out the historical amounts for the two years ended 31 December 2013 and the eleven months ended 30 November 2014 and the proposed annual caps for the three years ending 31 December 2017 under the Framework Agreement:

RMB: million

	Historical Transaction Amounts			Proposed annual caps		
	For the year ended		For the	For the year ending		
	31 December	2013	eleven months	31 December	2016	2017
	2012	2013	ended	2015	2016	2017
			30 November			
			2014*			
fees payable by Kingsoft Cloud Group						
provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group)	1.47	2.7	4.52	15	20	25
fees payable by the Group (excluding Kingsoft Cloud Group)						
provision of cloud services by Kingsoft Cloud Group	0.02	1.2	1.36	21	45	70

*: As disclosed in the announcement of the Company dated 21 August 2014, Kingsoft Cloud Group became connected subsidiaries of the Company after Xiaomi acquired certain preferred shares of Kingsoft Cloud from Apoletto Limited on 21 August 2014. The Company confirms that the historical transaction amount for each of the transactions under the Framework Agreement from 21 August 2014 to the date of this announcement is less than HK\$3 million, which constitutes the *de minimis* transaction of the Company.

(1) Reasons and basis for setting up the annual caps for the fees payable by Kingsoft Cloud Group in respect of the provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group)

The annual caps for the fees payable by Kingsoft Cloud Group in respect of the provision of comprehensive leasing services by the Group (excluding Kingsoft Cloud Group) for the three years ending 31 December 2017 are determined with reference to (i) the number of current employees of Kingsoft Cloud Group; (ii) the fair market rates for provision of similar services; and (iii) the proposed increase of staff number of Kingsoft Cloud Group.

(2) Reasons and basis for setting up the annual caps for the fees payable by the Group (excluding Kingsoft Cloud Group) in respect of the provision of cloud services by Kingsoft Cloud Group

The annual caps for the fees payable by the Group (excluding Kingsoft Cloud Group) to Kingsoft Cloud Group in respect of the provision of cloud services by Kingsoft Cloud Group for the three years ending 31 December 2017 are determined with reference to (i) the historical amounts for the two years ended 31 December 2013 and the eleven months ended 30 November 2014; (ii) the fair market rates for provision of similar services; and (iii) the expected increase in demand of cloud services as a result of the expansion of the Group's business.

4. REASONS FOR AND BENEFITS OF THE FRAMEWORK AGREEMENT

Due to the relationship between the Group and Kingsoft Cloud Group, the Company considers that it is beneficial to enter into the Framework Agreement to regulate the continuing connected transactions contemplated thereunder as such transactions will continue to facilitate the operation and growth of the Group's business as a whole.

The Directors (including the independent non-executive Directors) are 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. IMPLICATIONS UNDER THE LISTING RULES

Kingsoft Cloud is a subsidiary of the Company. As at the date of this announcement, Xiaomi, the associate of Mr. Jun LEI, holds more than 10% voting power in Kingsoft Cloud and Mr. Jun LEI is a substantial shareholder of the Company. As such, Kingsoft Cloud is a connected subsidiary of the Company by virtue of Rule 14A.16 of the Listing Rules. Therefore, the entering into the Framework Agreement between the Company and Kingsoft Cloud and the transactions contemplated thereunder will become continuing connected transactions of the Company under the Listing Rules.

Each of the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the proposed annual caps for the transactions contemplated under the Framework Agreement exceeds 0.1% but is less than 5%, such transactions and their respective proposed annual caps are subject to the reporting, announcement and annual review requirements, but exempted from the independent shareholders' approval under Chapter 14A of the Listing Rules.

Mr. Jun LEI, Mr. HongJiang ZHANG and Mr. Yuk Keung NG have abstained from voting on the Board resolution approving the Framework Agreement as they are the directors of Kingsoft Cloud. 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.

6. INFORMATION ABOUT THE PARTIES

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

Kingsoft Cloud Group is engaged in the research, development and provision of cloud technology and services.

7. 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)
“Director(s)”	the director(s) of the Company
“Framework Agreement”	the agreement entered into between the Company and Kingsoft Cloud on 30 December 2014, pursuant to which (i) the Group (excluding Kingsoft Cloud Group) will provide the comprehensive leasing services to Kingsoft Cloud Group, including but not limited to the lease of the office area and the provision of other miscellaneous services such as administrative supports; (ii) Kingsoft Cloud Group will provide cloud services to the Group (excluding Kingsoft Cloud Group), including but not limited to the cloud storage and cloud computing services, for a term of three years ending 31 December 2017
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Kingsoft Cloud”	Kingsoft Cloud Holdings Limited, a limited liability company organized under the laws of the Cayman and a connected subsidiary of the Company as at the date of this announcement
“Kingsoft Cloud Group”	Kingsoft Cloud and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
%	percent

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 30 December 2014

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