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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.

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 **KINGSOFT**[®]
Kingsoft Corporation Limited
金山軟件有限公司
(Continued into the Cayman Islands with limited liability)
(Stock Code: 03888)

**POSSIBLE MAJOR TRANSACTION AND DEEMED DISPOSAL:
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF
KINGSOFT CLOUD HOLDINGS LIMITED
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Shareholders**



A letter from the Board is set out on pages 4 to 17 of this circular and a letter of recommendation from the Independent Board Committee to the Shareholders is set out on page 18 of this circular. A letter of advice from Gram Capital to the Independent Board Committee and the Shareholders is set out on pages 19 to 29 of this circular.

A notice convening the EGM of the Company to be held at Building D, Xiaomi Campus, No. 33 Xi erqi Middle Road, Haidian District, Beijing, the PRC on Friday, 20 March 2020 at 2:00 p.m. is set out on pages 40 to 41 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, 26 February 2020

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DEFINITIONS

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

“ADS(s)”	the American Depositary Share(s) to be issued pursuant to a deposit agreement between Kingsoft Cloud and a depository, each representing certain number of shares in Kingsoft Cloud, which are expected to be listed on the U.S. Exchange
“associate”	has the meaning as ascribed thereto in the Listing Rules
“Assured Entitlement”	the assured entitlement with which the Company currently intends to provide the Shareholders by way of a distribution in specie of existing Kingsoft Cloud Shares represented by ADSs (or cash alternative under certain circumstances as described in the paragraph headed “6. Assured Entitlement” in the letter from the Board)
“Beijing Office Software”	Beijing Kingsoft Office Software, Inc.* (北京金山辦公軟件股份有限公司), a non-wholly owned subsidiary of the Company as at the Latest Practicable Date and a joint stock company established in the PRC with limited liability whose shares are listed on the Sci-Tech Innovation Board of the PRC
“Beijing Office Software Group”	Beijing Office Software and its subsidiaries
“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 Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at Building D, Xiaomi Campus, No. 33 Xi erqi Middle Road, Haidian District, Beijing, the PRC on Friday, 20 March 2020 at 2:00 p.m. for the purpose of considering and, if thought fit, approving the Proposed Spin-off
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRS(s)”	International Financial Reporting Standards
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors formed by the Company to advise the Shareholders in respect of the terms of the Proposed Spin-off

DEFINITIONS

“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 Shareholders in respect of the terms of the Proposed Spin-off
“independent third party(ies)”	individual(s) or company(ies) which is/are independent of and not connected with (within the meaning of the Listing Rules) any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates
“Kingsoft Cloud”	Kingsoft Cloud Holdings Limited, a limited liability company incorporated in the Cayman Islands and a non-wholly owned subsidiary of the Company as at the Latest Practicable Date
“Kingsoft Cloud Group”	Kingsoft Cloud and its subsidiaries
“Kingsoft Cloud Offering”	the offering of Kingsoft Cloud Shares represented by ADSs on the U.S. Exchange to be registered with the SEC
“Kingsoft Cloud Share(s)”	the new share(s) to be issued by Kingsoft Cloud and represented by ADSs under Kingsoft Cloud Offering with a nominal value of US\$0.001 each
“Latest Practicable Date”	20 February 2020, 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)
“PN15”	Practice Note 15 of the Listing Rules
“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 Spin-off”	the proposed spin-off of Kingsoft Cloud involving Kingsoft Cloud Offering and the proposed separate listing of the ADSs on the U.S. Exchange
“Retained Business”	the principal business operated by the Retained Group, i.e. research and development of games, and provision of online games, mobile games and casual game services
“Retained Group”	the Company and its subsidiaries, excluding Kingsoft Cloud Group and Beijing Office Software Group
“RMB”	Renminbi, the lawful currency of the PRC
“Sci-Tech Innovation Board”	the science and technology innovation board of the Shanghai Stock Exchange
“SEC”	the Securities and Exchange Commission of the United States of America

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of nominal value of US\$0.0005 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Connect”	Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect
“Stock Connect Investor(s)”	the PRC southbound trading investor(s) holding the Company’s securities through the Stock Connect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning as ascribed thereto in the Listing Rules
“U.S.”	the United States
“U.S. Exchange”	either the New York Stock Exchange or National Association of Securities Dealers Automated Quotations (NASDAQ), subject to the determination by Kingsoft Cloud
“US\$”	US dollar(s), the lawful currency of the U.S.
“%”	Percent

 **KINGSOFT**[®]
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

PO Box 1350

Clifton House

75 Fort Street

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, 26 February 2020

To the Shareholders

Dear Sir or Madam,

**POSSIBLE MAJOR TRANSACTION AND DEEMED DISPOSAL:
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF
KINGSOFT CLOUD HOLDINGS LIMITED**

1. INTRODUCTION

References are made to the announcements of the Company dated 14 November 2019 and 22 December 2019 in relation to the Proposed Spin-off.

The Proposed Spin-off, if materialized, will constitute a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. Based on the proposed size of Kingsoft Cloud Offering, it is expected that the highest applicable percentage ratio in respect of the Proposed Spin-off may exceed 25% but will be less than 75%. Therefore, the Proposed Spin-off, if proceeded with, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is therefore subject to, among other things, the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information, among others, (i) further details of the Proposed Spin-off; (ii) the letter of recommendation from the Independent Board Committee to the Shareholders in respect of the Proposed Spin-off; (iii) the letter from Gram Capital to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off; and (iv) a notice of the EGM, to enable you to make an informed decision on whether to vote for or against the proposed resolution at the EGM.

2. THE PROPOSED SPIN-OFF

2.1 Background

It is currently proposed that the Proposed Spin-off will involve (i) an offering of certain number of Kingsoft Cloud Shares represented by ADSs on the U.S. Exchange; and (ii) a distribution in specie of ADSs to the Shareholders (or cash alternative under certain circumstances as described in the paragraph headed “6. Assured Entitlement”).

The Company has submitted a proposal in relation to the Proposed Spin-off to the Stock Exchange pursuant to PN15 and the Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off.

On 20 December 2019 (New York time), Kingsoft Cloud submitted on a confidential basis to SEC a draft registration statement for Kingsoft Cloud Offering. Kingsoft Cloud still has to obtain approvals from the SEC and the U.S. Exchange before it can proceed with Kingsoft Cloud Offering. Based on the current timetable, Kingsoft Cloud expects to obtain such approvals by April 2020.

2.2 Shareholding percentage of the Company in Kingsoft Cloud immediately before and after the Proposed Spin-off

On 2 December 2019 and 16 December 2019, Kingsoft Cloud entered into share purchase agreements with China Internet Investment Fund and Design Time Limited respectively, pursuant to which Kingsoft Cloud agreed to issue an aggregate of 77,125,997 series D+ preferred convertible shares with a par value of US\$0.001 each to the two investors for a total consideration of US\$70,000,000 (the “**Series D+ Financing**”). The Series D+ Financing has been completed on 27 December 2019. For more details, please refer to the announcements of the Company dated 2 December 2019 and 16 December 2019, respectively.

As at the Latest Practicable Date, Kingsoft Cloud has an issued share capital of 1,077,086,304 ordinary shares with a par value of US\$0.001 each, 458,116,000 series A preferred shares with a par value of US\$0.001 each, 153,603,600 series B preferred shares with a par value of US\$0.001 each, 185,665,192 series C preferred shares with a par value of US\$0.001 each, 842,738,782 series D preferred shares with a par value of US\$0.001 each and 77,125,997 series D+ preferred shares with a par value of US\$0.001 each, among which the Company holds 669,000,000 ordinary shares, 134,740,000 series A preferred shares, 79,873,872 series B preferred shares, 102,292,296 series C preferred shares and 421,369,391 series D preferred shares, accounting for approximately 50.36% of the total issued share capital of Kingsoft Cloud, which remains as a non-wholly owned subsidiary of the Company. The Series D+ Financing constituted a deemed disposal of the Company but did not constitute a notifiable transaction or a connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules given the size of the Series D+ Financing.

LETTER FROM THE BOARD

Based on the Board's preliminary estimate and the funding needs of Kingsoft Cloud, it is proposed that Kingsoft Cloud will issue not more than 16.67% of the total issued share capital of Kingsoft Cloud as enlarged by Kingsoft Cloud Offering, representing not more than approximately 558,867,175 Kingsoft Cloud Shares to be issued. It is expected that all of the issued and outstanding preferred shares of Kingsoft Cloud will be re-designated or converted into ordinary shares based on the conversion ratio of 1:1 immediately prior to the completion of Kingsoft Cloud Offering. Therefore, Kingsoft Cloud is expected to have an issued share capital of 2,794,335,875 ordinary shares immediately prior to the completion of Kingsoft Cloud Offering and an issued share capital of 3,353,203,050 ordinary shares immediately after the completion of Kingsoft Cloud Offering (excluding the exercise of share options, if any). Accordingly, immediately upon completion of Kingsoft Cloud Offering (excluding the provision of the Assured Entitlement and exercise of share options, if any), the Company will hold 1,407,275,559 ordinary shares in the total issued share capital of Kingsoft Cloud and the Company's shareholding in Kingsoft Cloud is expected to decrease to approximately 41.97% to the maximum extent, and Kingsoft Cloud will cease to be a subsidiary of the Company.

The Company has no present intention to dispose of its shares in Kingsoft Cloud under Kingsoft Cloud Offering.

2.3 Proceeds to be raised from Kingsoft Cloud Offering and intended use of proceeds

The offer price of Kingsoft Cloud Offering has not been fixed yet and is subject to market conditions close to the launch of Kingsoft Cloud Offering and determined by a book-building process organized by the lead underwriter of Kingsoft Cloud Offering and to be agreed by Kingsoft Cloud. The Directors and the directors of Kingsoft Cloud currently expect that the underlying offer price per share of Kingsoft Cloud Offering will not be lower than US\$0.91, which is equivalent to the subscription price per series D+ preferred convertible share of Kingsoft Cloud paid by the relevant investors in the Series D+ Financing. In determination of the offer price, Kingsoft Cloud will take into account, among other things, of (i) its historical operating results and financial performance; (ii) its business prospects; (iii) its expansion plan and capital need; (iv) the price quoted by target subscribers in the book-building process for Kingsoft Cloud Offering; and (v) the offer prices in the listings of other comparable companies in the U.S. or other overseas markets in similar industry as Kingsoft Cloud (if any). Investors should be aware that the offer price will be determined close to the launch of Kingsoft Cloud Offering based on several factors, some of which are beyond the control of Kingsoft Cloud and the underwriter(s) of Kingsoft Cloud Offering.

The expected net proceeds from Kingsoft Cloud Offering cannot be determined yet at this stage as the exact offer price and the expected size of Kingsoft Cloud Offering are not determined. Kingsoft Cloud currently expects to use the net proceeds from Kingsoft Cloud Offering for the following purposes: (i) to further invest in technology and product development, especially in artificial intelligence, big data and cloud technologies; (ii) to further invest in upgrading and expanding its infrastructure; (iii) to fund the expansion of its ecosystem and international presence; and (iv) to supplement its working capital for general corporate purposes.

As the Company has no present intention to dispose of its shares in Kingsoft Cloud under Kingsoft Cloud Offering, the Company will not receive any proceeds from Kingsoft Cloud Offering.

The Company will make further announcement(s) once the information relating to the final offer price and expected net proceeds of Kingsoft Cloud Offering is available.

LETTER FROM THE BOARD

2.4 Conditions of the Proposed Spin-off

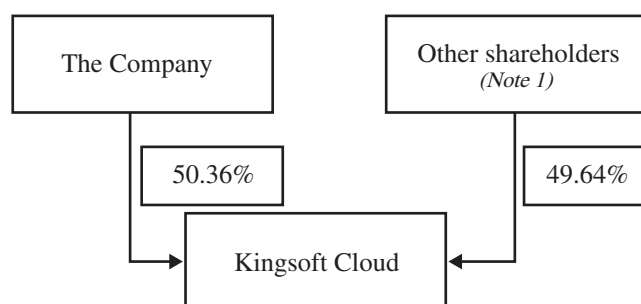
The Proposed Spin-off will be conditional upon, among other things, the following conditions:

- a) the approval of the Proposed Spin-off by the Shareholders pursuant to the Listing Rules;
- b) the effectiveness of the registration statement to be filed by Kingsoft Cloud with the SEC;
- c) the approval by the U.S. Exchange for the ADSs to be listed on the U.S. Exchange; and
- d) the obligations of the underwriter(s) under the underwriting agreements to be entered into between, among others, the underwriter(s), Kingsoft Cloud and the Company (if applicable) in connection with Kingsoft Cloud Offering becoming unconditional, and the underwriting agreements not being terminated in accordance with their respective terms or otherwise, on or before the date and time to be specified therein.

If any of the above conditions is not fulfilled, the Proposed Spin-off will not proceed and an announcement will be published by the Company when appropriate.

2.5 Shareholding effects of the Proposed Spin-off

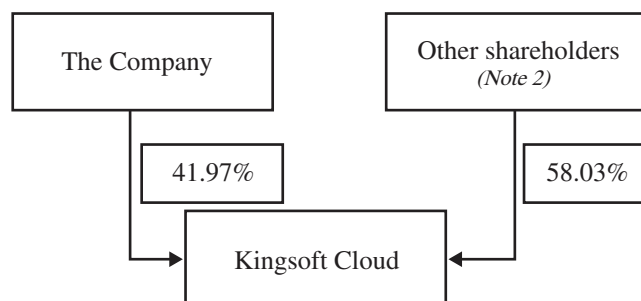
The shareholding structure of Kingsoft Cloud immediately prior to the completion of the Proposed Spin-off is set out as follows:



Note 1: Other shareholders of Kingsoft Cloud include Xiaomi Corporation (14.83%), Celestial Power Limited (2.80%), ChinaAMC Special Investment Limited (1.61%), Buddies Team Limited (0.63%), METAWIT Capital L.P. (4.22%), New Cloud Ltd. (4.22%), Shunwei Growth III Limited (0.42%), Precious Steed Limited (2.11%), FutureX AI Opportunity Fund LP and its affiliates (4.11%), FutureX Innovation SPC (acting for and on behalf of Special Opportunity Fund VI SP as one of its segregated portfolios) (0.59%), China Internet Investment Fund (1.97%), Design Time Limited (0.79%), Mr. Hongjiang ZHANG (0.66%) and employee shareholding platform that holds shares on behalf of Kingsoft Cloud Group's management and other employees (including directors) for incentive purpose (10.69%).

LETTER FROM THE BOARD

The shareholding structure of Kingsoft Cloud immediately after the completion of the Proposed Spin-off is set out as follows:



Note 2: Other shareholders of Kingsoft Cloud include Xiaomi Corporation (12.36%), Celestial Power Limited (2.33%), ChinaAMC Special Investment Limited (1.34%), Buddies Team Limited (0.53%), METAWIT Capital L.P. (3.51%), New Cloud Ltd. (3.51%), Shunwei Growth III Limited (0.35%), Precious Steed Limited (1.76%), FutureX AI Opportunity Fund LP and its affiliates (3.43%), FutureX Innovation SPC (acting for and on behalf of Special Opportunity Fund VI SP as one of its segregated portfolios) (0.49%), China Internet Investment Fund (1.64%), Design Time Limited (0.66%), Mr. Hongjiang ZHANG (0.55%), employee shareholding platform that holds shares on behalf of Kingsoft Cloud Group’s management and other employees (including directors) for incentive purpose (8.91%) and public shareholders (16.67%) (assuming that none of the existing shareholders of Kingsoft Cloud will subscribe for new Kingsoft Cloud Shares in Kingsoft Cloud Offering).

3. FINANCIAL IMPACT OF THE PROPOSED SPIN-OFF

It is expected that Kingsoft Cloud will cease to be a subsidiary of the Company immediately upon completion of the Proposed Spin-off.

The following estimates the financial impact of the Proposed Spin-off on the Group on the basis of the current structure of the Proposed Spin-off which is subject to finalization and is for illustration purposes only. The analysis below does not purport to represent how the financial position of the Group will be upon completion of the Proposed Spin-off.

Paragraph 25 of IFRS 10 states that:

“If a parent loses control of a subsidiary, the parent:

- (a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.*
- (b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.*
- (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.”*

LETTER FROM THE BOARD

Upon completion of the Proposed Spin-off, the Group will lose control over Kingsoft Cloud and Kingsoft Cloud will not be accounted for as a subsidiary of the Company. The Group will derecognise the assets and liabilities of Kingsoft Cloud from the consolidated statement of financial position as well as the carrying amount of non-controlling interests in Kingsoft Cloud. The Group will account for its investment in Kingsoft Cloud as investment in an associate at its fair value when control is lost, and recognise share of profit or loss in investment in Kingsoft Cloud using the equity method of accounting, subsequently.

The fair value in respect of the Company's equity interest in Kingsoft Cloud as at the date of the completion of the Proposed Spin-off is determined by market share price of Kingsoft Cloud, as Kingsoft Cloud will be a listed company upon completion of the Proposed Spin-off.

The fair value of the Company's equity interest in Kingsoft Cloud and the net asset value of Kingsoft Cloud attributable to the Company are estimated to be approximately RMB8 billion and RMB1 billion, respectively, with reference to the currently expected lowest underlying offer price per share of US\$0.91 in Kingsoft Cloud Offering and unaudited management accounts of Kingsoft Cloud as at 30 September 2019. The deemed disposal gain as a result of the Proposed Spin-off to be recognized in the Group's consolidated statement of profit or loss is expected to be approximately RMB7 billion based on the aforesaid basis. As at 30 September 2019, the consolidated total assets of Kingsoft Cloud were approximately RMB6 billion and consolidated total liabilities and non-controlling interests of Kingsoft Cloud were approximately RMB5 billion. If Kingsoft Cloud was accounted as an associate instead of a subsidiary of the Group at 30 September 2019, total assets of the Group would increase by approximately RMB2 billion (being investment in an associate of approximately RMB8 billion, less total assets of Kingsoft Cloud of approximately RMB6 billion), and total liabilities and non-controlling interests of the Group would decrease by approximately RMB5 billion. Had the Proposed Spin-off taken place at the beginning of the period (i.e. 1 January 2019) and Kingsoft Cloud was accounted as an associate instead of a subsidiary of the Group for the nine months ended 30 September 2019, loss after tax of the Group would decrease by approximately RMB0.5 billion (being loss after tax of Kingsoft Cloud of approximately RMB1 billion, less share of loss of an associate of approximately RMB0.5 billion).

4. REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Board considers that the Proposed Spin-off is commercially beneficial to the Company and Kingsoft Cloud and in the interest of the Shareholders as a whole for the following reasons:

- a) The Proposed Spin-off would enable investors to better value the Company with its focus on the Retained Business;
- b) The Proposed Spin-off could better reflect the value of Kingsoft Cloud Group on its own merits and increase its operational and financial transparency through which investors would be able to appraise and assess the performance and potential of Kingsoft Cloud Group separately and distinctly from those of the Retained Group, in turn providing better reward to the shareholders of both Kingsoft Cloud and the Company;
- c) The Proposed Spin-off will enable the Company to fully focus on and deploy its funds towards the development of the Retained Business without needing to consider Kingsoft Cloud Group's funding requirements; and

LETTER FROM THE BOARD

- d) The value of Kingsoft Cloud Group is expected to be enhanced through the Proposed Spin-off which will in turn benefit the Company as a controlling shareholder of Kingsoft Cloud.

The Board (including the independent non-executive Directors) is of the view that the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. INFORMATION ON KINGSOFT CLOUD GROUP AND THE RETAINED GROUP

5.1 Business overview

As at the Latest Practicable Date, the principal activities of the Group comprise (i) research and development of games, and provision of online games, mobile games and casual game services (the “**Online Game Business**”); (ii) provision of cloud storage and cloud computation services (the “**Cloud Service Business**”); and (iii) design, research and development and sales and marketing of the office software products and services of WPS Office (the “**Office Application Software Business**”).

The Cloud Service Business is operated by Kingsoft Cloud Group, and the Office Application Software Business is conducted by Beijing Office Software Group whose shares have been listed on the Sci-Tech Innovation Board of the PRC since 18 November 2019.

The Retained Group (i.e. the Group excluding Kingsoft Cloud Group and Beijing Office Software Group) is principally engaged in the Online Game Business with sufficient level of operation and sufficient assets to support its separate listing status.

5.2 Key financial information of Kingsoft Cloud Group

Kingsoft Cloud is a limited liability company incorporated in the Cayman Islands and a non-wholly owned subsidiary of the Company as at the Latest Practicable Date.

Set out below is the financial information of Kingsoft Cloud Group prepared in accordance with IFRS for the two financial years ended 31 December 2018 and the nine months ended 30 September 2019:

	For the year ended 31 December 2017	For the year ended 31 December 2018	For the nine months ended 30 September 2019
Loss before taxation and extraordinary items	(766.44)	(1,585.07)	(1,399.00)
Loss after taxation and extraordinary items	(765.29)	(1,597.13)	(1,405.90)

RMB: million

As at 30 September 2019, the net liabilities of Kingsoft Cloud Group was approximately RMB3,130.90 million.

LETTER FROM THE BOARD

5.3 Key financial information of the Retained Group

Set out below is the financial information of the Retained Group prepared in accordance with IFRS for the two financial years ended 31 December 2018 and the nine months ended 30 September 2019:

	For the year ended 31 December 2017	For the year ended 31 December 2018	For the nine months ended 30 September 2019
			<i>RMB: million</i>
Profit/(loss) before taxation and extraordinary items	1,481.30	570.10	399.40
Profit/(loss) after taxation and extraordinary items	3,794.50	841.50	(965.80)

As at 30 September 2019, the net asset value of the Retained Group was RMB13,130.80 million.

5.4 Clear business delineation between the business of the Retained Group and Kingsoft Cloud Group

Kingsoft Cloud Group's business mainly focuses on the Cloud Service Business. On the other hand, the Retained Group conducts Online Game Business. The Group has not been principally involved in the Cloud Service Business other than through Kingsoft Cloud Group and Kingsoft Cloud Group conducts the Cloud Service Business as a separate and distinct line of business.

There is a clear delineation between the business of the Retained Group and the business of Kingsoft Cloud Group as they provide different products and/or services and are of different business scopes and are servicing different geographical locations. In particular, Kingsoft Cloud Group provides Cloud Service Business to generate revenue and its products include cloud storage and cloud computation services for virtual storage and computation purposes, while the Retained Group sells virtual items and provides ancillary services to game players to enhance their in-game experience or charge game players to play games based on the actual gaming hours and its products include online games, mobile games and agency services of operating games provided for entertainment purpose. Furthermore, the geographical coverage of the business of Kingsoft Cloud Group mainly includes mainland China, countries in North America, Singapore, Japan, Russia and Hong Kong, while that of the Retained Group mainly includes mainland China, Vietnam, South Korea, Hong Kong, Taiwan, Singapore, Malaysia, Thailand and Japan. In practice, the business operations of Kingsoft Cloud Group do not rely on the Retained Group to gain access to target end users, customers or suppliers. Kingsoft Cloud Group has its own business operating systems, which have been in operations and are expected to continue to operate separately and independently from the Retained Group.

LETTER FROM THE BOARD

5.5 Management Independence

As at the Latest Practicable Date, the board of directors of Kingsoft Cloud consists of twelve directors, including Mr. Jun LEI, Mr. Yulin WANG, Mr. Tao ZOU, Mr. Shou Zi CHEW, Mr. Yuk Keung NG, Mr. Wei LIU, Ms. Bo PENG, Ms. Yi LI, Mr. Dingzhe LIU, Ms. Qian ZHANG, Mr. Kuiguang NIU and Mr. Kuo Lung TSENG.

The full list of directors of Kingsoft Cloud prior to and after the completion of the Proposed Spin-off is not finally determined at this stage, as Kingsoft Cloud is still in the process of identifying the independent non-executive directors and discussing with its shareholders in relation to who will remain as the non-executive directors of Kingsoft Cloud. However, the Company and Kingsoft Cloud have determined that Mr. Jun LEI, Mr. Tao ZOU, Mr. Yulin WANG and Mr. Shou Zi CHEW will remain as directors of Kingsoft Cloud after the completion of the Proposed Spin-off.

It is proposed that there will at most be two overlapping directors between the Company and Kingsoft Cloud after the completion of the Proposed Spin-off, namely Mr. Jun LEI and Mr. Tao ZOU. The table below sets out the respective roles and responsibilities of the overlapping directors in Kingsoft Cloud Group and the Retained Group after the completion of the Proposed Spin-off.

Name	Time of joining Kingsoft Cloud	Position held in Kingsoft Cloud Group	Roles and responsibilities in Kingsoft Cloud Group	Position held in the Retained Group	Roles and responsibilities in the Retained Group
Jun LEI	January 2012	Chairman and director	Overseeing the development direction and management strategy	Non-executive Director and chairman of the Board and director of certain subsidiaries of the Company	Overseeing the development direction and management strategy of the Retained Group
Tao ZOU	December 2016	Vice chairman and director	Overseeing the implementation of executive decision	Executive Director and chief executive officer of the Company and director of certain subsidiaries of the Company	Handing the day-to-day management of the Retained Group

LETTER FROM THE BOARD

Kingsoft Cloud will adopt corporate governance measures to manage potential conflicts of directors' interests after the completion of the Proposed Spin-off, including potential conflicts of interest that may arise in respect of overlapping directors and senior management, in accordance with the requirements of Kingsoft Cloud's articles of association, relevant corporate governance policies, U.S. securities laws and the U.S. Exchange. For matters where any proposed director of Kingsoft Cloud may have an actual or potential conflict of interest, such actual or potential conflict of interest will be addressed in accordance with the articles of association of Kingsoft Cloud, relevant corporate governance policies and the applicable requirements of U.S. securities laws and the U.S. Exchange.

Moreover, each Director of the Company is aware of his fiduciary duties as a Director of the Company, which require, among other things, that he act for the benefit and in the best interests of the Company and do not allow any conflict between his duties as a Director of the Company and his personal interests. As required by article 107 of the amended and restated memorandum and articles of association of the Company, a Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his associates has/have a material interest. In addition, as at the Latest Practicable Date, the Board of the Company comprises eight Directors and three of them are independent non-executive Directors, who represent more than one-third of the Board members of the Company. With such internal mechanism, the Company considers that it will be able to manage potential conflicts of interest that may arise in respect of overlapping directors and senior management.

All independent non-executive directors of Kingsoft Cloud will have to satisfy the requirements for independence of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and the relevant rules of the U.S. Exchange. It is intended that all of the proposed independent non-executive directors to be appointed by Kingsoft Cloud Group will be different from the independent non-executive directors of the Retained Group. The independent non-executive directors of Kingsoft Cloud will also provide checks and balances over the decision-making of the board of directors of Kingsoft Cloud on significant transactions, related party transactions and other transactions involving any actual or potential conflict of interests, consistent with the requirements of U.S. securities laws and the U.S. Exchange.

Upon completion of the Proposed Spin-off, Kingsoft Cloud will have an audit committee that meets the independence requirements under the Exchange Act. Under the Exchange Act and the rules of the U.S. Exchange, a listed company must have an audit committee that comprises only of independent directors, subject to certain phase-in exemptions available to a newly listed company.

On the above basis, the Company believes that the Board of the Company will operate and resolve all actual or potential conflicting matters involving Kingsoft Cloud's business independently, and vice versa, and Kingsoft Cloud will therefore operate independently and in the interests of its shareholders as a whole.

LETTER FROM THE BOARD

5.6 Operational Independence

Kingsoft Cloud Group has been operating independently, with only very limited ancillary administrative functions shared with the Retained Group, including employee income tax reporting. It is expected that Kingsoft Cloud Group will also establish its internal teams to carry out such ancillary administrative functions independently from the Retained Group upon completion of the Proposed Spin-off. Kingsoft Cloud has and will continue to have a separate management team and separate functional departments including accounting, internal audit, administration, human resources, legal and company secretarial departments. The Company confirms that all essential administration and operations of Kingsoft Cloud Group will be carried out by a team of staff employed by Kingsoft Cloud Group independently from the Company after the Proposed Spin-off.

5.7 Financial Independence

On 1 June 2016, Beijing Kingsoft Cloud Network Technology Co., Ltd. (北京金山雲網絡技術有限公司) (“**Kingsoft Cloud Beijing**”), a member of Kingsoft Cloud Group, obtained a five-year term loan facility of RMB400 million from Bank of Beijing guaranteed by Chengdu Kingsoft Interactive Entertainment Co., Ltd. (成都金山互動娛樂科技有限公司) (“**Kingsoft Chengdu**”), a member of the Retained Group (the “**Related Financial Assistance**”). As at 30 September 2019, there was a borrowing balance of approximately RMB214 million owed to Bank of Beijing. The Related Financial Assistance is expected to be fully released on or before maturity in 2021, and Kingsoft Cloud Group is able to repay the borrowing balance of the Related Finance Assistance in full after excluding the necessary working capital for its operation and funds to fulfil other financial obligation and/or commitment. Save as disclosed above, there is no loan or other forms of financial assistance provided by the Retained Group or associates of the Company to Kingsoft Cloud Group as at the Latest Practicable Date.

The Company believes that Kingsoft Cloud is expected to be financially independent from the Retained Group on the basis that: (i) Kingsoft Cloud has a strong financial position with its cash and cash equivalents amounting to approximately RMB2,508.20 million as at 30 September 2019; (ii) Kingsoft Cloud has received further proceeds from the Series D+ Financing; and (iii) Kingsoft Cloud Group would be able to obtain debt financing from independent third parties without the guarantee or other forms of financial assistance from the Retained Group.

On this basis, the Company believes that Kingsoft Cloud will be financially independent of the Company after the Proposed Spin-off.

6. ASSURED ENTITLEMENT

Under PN15, the Company is required to give due regard to the interest of the Shareholders by providing them with an assured entitlement to the shares of Kingsoft Cloud. It is currently proposed that the Company will provide the Shareholders with an assured entitlement by way of a distribution in specie of existing shares of Kingsoft Cloud represented by ADSs (or cash alternative under the circumstances described below), in proportion to their respective shareholdings in the Company.

LETTER FROM THE BOARD

Based on the Board's preliminary estimate and expectation, it is proposed that the Shareholders will be entitled to dividends in specie of Kingsoft Cloud Shares held by the Company, representing approximately 0.35% to 0.50% of the total issued share capital of Kingsoft Cloud as enlarged by Kingsoft Cloud Offering. Such ratio is determined with reference to, among other things, the shareholding in Kingsoft Cloud intended to be maintained by the Company and the financial effect. Therefore, the Board considers that the ratio is fair and reasonable. On the assumption that the total issued share capital of Kingsoft Cloud upon completion of Kingsoft Cloud Offering (excluding the exercise of share options, if any) is 3,353,203,050 ordinary shares, the total number of Kingsoft Cloud Shares to be distributed by the Company to the Shareholders under the Assured Entitlement is expected to be in the range of 11,736,210 to 16,766,015 Kingsoft Cloud Shares (rounding to the nearest whole number). Based on the total issued share capital of 1,372,728,717 Shares of the Company as at the Latest Practicable Date and on the assumption that it will remain unchanged, pursuant to current expected size of the distribution, the Shareholders will be entitled to one Kingsoft Cloud Share for every 82 to 117 Shares (rounding to the nearest whole number) held on the record date for the Shareholders to ascertain the Assured Entitlement. The distribution is conditional upon Kingsoft Cloud Offering becoming unconditional in all respects. The above ratio is a preliminary estimate based on the expected size of the distribution and subject to finalized distribution arrangement. The Company will make further announcement in relation to detailed arrangement of the distribution as and when appropriate.

Under Rule 13.36(2) of the Listing Rules, where a listed issuer proposes to distribute securities to its shareholders, it may exclude relevant overseas shareholders in circumstances where the directors consider the exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. Accordingly, subject to the Company obtaining relevant legal advice, Shareholders located in certain jurisdictions may be excluded from the right to receive ADSs and could only receive cash instead. Shareholders holding less than a specified minimum number of Shares are expected to only receive cash (to avoid odd lots and fractions). Any Shareholder wanting to receive ADSs would need to establish an appropriate securities account from which the Shareholder could receive and trade those securities.

As at the Latest Practicable Date, pursuant to Article 24 of the Implementation Rules for Registration, Depository and Clearing Services under the Mainland-Hong Kong Stock Markets Connect Programme (《內地與香港股票市場交易互聯互通機制登記、存管、結算業務實施細則》), if the Stock Connect Investors receive any securities not listed on the Stock Exchange, they will not be allowed to buy or sell such securities through the Stock Connect. Considering the practical difficulty of the Stock Connect Investors in realizing the benefit of the distribution of ADSs, Stock Connect Investors will not be able to elect to receive ADSs and so will only receive the cash distribution instead, the amount of which is subject to finalized distribution arrangement determined by the Company. This arrangement is in accordance with Question No. 4 of the Frequently Asked Questions Series 29 released by the Stock Exchange on 17 November 2014 and last updated on 13 July 2018.

The exact scale and detailed terms of the Assured Entitlement have not been finalized at this stage as they will depend on market conditions and size of Kingsoft Cloud Offering. Further details of the Assured Entitlement will be announced by the Company in due course.

LETTER FROM THE BOARD

7. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Kingsoft Cloud is a non-wholly owned subsidiary of the Company. Following completion of the Proposed Spin-off, it is expected that Kingsoft Cloud will cease to be a subsidiary of the Company. The Proposed Spin-off, if materialized, will constitute a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. Based on the proposed size of Kingsoft Cloud Offering, it is expected that the highest applicable percentage ratio in respect of the Proposed Spin-off may exceed 25% but will be less than 75%. Therefore, the Proposed Spin-off, if proceeded with, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is therefore subject to the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the Proposed Spin-off. As such, no Shareholder is required to abstain from voting on the EGM resolution approving the Proposed Spin-off.

The final structure of the Proposed Spin-off and the listing of the ADSs are subject to, among other things, the approval of relevant authorities (including the U.S. Exchange and the SEC), market conditions and other considerations. Accordingly, Shareholders and potential investors of the Company should be aware that there is no assurance that the Proposed Spin-off and the listing of the ADSs will take place and, if so, when they may take place. Shareholders and potential investors of the Company should exercise caution when dealing in or investing in the securities of the Company.

8. EGM

The EGM will be held at 2:00 p.m. on Friday, 20 March 2020 at Building D, Xiaomi Campus, No. 33 Xi erqi Middle Road, Haidian District, Beijing, the PRC to consider and, if thought fit, approve, among other matters, the Proposed Spin-off.

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.

Furthermore, taking into account of the recent development of the epidemic caused by novel coronavirus pneumonia, in order to facilitate the prevention and control of the epidemic and to safeguard the health and safety of the Shareholders and investors, the Company suggests that the Shareholders appoint the Chairman of the EGM as a proxy to vote on relevant resolution, instead of attending the EGM in person.

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 resolution 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

9. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 18 of this circular. Your attention is also drawn to the letter of advice from Gram Capital, the Independent Financial Adviser, to the Independent Board Committee and the Shareholders set out on pages 19 to 29 of this circular.

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

10. ADDITIONAL INFORMATION

This circular is being distributed to the Shareholders. This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this circular nor anything contained herein shall form the basis of any contract or commitment whatsoever.

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

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

 **KINGSOFT**[®]
Kingsoft Corporation Limited
金山軟件有限公司
(Continued into the Cayman Islands with limited liability)
(Stock Code: 03888)

Hong Kong, 26 February 2020

To the Shareholders

Dear Sir or Madam,

**POSSIBLE MAJOR TRANSACTION AND DEEMED DISPOSAL:
THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF
KINGSOFT CLOUD HOLDINGS LIMITED**

We refer to the circular dated 26 February 2020 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 Shareholders on whether the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Gram Capital has been appointed as the Independent Financial Adviser to advise us and the Shareholders in this respect. We wish to draw your attention to the letter of advice issued by Gram Capital which is set out on pages 19 to 29 of the Circular.

Having considered the advice of Gram Capital, we are of the view that the terms of the Proposed Spin-off are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Shareholders to vote in favour of the ordinary resolution regarding the Proposed Spin-off 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 GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

26 February 2020

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

Dear Sirs,

POSSIBLE MAJOR TRANSACTION AND DEEMED DISPOSAL: THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF KINGSOFT CLOUD HOLDINGS LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 26 February 2020 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Company submitted a proposal on the Proposed Spin-off to the Stock Exchange pursuant to PN15 and the Stock Exchange confirmed that the Company may proceed with the Proposed Spin-off.

With reference to the Board Letter, the Proposed Spin-off, if materialized, will constitute a deemed disposal of the interest in a subsidiary of the Company under Rule 14.29 of the Listing Rules. Based on the proposed size of the Kingsoft Cloud Offering, it is expected that the highest applicable percentage ratio in respect of the Proposed Spin-off may exceed 25% but will be less than 75%. Therefore, the Proposed Spin-off, if proceeded with, will constitute a major transaction of the Company under Chapter 14 of the Listing Rules. The Proposed Spin-off is therefore subject to the approval of the Shareholders under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

The Independent Board Committee comprising Mr. Shun Tak WONG, Mr. David Yuen Kwan TANG and Ms. Wenjie WU (all being independent non-executive Directors) has been established to advise the Shareholders on (i) whether the terms of the Proposed Spin-off are fair and reasonable so far as the Shareholders are concerned; (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) how the Shareholders should vote in respect of the resolution(s) to approve the Proposed Spin-off at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this respect.

LETTER FROM GRAM CAPITAL

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to (i) the continuing connected transactions set out under the Company's circular dated 5 December 2019; and (ii) the duration of continuing connected transactions set out under the Company's announcement dated 27 November 2018. Notwithstanding the aforesaid engagements, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors 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 advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Proposed Spin-off. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The 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 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 herein or the Circular misleading.

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 of the Company, the Kingsoft Cloud Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Spin-off. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. If there is any material change before EGM, Shareholders will be notified as soon as possible. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

LETTER FROM GRAM CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Spin-off, we have taken into consideration the following principal factors and reasons:

Background of the Proposed Spin-off

1. Business and financial information of the Group

With reference to the Board Letter, the principal activities of the Group comprise (i) research and development of games, and provision of online games, mobile games and casual game services (i.e. the Online Game Business); (ii) provision of cloud storage and cloud computation services (i.e. the Cloud Service Business); and (iii) design, research and development and sales and marketing of the office software products and services of WPS Office (i.e. the Office Application Software Business).

The Cloud Service Business is operated by Kingsoft Cloud Group, and the Office Application Software Business is conducted by Beijing Office Software Group whose shares has been listed on the Sci-Tech Innovation Board of the PRC since 18 November 2019 (Beijing Office Software remains a subsidiary of the Company after listing).

Set out below are the financial information of the Group for the six months ended 30 June 2019 and the two years ended 31 December 2018 as extracted from the Company's interim report for the six months ended 30 June 2019 (the "2019 Interim Report") and the Company's annual report for the two year ended 31 December 2018 (the "2018 Annual Report"), respectively:

	For the year ended 31 December 2018	For the year ended 31 December 2017	Change from 2017 to 2018
	<i>(audited)</i>	<i>(audited)</i>	
	<i>RMB '000</i>	<i>RMB '000</i>	<i>%</i>
Revenue	5,906,187	5,181,290	13.99
<i>Entertainment software</i>	<i>2,551,715</i>	<i>3,120,186</i>	<i>(18.22)</i>
<i>Cloud services</i>	<i>2,217,507</i>	<i>1,332,522</i>	<i>66.41</i>
<i>Office software and services and others</i>	<i>1,136,965</i>	<i>728,582</i>	<i>56.05</i>
Gross profit	2,736,758	3,012,383	(9.15)
Profit/(Loss) for the year from continuing operations	(165,242)	778,280	N/A
	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Change from 2018 to 2019
	<i>(unaudited)</i>	<i>(unaudited)</i>	
	<i>RMB '000</i>	<i>RMB '000</i>	<i>%</i>
Revenue	3,600,581	2,609,516	37.98
<i>Entertainment software</i>	<i>1,169,491</i>	<i>1,214,260</i>	<i>(3.69)</i>
<i>Cloud services</i>	<i>1,757,509</i>	<i>887,651</i>	<i>98.00</i>
<i>Office software and services and others</i>	<i>673,581</i>	<i>507,605</i>	<i>32.70</i>
Gross profit	1,372,017	1,286,894	6.61
Profit/(Loss) for the period	(1,748,900)	12,794	N/A

LETTER FROM GRAM CAPITAL

As depicted from the above table, the Group's revenue for the year ended 31 December 2018 ("FY2018") increased by approximately 13.99% as compared to that for the year ended 31 December 2017 ("FY2017"). For FY2018, the Group's revenue generated from entertainment software decreased substantially and the Group's revenue generated from cloud services; and office software and services and others increased significantly.

With reference to the 2018 Annual Report, (i) the aforesaid decrease in the Group's revenue generated from entertainment software was mainly due to decreased revenue from existing games, which was partially offset by contributions from new mobile games; (ii) the aforesaid increase in the Group's revenue generated from cloud services was mainly driven by robust customer usage, reflecting the continuous efforts of the Group in expanding the markets in specific industries and rapidly rising demand from customers; and (iii) the aforesaid increase in the Group's revenue generated from office software and services and others was primarily attributable to: (a) the strong and sustainable revenue growth of value-added services of WPS Office (Writer, Presentation and Spreadsheets Office software, which is also known as Kingsoft Office) personal edition and sales of enterprises edition, as the Group continued to improve the user benefits powered by advanced technology; and (b) increased revenue from WPS online marketing services driven by improved monetization capabilities of WPS free user traffic.

Despite the increase in the Group's revenue in FY2018, the Group's gross profit decreased. With reference to the 2018 Annual Report, the increase in the Group's cost of revenue in FY2018 (i) was primarily due to increased internet data center cost associated with increased customer usage of cloud services, as well as continuous investments in technology infrastructure; and (ii) caused the decrease in the Group's gross profit.

Given the decrease in gross profit and increase in cost and expenses such as net research and development cost, selling and distribution expenses, administrative expenses and finance costs, the Group made loss from continuing operations for FY2018 (as compared to profit from continuing operations for FY2017).

As depicted from the above table, the Group's revenue continued to increase during the six months ended 30 June 2019 and the Group's gross profit also increased during the six months ended 30 June 2019, as compared to those for the same period in 2018. Despite the aforesaid improvements in the Group's revenue and gross profit, the Group recorded significant loss for the six months ended 30 June 2019. As advised by the Directors, the Group's significant loss for the six months ended 30 June 2019 was mainly attributable to impairment of an investment in an associate (i.e. As at 30 June 2019, the Group held certain ordinary shares in Cheetah Mobile Inc. ("**Cheetah**") which are listed on the New York Stock Exchange in the form of American depositary shares. As Cheetah's share price has been struggled with sluggish performance, the Group performed an impairment assessment and made an impairment loss of approximately RMB1,300 million, being the difference of carrying amount in excess of the fair value of the investment in Cheetah.).

With reference to the 2019 Interim Report, the Company will continue to identify global customer needs and transform technological capabilities into products and services, to capture more opportunities. The Company expects a solid organic revenue growth on account of steady growth and development of cloud services business and office software and services and others business, as well as the launch of its new mobile games. The Company is confident in its strategy, the strength of its business model and its development going forward. The Company remains committed to creating long-term value for its shareholders through steady growth and sustainable development.

LETTER FROM GRAM CAPITAL

2. *Business and financial information of the Kingsoft Cloud Group*

With reference to the Board Letter, Kingsoft Cloud is a limited liability company incorporated in the Cayman Islands and a non-wholly owned subsidiary of the Company as at the Latest Practicable Date. Kingsoft Cloud Group is principally engaged in the provision of cloud storage and cloud computation services.

Set out below is the financial information of Kingsoft Cloud Group prepared in accordance with IFRS for the two financial years ended 31 December 2018 and the nine months ended 30 September 2019:

	For the nine months ended 30 September 2019 RMB'million	For the year ended 31 December 2018 RMB'million	For the year ended 31 December 2017 RMB'million
Revenue	2,817.70	2,295.06	1,402.52
Loss before taxation and extraordinary items	(1,399.00)	(1,585.07)	(766.44)
Loss after taxation and extraordinary items	(1,405.90)	(1,597.13)	(765.29)
	As at 30 September 2019 RMB' million	As at 31 December 2018 RMB' million	As at 31 December 2017 RMB' million
Net liabilities	(3,130.90)	(1,724.69)	(445.72)

As depicted from the table above, Kingsoft Cloud Group's revenue increased by approximately 63.64% from FY2017 to FY2018. Kingsoft Cloud Group's revenue for the nine months ended 30 September 2019 also represented approximately 122.77% of that for FY2018. As advised by the Directors, the aforesaid increase in Kingsoft Cloud Group's revenue was mainly driven by robust customer usage, reflecting the continuous efforts of the Group in expanding the markets in specific industries and rapidly rising demand from customers.

The Directors further advised us that in the second quarter of 2019, Kingsoft Cloud Group's revenue maintained its rapid growth. Its video cloud business focuses on innovative technologies, such as promoting edge computing, edge node computing platforms, point-to-point content delivery network (PCDN), smart high definition and artificial intelligence (AI), and helps to push the product bandwidth capability to the next level. Meanwhile, Kingsoft Cloud Group's finance cloud business achieved phased results by launching four solution systems: finance cloud structure, finance cloud intelligence, finance cloud native application and finance cloud value chain.

LETTER FROM GRAM CAPITAL

Kingsoft Cloud Group reached a strategic cooperation with Shanghai Xiaomi Financial Information Service Co., Ltd., Nanjing Yang Zi State-owned Investment Group, and Nanjing Digital Finance Industry Research Institute to jointly operate PRC's first digital financial integrated service platform, helping Jiangbei New District to become a financial hub. Kingsoft Cloud Group's government cloud services achieved rapid growth and helped to develop regional smart city projects, including a cutting-edge security program for the Beijing Belt and Road Summit, World Horticultural Exhibitions, etc. Looking ahead, Kingsoft Cloud Group will continue to leverage its experience and unrivalled expertise in the cloud business, AI, edge computing and content delivery network (CDN) field, and work with partners to create better quality and user-friendly industry solutions, and help to accelerate the digital transformation of enterprises customers.

Although there was substantial improvement in Kingsoft Cloud Group's revenue as aforesaid, Kingsoft Cloud Group recorded loss after taxation and extraordinary items for the two years ended 31 December 2018 and the nine months ended 30 September 2019 and net liabilities as at 31 December 2017, 31 December 2018 and 30 September 2019. Upon our enquiry, the Directors advised us that the aforesaid losses and net liabilities recorded by Kingsoft Cloud Group were mainly due to substantial research and development cost incurred for Kingsoft Cloud Group's technological development.

With reference to the Board Letter, as at the Latest Practicable Date, the Company held 669,000,000 ordinary shares, 134,740,000 series A preferred shares, 79,873,872 series B preferred shares, 102,292,296 series C preferred shares and 421,369,391 series D preferred shares of Kingsoft Cloud, accounting for approximately 50.36% of the total issued share capital of Kingsoft Cloud, which is a non-wholly owned subsidiary of the Company.

Based on the Board's preliminary estimate and the funding needs of Kingsoft Cloud, it is proposed that Kingsoft Cloud will issue not more than 16.67% of the total issued share capital of Kingsoft Cloud as enlarged by the Kingsoft Cloud Offering. Immediately upon completion of the Kingsoft Cloud Offering (excluding the provision of the Assured Entitlement and exercise of share options, if any), the Company's shareholding in Kingsoft Cloud is expected to decrease to approximately 41.97% to the maximum extent, and Kingsoft Cloud will cease to be a subsidiary of the Company.

3. Information of the Retained Group

As aforementioned, the principal activities of the Group comprise (i) the Online Game Business; (ii) the Cloud Service Business; and (iii) the Office Application Software Business.

The Cloud Service Business is operated by Kingsoft Cloud Group, and the Office Application Software Business is conducted by Beijing Office Software Group whose shares has been listed on the Sci-Tech Innovation Board of the PRC since 18 November 2019 (Beijing Office Software remains a subsidiary of the Company after listing).

With reference to the Board Letter, the Retained Group (i.e. the Group excluding Kingsoft Cloud Group and Beijing Office Software Group) is principally engaged in the Online Game Business with sufficient level of operation and sufficient assets to support its separate listing status.

LETTER FROM GRAM CAPITAL

The Proposed Spin-off

Percentage of shares to be issued

Based on the Board's preliminary estimate and the funding needs of Kingsoft Cloud, it is proposed that Kingsoft Cloud will issue not more than 16.67% of the total issued share capital of Kingsoft Cloud as enlarged by the Kingsoft Cloud Offering. Immediately upon completion of the Kingsoft Cloud Offering (excluding the provision of the Assured Entitlement and exercise of share options, if any), the Company's shareholding in Kingsoft Cloud is expected to decrease to approximately 41.97% to the maximum extent, and Kingsoft Cloud will cease to be a subsidiary of the Company.

Use of proceeds

With reference to the Board Letter, the offer price per ADS has not been fixed yet and is subject to market conditions close to the launch of the Kingsoft Cloud Offering and determined by a book-building process organized by the lead underwriter of the Kingsoft Cloud Offering and to be agreed by Kingsoft Cloud.

The Directors and the directors of Kingsoft Cloud currently expect that the underlying offer price per share of Kingsoft Cloud Offering will not be lower than US\$0.91 (the "**Reference Price**"), which is equivalent to the subscription price per series D+ preferred convertible share of Kingsoft Cloud paid by the relevant investors in the Series D+ Financing.

In determination of the offer price, Kingsoft Cloud will take into account, among other things, (i) its historical operating results and financial performance; (ii) its business prospects; (iii) its expansion plan and capital need; (iv) the price quoted by target subscribers in the book-building process for Kingsoft Cloud Offering; and (v) the offer prices in the listings of other comparable companies in the U.S. or other overseas markets in similar industry as Kingsoft Cloud (if any).

Although the offer price per ADS has not been fixed yet, we consider (i) the aforesaid offer price determination process and basis to be justifiable; and (ii) the Reference Price to be justifiable as it equals to the subscription price of the latest round of Kingsoft Cloud's fund raising exercises which was completed in December 2019.

The expected net proceeds from Kingsoft Cloud Offering cannot be determined yet at this stage as the exact offer price and the expected size of Kingsoft Cloud Offering are not determined. Kingsoft Cloud currently expects to use the net proceeds from the Kingsoft Cloud Offering (the "**Net Proceeds**") for the following purposes: (i) to further invest in technology and product development, especially in artificial intelligence, big data and cloud technologies; (ii) to further invest in upgrading and expanding its infrastructure; (iii) to fund the expansion of its ecosystem and international presence; and (iv) to supplement its working capital for general corporate purposes.

As the Net Proceeds can support Kingsoft Cloud Group's business expansion and development, it may enhance the value of the Group's interest in Kingsoft Cloud.

LETTER FROM GRAM CAPITAL

Reasons for and benefits of the Proposed Spin-off

With reference to the Board Letter, the Board considers that the Proposed Spin-off is commercially beneficial to the Company and Kingsoft Cloud and in the interest of the Shareholders as a whole for the following reasons:

- (a) The Proposed Spin-off would enable investors to better value the Company with its focus on the Retained Business;
- (b) The Proposed Spin-off could better reflect the value of Kingsoft Cloud Group on its own merits and increase its operational and financial transparency through which investors would be able to appraise and assess the performance and potential of Kingsoft Cloud Group separately and distinctly from those of the Retained Group, in turn providing better reward to the shareholders of both Kingsoft Cloud and the Company;
- (c) The Proposed Spin-off will enable the Company to fully focus on and deploy its funds towards the development of the Retained Group Business without needing to consider Kingsoft Cloud Group's funding requirements; and
- (d) The value of Kingsoft Cloud Group is expected to be enhanced through the Proposed Spin-off which will in turn benefit the Company as a controlling shareholder of Kingsoft Cloud.

As aforementioned, although there was substantial improvement in Kingsoft Cloud Group's revenue during the two years ended 31 December 2018 and the nine months ended 30 September 2019, Kingsoft Cloud Group recorded loss after taxation and extraordinary items for the two years ended 31 December 2018 and the nine months ended 30 September 2019 and net liabilities as at 31 December 2017, 31 December 2018 and 30 September 2019. The aforesaid losses and net liabilities recorded by Kingsoft Cloud Group were mainly due to substantial research and development cost incurred for Kingsoft Cloud Group's technological development. The Directors advised us that Kingsoft Cloud Group require further funding for its business development before it can turnaround its loss-making situation.

Having considered the above and the reasons for and benefits of the Proposed Spin-off and the Kingsoft Cloud Offering, we are of the view that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

Assured Entitlement

Under PN15, the Company is required to give due regard to the interest to the Shareholders by providing them with an assured entitlement to the shares of Kingsoft Cloud. With reference to the Board Letter, it is currently proposed that the Company will provide the Shareholders with an assured entitlement by way of a distribution in specie of existing shares of Kingsoft Cloud represented by ADSs (or cash alternative under the circumstances described below), in proportion to their respective shareholdings in the Company.

LETTER FROM GRAM CAPITAL

Based on the Board's preliminary estimate and expectation, it is proposed that the Shareholders will be entitled to dividends in specie of Kingsoft Cloud Shares held by the Company, representing approximately 0.35% to 0.50% (the "**Distribution Percentage**") of the total issued share capital of Kingsoft Cloud as enlarged by Kingsoft Cloud Offering. On the assumption that the total issued share capital of Kingsoft Cloud upon completion of Kingsoft Cloud Offering (excluding the exercise of share options, if any) is 3,353,203,050 ordinary shares, the total number of Kingsoft Cloud Shares to be distributed by the Company to the Shareholders under the Assured Entitlement is expected to be in the range of 11,736,210 to 16,766,015 Kingsoft Cloud Shares (rounding to the nearest whole number). Based on the total issued share capital of 1,372,728,717 Shares of the Company as at the Latest Practicable Date and on the assumption that it will remain unchanged, pursuant to current expected size of the distribution, the Shareholders will be entitled to one Kingsoft Cloud Share for every 82 to 117 Shares (rounding to the nearest whole number) held on the record date for the Shareholders to ascertain the Assured Entitlement. The distribution is conditional upon Kingsoft Cloud Offering becoming unconditional in all respects. The above ratio is a preliminary estimate based on the expected size of the distribution and subject to finalized distribution arrangement.

We identified certain spin-off exercises with distribution in specie of spin-off company undertaken by listed companies in Hong Kong:

- Times Neighborhood Holdings Limited (Stock code: HK-9928) spin-off by Times China Holdings Limited (Stock code: HK-1233): Prospectus date — 9 December 2019; Parent company's interest in spin-off company before spin-off company's listing — 100%; Distribution percentage — Approximately 82.2%
- Tencent Music Entertainment Group (Stock code: NYSE-TME) spin-off by Tencent Holdings Limited (Stock code: HK-700): Prospectus date — 12 December 2018; Parent company's interest in spin-off company before spin-off company's listing — Approximately 59%; Distribution percentage — Approximately 0.15%
- Studio City International Holdings Limited (Stock code: NYSE-MSC) spin-off by Melco International Development Limited (Stock code: HK-200) : Prospectus date — 18 October 2018; Parent company's interest in spin-off company before spin-off company's listing — Approximately 30.64%; Distribution percentage — Approximately 0.27%
- CSMall Group Limited (Stock code: HK-1815) spin-off by China Silver Group Limited (Stock code: HK-815): Prospectus date — 28 February 2018; Parent company's interest in spin-off company before spin-off company's listing — Approximately 60.07%; Distribution percentage — Approximately 2.6%
- Tongda Hong Tai Holdings Limited (Stock code: HK-2363) spin-off by Tongda Group Holdings Limited (Stock code: HK-698): Prospectus date — 28 February 2018; Parent company's interest in spin-off company before spin-off company's listing — 100%; Distribution percentage — Approximately 80%

The distribution percentage of the above spin-off exercises vary. Nevertheless, the Distribution Percentage is not exceptional.

LETTER FROM GRAM CAPITAL

Under Listing Rule 13.36(2), where a listed issuer proposes to distribute securities to its shareholders, it may exclude relevant overseas shareholders in circumstances where the directors consider the exclusion to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. Accordingly, subject to the Company obtaining relevant legal advice, Shareholders located in certain jurisdictions may be excluded from the right to receive ADSs and could only receive cash instead. Shareholders holding less than a specified minimum number of Shares are expected to only receive cash (to avoid odd lots and fractions). Any Shareholder wanting to receive ADSs would need to establish an appropriate securities account from which the Shareholder could receive and trade those securities.

As at the Latest Practicable Date, pursuant to Article 24 of the Implementation Rules for Registration, Depository and Clearing Services under the Mainland-Hong Kong Stock Markets Connect Programme (《內地與香港股票市場交易互聯互通機制登記、存管、結算業務實施細則》), if the Stock Connect Investors receive any securities not listed on the Stock Exchange, they will not be allowed to buy or sell such securities through the Stock Connect. Considering the practical difficulty of the Stock Connect Investors in realizing the benefit of the distribution of ADSs, Stock Connect Investors will not be able to elect to receive ADSs and so will only receive the cash distribution instead, the amount of which is subject to finalized distribution arrangement determined by the Company. This arrangement is in accordance with Question No. 4 of the Frequently Asked Questions Series 29 released by the Stock Exchange on 17 November 2014 and last updated on 13 July 2018.

The exact scale and detailed terms of the Assured Entitlement have not been finalized at this stage as they will depend on market conditions and size of Kingsoft Cloud Offering. Further details of the Assured Entitlement will be announced by the Company in due course.

Although the scale and terms of the Assured Entitlement have not been finalized at this stage, it is currently proposed that the Company will provide the Shareholders with an assured entitlement by way of a distribution in specie of existing shares of Kingsoft Cloud represented by ADSs (or cash alternative), in proportion to their respective shareholdings in the Company. Having also taken into account that Distribution Percentage is not exceptional, we consider the Assured Entitlement as stated above can safeguard the Shareholders' interests in respect of the Proposed Spin-off.

Taking into account the principal factors as discussed above, we consider that the terms of the Proposed Spin-off are fair and reasonable.

Possible financial effects

With reference to the Board Letter, upon completion of the Proposed Spin-off, the Group will lose control over Kingsoft Cloud and Kingsoft Cloud will not be accounted for as a subsidiary of the Company. The Group will derecognise the assets and liabilities of Kingsoft Cloud from the consolidated statement of financial position as well as the carrying amount of non-controlling interests in Kingsoft Cloud. The Group will account for its investment in Kingsoft Cloud as investment in an associate at its fair value when control is lost, and recognise share of profit or loss in investment in Kingsoft Cloud using the equity method of accounting, subsequently.

The fair value in respect of the Company's equity interest in Kingsoft Cloud as at the date of the completion of the Proposed Spin-off is determined by market share price of Kingsoft Cloud, as Kingsoft Cloud will be a listed company upon completion of the Proposed Spin-off.

Further details of the possible financial effects of the Proposed Spin-off are set out under the section headed "3. FINANCIAL IMPACT OF THE PROPOSED SPIN-OFF" of the Board Letter.

LETTER FROM GRAM CAPITAL

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Spin-off and the Kingsoft Cloud Offering.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Spin-off are fair and reasonable; and (ii) the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Proposed Spin-off and the transactions contemplated thereunder and we recommend the Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements for each of the years ended 31 December 2016, 2017 and 2018 and the unaudited consolidated financial statements for the six months ended 30 June 2019 of the Company together with relevant notes thereto have been disclosed in the following documents published on the Stock Exchange's website (<http://www.hkexnews.hk>) and the Company's website (<http://www.kingsoft.com/>).

Interim report of the Company for the six months ended 30 June 2019 published on 10 September 2019 (page 20 to page 62):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0910/ltn20190910250.pdf>

Annual report of the Company for the year ended 31 December 2018 published on 17 April 2019 (page 68 to page 208):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0417/ltn20190417357.pdf>

Annual report of the Company for the year ended 31 December 2017 published on 11 April 2018 (page 73 to page 204):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0411/ltn20180411443.pdf>

Annual report of the Company for the year ended 31 December 2016 published on 19 April 2017 (page 75 to page 216):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0419/ltn20170419604.pdf>

2. STATEMENT OF INDEBTEDNESS

At the close of business on 31 December 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained in this indebtedness statement, the Group had an aggregate outstanding indebtedness of approximately RMB697,889,000 which comprised of:

	<i>RMB'000</i>
Interest-bearing bank loans:	
Guaranteed	—
Secured	—
Unsecured	697,889
	<u>697,889</u>
Total interest-bearing bank loans	<u>697,889</u>
Repayable:	
Within one year	623,538
In the second year	74,351
	<u>697,889</u>
Total	<u>697,889</u>

At the close of business on 31 December 2019, all of the Group's interest-bearing bank loans were unsecured. Save as disclosed above, and apart from intra-group liabilities and normal trade payables, at the close of business on 31 December 2019, the Group did not have any outstanding debts securities, bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptances credits, material hire purchase commitments, mortgages or charges, which were either guaranteed, unguaranteed, secured or unsecured.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 December 2019.

3. WORKING CAPITAL

As at the Latest Practicable Date, having made appropriate inquiries and taking into account of the internal resources of the Group and currently available loan facilities, the Directors are of the opinion that the Group will have sufficient working capital for its requirements for at least the next 12 months from the date of this circular.

4. 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 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND OPERATIONAL PROSPECT

Business Review and Prospects

The Group's various businesses continued to show good momentum in the third quarter of 2019. The flagship JX Online III PC game and JX Online I mobile game maintained their popularity among users and achieved satisfactory revenue growth quarter-on-quarter. The Group continued to pursue a diversified product strategy, and a new mobile game Double Life World (雙生視界) was launched in Japan on 20 September 2019. The domestic version of the game was also released in November 2019 and was ranked as one of the most popular games on iOS platform on its debut. The Cloud Service Business also achieved rapid growth, and the Group officially released a new range of finance cloud solutions to expand its customer portfolio for this segment. Meanwhile, the revenue from the WPS value-added services maintained strong growth and WPS also strengthened its global presence with the international debut of WPS Office 2020 international suite in August 2019. Furthermore, the listing of Beijing Office Software on the Sci-Tech Innovation Board on the Shanghai Stock Exchange took place on 18 November 2019.

Future Outlook and Strategies

Looking ahead, we are committed to providing a variety of cutting-edge products and services to create better user experience for global customers through content updates and technology empowerment.

As the Group continues to see the convergence of innovation and digital transformation, it will maintain its competitive edge in the industry. Looking ahead, the Group is confident in its strategy, the strength of business model and development going forward and expects its business performance to remain robust. The Group will remain committed to creating long-term value for the Shareholders through steady growth and sustainable development.

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	15.31	Long position
	Other	132,710,003	9.67	Long position
	Total	342,826,251 (Note 2)	24.97 (Note 4)	Long position
Pak Kwan KAU	Interest of controlled corporation	103,028,566 (Note 3)	7.51	Long position
Tao ZOU	Beneficial owner	7,409,307	0.54	Long position
Yuk Keung NG	Beneficial owner	2,148,000	0.16	Long position

Notes:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at the Latest Practicable Date, which was 1,372,728,717.

2. Among these 342,826,251 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 are held by a wholly-owned subsidiary of Xiaomi Corporation, a company controlled by Mr. Jun LEI under the SFO; and (iii) 132,710,003 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 would vote in the same way as Mr. Jun LEI with these shares.
3. These shares are held by Topclick Holdings Limited, a British Virgin Island company wholly-owned by Mr. Pak Kwan KAU. 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. Any discrepancies in the table between total and sum of amounts listed therein are due to rounding.

Interest in the shares and underlying shares of an associated corporation of the Company:

Seasun Holdings Limited (Note 1)

Name of director	Capacity	Number of shares interested	% of issued share capital in class (Note 2)	Nature of Shares interested
Tao ZOU	Beneficial owner	18,123,462	1.97	Long position

Notes:

1. Seasun Holdings Limited is a non-wholly owned subsidiary of the Company.
2. % of issued share capital in class was calculated on basis of the issued ordinary shares of Seasun Holdings Limited as at the Latest Practicable Date, which was 918,149,438.

Cheetah Mobile Inc. (Note 1)

Name of director	Capacity	Number of shares interested	% of issued share capital in class (Note 2)	Nature of Shares interested
Jun LEI (Note 3)	Interest of controlled corporation	17,660,294	4.06	Long Position
David Yuen Kwan TANG	Beneficial owner	140,000	0.03	Long Position
Yuk Keung NG	Beneficial owner	1,200	0.00	Long Position

Notes:

1. The Company held 48.43% ownership interest and 26.41% voting power of Cheetah Mobile Inc. as at the Latest Practicable Date, which is listed on the NYSE.
2. % of the total number of issued shares in class was calculated on basis of the issued Class A Cheetah Shares as at the Latest Practicable Date, which was 435,084,177.
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% voting power by Mr. Jun LEI; and (ii) 14,285,714 shares are held by Xiaomi Corporation, a company owned as to 30% voting power by Mr. Jun LEI under the SFO.

Save as disclosed above, none of the Directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at the Latest Practicable Date.

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:

Interest in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares interested	% of issued share capital <i>(Note 1)</i>	Nature of Shares held
Color Link Management Limited <i>(Note 2)</i>	Beneficial owner	174,818,191	12.74	Long position
Topclick Holdings Limited <i>(Note 3)</i>	Beneficial owner	103,028,566	7.51	Long position
Tencent Holdings Limited <i>(Note 4)</i>	Interest of controlled corporation	106,784,515	7.78	Long position

Name of substantial shareholder	Capacity	Number of shares interested	% of issued share capital (Note 1)	Nature of Shares held
Citigroup Inc.	Interest of controlled corporation	36,292,043	2.64	Long position
	Approved lending agent	31,989,798	2.33	Long position
	Interest of controlled corporation	35,701,384	2.60	Short position
	Approved lending agent	31,989,798	2.33	Lending pool
FMR LLC	Interest of controlled corporation	68,618,808	5.00	Long position
Bank of America Corporation	Interest of controlled corporation	66,535,102	4.85	Long position
	Interest of controlled corporation	65,138,357	4.75	Short position
UBS Group AG	Interest of controlled corporation	54,277,150	3.95	Long position
	Person having a security interest in shares	19,073,352	1.39	Long position
	Interest of controlled corporation	16,940,341	1.23	Short position

Notes:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at the Latest Practicable Date, which was 1,372,728,717.
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 Mr. Pak Kwan KAU. 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.

Save as disclosed above, the Directors confirm that they are not aware of any other person who has beneficial interests or short positions in any of the shares or underlying shares in the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of the shares carrying the right to vote in all circumstances at general meetings of the Company.

Mr. Chi Ping LAU, the non-executive Director of the Company, is also an executive director and president of Tencent Holdings Limited. Save as disclosed above, as at the Latest Practicable Date, none of the Directors was 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.

4. MATERIAL LITIGATION

The Directors confirm that, as at the Latest Practicable Date, no member of the Group was involved in any material litigation or arbitration and no material litigation or claim is known to the Directors to be pending or threatened by or against any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or was proposing to enter 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.

6. 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 2018, 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.

7. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the following contract, not being contract entered into in the ordinary course of business, has been entered into by the Company and/or members of the Group and is or may be material:

- a) the share purchase agreement dated 29 January 2018 and entered into by the Company, FutureX Capital Limited, Kingsoft Cloud Group, Certain KSC Shareholder and Mr. Yulin WANG, pursuant to which, among others, Kingsoft Cloud agreed to issue an aggregate of 229,942,410 Series D Preferred Shares and each of the Company and FutureX Capital Limited agreed to subscribe for 114,971,205 Series D Preferred Shares for a respective consideration of US\$100 million, respectively.

8. EXPERT AND CONSENT

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

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram 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, Gram Capital had no direct or indirect interest in any assets which had been, since 31 December 2018 (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.

Gram 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.

9. MISCELLANEOUS

- (a) Mr. Yuk Keung NG is one of the joint company secretaries of the Company. Mr. NG is a professional accountant, and a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, and the Institute of Chartered Accountants in England and Wales, and he graduated from the University of Hong Kong with a bachelor's degree in social sciences and a master's degree in global business management and e-commerce. Ms. Hongyu LV is another joint company secretary of the Company. Ms. LV is a fellow of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries, and she holds a bachelor's degree in law and a master's degree in economic law;
- (b) The registered office of the Company is situated at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands; and the head office and principal place of business of the Company is situated at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC;
- (c) The Hong Kong share registrar of the Company is Computershare Hong Kong Investor Services Limited at 17M Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;
- (d) The English text of this circular shall prevail over the respective Chinese text in the case of inconsistency.

10. 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, One TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) this circular;
- (b) the memorandum and articles of association of the Company;
- (c) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (d) the annual reports of the Company for the three years ended 31 December 2016, 2017 and 2018;
- (e) the interim report of the Company for the six months ended 30 June 2019;
- (f) the letter from the Independent Board Committee to the Shareholders dated 26 February 2020, the text of which is set out on page 18 of this circular;
- (g) the letter from Gram Capital to the Independent Board Committee and the Shareholders dated 26 February 2020, the text of which is set out on pages 19 to 29 of this circular;
- (h) the written consent referred to in the section headed "Expert and Consent" in this appendix; and
- (i) the circular of the Company dated 5 December 2019 in relation to continuing connected transactions.

 **KINGSOFT**[®]
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 Building D, Xiaomi Campus, No. 33 Xi erqi Middle Road, Haidian District, Beijing, the PRC on Friday, 20 March 2020 at 2:00 p.m. to consider and, if thought fit, passing the following ordinary resolution 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 26 February 2020 (the “Circular”):

ORDINARY RESOLUTION

1. THAT:

- (a) the spin-off of Kingsoft Cloud Holdings Limited (“**Kingsoft Cloud**”), currently a non-wholly owned subsidiary of the Company, and a separate listing of the new shares of Kingsoft Cloud represented by ADSs on either the New York Stock Exchange or National Association of Securities Dealers Automated Quotations (NASDAQ) (the “**Proposed Spin-off**”) be and is hereby approved; and
- (b) the directors of the Company and/or the directors of Kingsoft Cloud be and are hereby authorised, for and on behalf of the Company and Kingsoft Cloud, 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 Proposed Spin-off, including but not limited to the determination of the offer price, 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 Proposed Spin-off.

By Order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 26 February 2020

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

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. Furthermore, taking into account of the recent development of the epidemic caused by novel coronavirus pneumonia, in order to facilitate the prevention and control of the epidemic and to safeguard the health and safety of the Shareholders and investors, the Company suggests that the Shareholders appoint the Chairman of the EGM as a proxy to vote on relevant resolution, instead of attending the EGM in person.
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 notice, 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.