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Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

CONTINUING CONNECTED TRANSACTIONS THE FRAMEWORK AGREEMENT BETWEEN THE COMPANY AND XIAOMI

The Group has set up a stable long-term business relationship with Xiaomi Group. To regulate the various ongoing transactions between the two parties, such as provision of cloud services, provision of promotion services, joint operation in games and purchase of products, the Company and Xiaomi entered into a cooperation framework agreement on 24 April 2013, which was further amended through four supplemental agreements dated 21 August 2013, 27 December 2013, 1 April 2014 and 18 November 2014, respectively.

In order to further strengthen the business cooperation between the Group and Xiaomi Group and promote mutual business developments, and to better regulate the continuing connected transactions between the two parties, on 1 December 2014 the Company and Xiaomi entered into the Framework Agreement to replace the Previous Framework Agreements. The Previous Framework Agreements will be terminated immediately upon the effective date of the Framework Agreement and the transactions under the Previous Framework Agreements for the year ending 31 December 2015 (where applicable) will be governed by the Framework Agreement.

Pursuant to the Framework Agreement, (i) the Group will provide the various services to Xiaomi Group, mainly including the cloud services and promotion services; (ii) Xiaomi Group will provide various services to the Group, mainly including the promotion services; (iii) the Group will jointly operate games with Xiaomi Group; and (iv) the Group will purchase Xiaomi Group's products, for a term of two years ending 31 December 2016.

Xiaomi is a connected person of the Company. As such, the entering into the Framework Agreement between the Company and Xiaomi and the transactions contemplated thereunder will become continuing connected transactions of the Company under the Listing Rules.

For the provision of services by Xiaomi Group to the Group, the joint operation in games between Xiaomi Group and the Group and the purchase of Xiaomi's products by the Group, each of the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the proposed annual caps for such transactions exceeds 0.1% but is less than 5%, such transactions and their respective proposed annual caps are subject to the reporting, announcement, annual review, but exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For the provision of services by the Group to Xiaomi Group, as the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the proposed annual caps for such transactions is higher than 5%, the provision of the services by the Group to Xiaomi Group under the Framework Agreement and the proposed annual caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, among other things, (i) further details of the Framework Agreement in relation to the provision of services by the Group to Xiaomi Group; (ii) a letter from the independent financial adviser containing its advice to the independent board committee and the independent shareholders on the provision of services by the Group to Xiaomi Group and the proposed annual caps; (iii) the recommendation of the independent board Committee regarding the provision of services by the Group to Xiaomi Group and the proposed annual caps to the independent shareholders; and (iv) a notice of the extraordinary general meeting will be despatched to the Shareholders on or before 10 December 2014.

1. BACKGROUND

The Group has set up a stable long-term business relationship with Xiaomi Group. To regulate the various ongoing transactions between the two parties, such as provision of cloud services, provision of promotion services, joint operation in games and purchase of products, the Company and Xiaomi entered into a cooperation framework agreement on 24 April 2013, which was further amended through four supplemental agreements dated 21 August 2013, 27 December 2013, 1 April 2014 and 18 November 2014, respectively (together with the cooperation framework agreement, the "**Previous Framework Agreements**"). For details, please refer to the announcements of the Company dated 24 April 2013, 21 August 2013, 27 December 2013, 1 April 2014 and 18 November 2014 in relation to the continuing connected transactions between the Group and Xiaomi Group.

In order to further strengthen the business cooperation between the Group and Xiaomi Group and promote mutual business developments, and to better regulate the continuing connected transactions between the two parties, on 1 December 2014 the Company and Xiaomi entered into the Framework Agreement to replace the Previous Framework Agreements. The Previous Framework Agreements will be terminated immediately upon the effective date of the Framework Agreement and the transactions under the Previous Framework Agreements for the year ending 31 December 2015 (where applicable) will be governed by the Framework Agreement.

Pursuant to the Framework Agreement, (i) the Group will provide the various services to Xiaomi Group, mainly including the cloud services and promotion services; (ii) Xiaomi Group will provide various services to the Group, mainly including the promotion services; (iii) the Group will jointly operate games with Xiaomi Group; and (iv) the Group will purchase Xiaomi Group's products, for a term of two years ending 31 December 2016.

2. THE FRAMEWORK AGREEMENT

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

Date:	1 December 2014
Parties:	the Company; and Xiaomi
Terms:	two years from 1 January 2015 to 31 December 2016
Conditions precedent:	The Framework Agreement is subject to the approval of the independent shareholder of the Company.
Scope of cooperation:	<i>(a) Provision of services by the Group</i>

The Group will provide Xiaomi Group various services in return for service fees, mainly including (i) the cloud services developed by the Group, including but not limited to the cloud storage and cloud computing services; and (ii) the promotion services via the Group's products and websites for the sale of Xiaomi Group's smart devices and related products.

The fees for the various services provided by the Group (mainly including the cloud services and promotion services) shall be determined based on the following principles:

With respect to cloud services:

- (i) the fees charged for cloud services are calculated with reference to the cloud storage space provided and the volume of cloud data transferred;
- (ii) the fees shall be determined after arm's length negotiation with Xiaomi Group after taking into account the costs for providing the services, the volume of the services rendered and a reasonable profit of the Group;

- (iii) the fees shall be no more favorable to Xiaomi Group than those provided to independent third parties for services rendered on similar technical specifications and volume.

As the cloud service is an emerging technology under starting-up stage in the PRC, there is limited number of major players in the PRC “business-to-business” cloud service market. As such, it is currently unpractical to establish a “prevailing market price” for cloud services.

The Company does not have a pre-determined formula for the fee proposal. The sales department of the Group is responsible for the initial determination of the pricing of the cloud services. When Xiaomi Group approaches the Group in respect of the potential services, the sales department of the Group will recommend a fee proposal with primary reference to the costs and number of users and purchase volume. Other factors, such as resources and technology required will also be considered. Upon final review by the president, Chief Executive Officer and/or sales director of the relevant subsidiary of the Company who are independent of Xiaomi Group, the fee proposal will be proposed to Xiaomi Group for consideration and negotiation.

With respect to promotion services:

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

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

The Company does not have a pre-determined formula for the fee proposal. The sales department of the Group is responsible for the initial determination of the pricing of the promotion services. When Xiaomi Group approaches the Group in respect of the potential services, the sales department of the Group will recommend a fee proposal with primary reference to the position of the advertisement and the features selected. Other factors, such as the term of the promotion, website traffic and data flow of the Group's products and websites will also be considered. Upon final review by the sales director and Chief Marketing Officer of the relevant subsidiary of the Company who are independent of Xiaomi Group, the fee proposal will be proposed to Xiaomi Group for consideration and negotiation.

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

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

(b) Provision of services by Xiaomi Group

Xiaomi Group will provide the Group various services in return for service fees, mainly including the promotion services via Xiaomi Group's products.

The fees shall be determined among arm's length negotiation between the two parties with reference to (i) the prevailing market price of the similar services; and (ii) the number of users of Xiaomi Group's products. Such fees should not be less favorable to the Group than the fees offered to the independent third party.

(c) Joint operation in games

The Group and Xiaomi Group will jointly operate games provided by the Group or Xiaomi Group on the platforms, including but not limited to the website, software, PC products and mobile platform. The joint operation in games includes but not limited to game distribution, operation by way of exclusive licensing, and game promotion.

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

The agreed proportion and the licensing fees shall be based on the prevailing fair market pricing rules adopted in the same industry.

(d) purchase of products

The Group will purchase hardware products from Xiaomi Group, including but not limited to Xiaomi cell phones, Xiaomi Boxes, Xiaomi televisions, Xiaomi routers and the relevant accessories. The purchase price shall be based on the market price of the products of Xiaomi.

Payment terms:

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

3. ANNUAL CAPS UNDER THE FRAMEWORK AGREEMENT

The table below sets out the historical amounts for the two years ended 31 December 2013 and the nine months ended 30 September 2014, the annual cap for the year ending 31 December 2014 as disclosed in the previous announcements of the Company and the proposed annual caps for the two years ending 31 December 2016 under the Framework Agreement:

RMB: million

	Historical transaction amounts			Annual caps	Proposed annual caps	
	For the year ended 31 December 2012	2013	For the nine months ended 30 September 2014*	For the year ending 31 December 2014*	For the year ending 31 December 2015	2016
fees payable by Xiaomi Group						
<i>provision of comprehensive services by the Group, including:</i>	0.82	7.7	36.07	95	500	1,500
(i) <i>provision of cloud services</i>	0.82	4.98	32	80	450	1,400
(ii) <i>provision of promotion services</i>	0	2.72	4.07	15	50	100
<i>joint operation in game provided by the Group</i>	0	0.01	1.97	23	45	80
fees payable by the Group						
<i>provision of services by Xiaomi Group</i>	0	0	1.72	15	80	100
<i>joint operation in game provided by Xiaomi Group</i>	0	0	0	4	8	12
<i>purchase of products from Xiaomi Group</i>	5.28	8.39	7.65	15	30	50

Note: The Company confirms that, up to the date of this announcement, all the historical transaction amounts have not exceeded the existing annual caps for the year 2014 as disclosed in the previous announcements of the Company.

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

(i) the historical amounts for the two years ended 31 December 2013 and the nine months ended 30 September 2014

The cloud service is an emerging technology under starting-up stage in the PRC. The past two years ended 31 December 2013 and the nine months ended 30 September 2014 witnessed a sharp increase in the historical amount of the fees payable by Xiaomi Group to the Group for the provision of the comprehensive services. The comprehensive service fee for the year 2013 amounted to RMB7.7 million, which represented an eightfold increase as compared with that for the year 2012. The comprehensive service fee for the nine months ended 30 September 2014 amounted to RMB36.07 million, which is approximately five times of the annual transaction amount of the entire year of 2013. For the remaining months of 2014, considering the recent “11 November” shopping festival in the PRC, during which period Xiaomi has recorded massive sale of Xiaomi devices including new model of Xiaomi smartphones, and the coming shopping season in December 2014, it is expected that the demand for Xiaomi devices will remain strong. With the recent rapid growth of the number of users of Xiaomi devices, the demand for cloud services by Xiaomi will expect to see substantial growth in the remaining months of 2014. With the cloud business develops, the Company believes that such historical growth rate will continue in the remaining months of 2014 and the two years ending 31 December 2016.

For the nine months ended 30 September 2014, the monthly compound growth rate of the service fee in respect of the cloud services is approximately 23%. The Company believes that the fees in respect of the cloud services provided by the Group to Xiaomi Group will keep such strong growth momentum in the remaining months of 2014 and the two years ending 31 December 2016 after taking into account (a) the aforementioned past growth trend for the two years ended 31 December 2013 and the nine months ended 30 September 2014; (b) the deepened business cooperation between Xiaomi Group and the Group as further elaborated in the paragraph headed “the estimated growth in Xiaomi’s demand for the cloud services”; and (c) the Group’s great confidence in the future development of cloud business.

Based on the historical transaction amounts and the historical growth rate, it is expected that the services fees for the two years ending 31 December 2016 will keep increasing dramatically.

(ii) the estimated growth in Xiaomi’s demand for the cloud services

Based on the stable business relationship between the Group and Xiaomi Group, the two parties decided to further strengthen their cooperation, especially in the cloud business area. Pursuant to the shareholders’ agreement of Kingsoft Cloud dated 21 August 2014, Xiaomi agreed to procure that 70% of the cloud storage and cloud

computing services used by Xiaomi Group in their MIUI image storage business shall be purchased from the Group, provided that the quality of such services is satisfactory and the fees charged for such services are reasonable.

The MIUI image storage business of Xiaomi is an essential service for Xiaomi cell phones. It is expected that the number of users of Xiaomi cell phones will keep growing as the sale volume of Xiaomi cell phones will continue to increase sharply. As such, the number of end users for the Group's cloud services via Xiaomi cell phones is expected to increase substantially, which in turn leads to a dramatic growth in Xiaomi's demands for the Group's cloud services.

As mentioned in the above paragraph, Xiaomi cell phones provide MIUI image storage services to the users, which is very user-friendly. A user of a Xiaomi cell phone will use more and more MIUI image storage service to upload, download or store pictures and other data after he starts to use the phone. As time goes on, the usage of Mi cloud storage services by a Xiaomi user will raise dramatically, which will lead to a growth in Xiaomi's demand for the Group's cloud services. For the nine months ended 30 September 2014, the monthly compound growth rate of the usage of the cloud services by end users via Xiaomi is approximately 28%. The Company believes that such usage volume of cloud services will keep strong growth momentum in the remaining months of 2014 and the two years ending 31 December 2016.

Apart from Xiaomi cell phones, Mi Pad, Mi TV and other smart devices of Xiaomi will also use the cloud services of the Group. As such, it is expected that the fees payable by Xiaomi Group in respect of the cloud services will increase in line with the growth of the sales volume of the other smart devices.

Taking the aforementioned factors into account, the Company expects that Xiaomi Group's demand for the cloud services will increase dramatically.

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

As the internet industry is changing rapidly, the Group and Xiaomi Group have to keep adjusting their businesses. It is possible that some unanticipated transactions which require promotion services or cloud services will arise. As Xiaomi's business develops, more applications and businesses of Xiaomi will use the cloud services of the Group. Besides, the cloud business is a dynamic business in the internet industry. It is highly likely that the cloud business will grow dramatically in the foreseeable future and the transactions in respect of the provision of cloud services by the Group to Xiaomi Group may significantly increase. As such, the Group would like to have an adequate buffer of around 10% to 20% on average for the two years ending 31 December 2016 for the comprehensive services, mainly including the cloud services and promotion services.

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

The annual caps for the fees payable by Xiaomi Group to the Group in respect of the joint operation in games provided by the Group for the two years ending 31 December 2016 are determined with reference to (i) the expected introduction of new games that will be jointly operated by the Group and Xiaomi Group; and (ii) the expected growth in game revenue contributed from mobile device users due to the demand of Xiaomi's smart cell phones and rapid growth rate in the number of smart cell phone users and the trend of users spending more time and money playing games on smart cell phones.

(3) Reasons for setting up the annual caps for the fees payable by the Group in respect of the provision of services by Xiaomi Group

The annual caps for the fees payable by the Group to Xiaomi Group in respect of the provision of services by Xiaomi Group for the two years ending 31 December 2016 are determined with reference to (i) the fair market rates for provision of similar services; (ii) the number of users of Xiaomi's mobile products and the expected increase in such number of users; and (iii) the expected increase in demand of promotion services as a result of the expansion of the Group's mobile internet business.

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

The annual caps for the fees payable by the Group to Xiaomi Group in respect of the joint operation in games provided by Xiaomi Group for the two years ending 31 December 2016 are determined with reference to (i) the expected introduction of new games that will be jointly operated by the Group and Xiaomi Group; and (ii) the expected growth in game revenue contributed from mobile device users due to the demand of Xiaomi's smart cell phones and rapid growth rate in the number of smart cell phone users and the trend of users spending more time and money playing games on smart cell phones.

(5) Reasons for setting up the annual caps for the fees payable by the Group in respect of the purchase of products from Xiaomi Group

The annual caps for the fees payable by the Group to Xiaomi Group in respect of the purchase of products from Xiaomi Group for the two years ending 31 December 2016 are determined with reference to (i) the historical transaction amount; and (ii) the expected increase of the marketing and promotion activities of the Group which results in the increase in the variety of types of products to be purchased from Xiaomi Group.

4. REASONS FOR AND BENEFITS OF THE FRAMEWORK AGREEMENT

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

The Directors are of the view that the transactions under the Framework Agreement are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Framework Agreement and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. IMPLICATIONS UNDER THE LISTING RULES

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. As such, Xiaomi is a connected person of the Company. Therefore, the entering into the Framework Agreement between the Company and Xiaomi and the transactions contemplated thereunder will become continuing connected transactions of the Company under the Listing Rules.

For the provision of services by Xiaomi Group to the Group, the joint operation in games between Xiaomi Group and the Group and the purchase of Xiaomi's products by the Group, each of the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the proposed annual caps for such transactions exceeds 0.1% but is less than 5%, such transactions and their respective proposed annual caps are subject to the reporting, announcement, annual review, but exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For the provision of services by the Group to Xiaomi Group, as the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the proposed annual caps for such transactions is higher than 5%, the provision of the services by the Group to Xiaomi Group under the Framework Agreement and the proposed annual caps are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In view of his interest in Xiaomi, Mr. Jun LEI has abstained from voting on the Board resolution approving the Framework Agreement. Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under the Framework Agreement and none of them has abstained from voting on the relevant Board resolution.

A circular containing, among other things, (i) further details of the Framework Agreement in relation to the provision of services by the Group to Xiaomi Group; (ii) a letter from the independent financial adviser containing its advice to the independent board committee and the independent shareholders on the provision of services by the Group to Xiaomi Group and the proposed annual caps; (iii) the recommendation of the independent board Committee regarding the provision of services by the Group to Xiaomi Group and the proposed annual caps to the independent shareholders; and (iv) a notice of the extraordinary general meeting will be despatched to the Shareholders on or before 10 December 2014.

6. INFORMATION ABOUT THE PARTIES

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

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

7. DEFINITION

“associate”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“BVI”	British Virgin Islands
“Cayman”	Cayman Islands
“Company”	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the BVI on 20 March 1998 and discontinued in the BVI and continued into the Cayman on 15 November 2005, with its shares listed on the Stock Exchange (stock code: 03888)
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company

“Framework Agreement”	the agreement entered into between the Company and Xiaomi on 1 December 2014, pursuant to which (i) the Group will provide the various services to Xiaomi Group, mainly including the promotion services and the cloud services; (ii) Xiaomi Group will provide various services to the Group, mainly including the promotion services; (iii) the Group will jointly operate games with Xiaomi Group; and (iv) the Group will purchase Xiaomi Group’s products, for a term of two years ending 31 December 2016
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Kingsoft Cloud”	Kingsoft Cloud Holdings Limited, a limited liability company organized under the laws of the Cayman Islands and a subsidiary of the Company as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC” or “China”	the People’s Republic of China, which, for the purpose of this announcement only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Xiaomi”	Xiaomi Corporation, a limited liability company organized under the laws of the Cayman

“Xiaomi Group”

Xiaomi and its subsidiaries

%

percent

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 1 December 2014

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