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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)

CONNECTED TRANSACTIONS

Deemed Disposal of Kingsoft Office Shares and Loan to WPS Holdings Limited

On 21 May 2012, the Company and Kingsoft Office entered into the Ordinary Share Purchase Agreement with WPS Holdings and other relevant parties, whereby Kingsoft Office will issue and sell to WPS Holdings an aggregate of 200,000,000 Kingsoft Office Shares at a price of US\$0.03 per share for an aggregate consideration of US\$6 million. Concurrently, the Company entered into the Loan Agreement with WPS Holdings, whereby the Company will provide a loan in the amount of US\$4.5 million to WPS Holdings at an interest rate equivalent to HIBOR plus 1.3% per annum for the purpose of acquiring Kingsoft Office Shares.

WPS Holdings is a company owned as to 100% by the Founding Employees. As WPS Holdings is an associate of Ke GE, a director of certain subsidiaries of the Group, WPS Holdings is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. As a result, transactions contemplated under the Ordinary Share Purchase Agreement and Loan Agreement between WPS Holdings and the Company constitute connected transactions.

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the Ordinary Share Purchase Agreement and Loan Agreement are less than 5%, the transactions contemplated under the Ordinary Share Purchase Agreement and Loan Agreement constitute connected transactions of the Company pursuant 14A of the Listing Rules and are subject to reporting and announcement requirements and exempted from independent shareholders' approval requirement.

1. Background

On 21 May 2012, the Company and Kingsoft Office entered into the Ordinary Share Purchase Agreement with WPS Holdings and other relevant parties, whereby Kingsoft Office will issue and sell to WPS Holdings an aggregate of 200,000,000 Kingsoft Office Shares at a price of US\$0.03 per share for an aggregate consideration of US\$6 million. Concurrently, the

Company entered into the Loan Agreement with WPS Holdings, whereby the Company will provide a loan in the amount of US\$4.5 million to WPS Holdings at an interest rate equivalent to HIBOR plus 1.3% per annum for the purpose of acquiring Kingsoft Office Shares.

2. Details of the Ordinary Share Purchase Agreement

Date	:	21 May 2012
Parties	:	<ul style="list-style-type: none">• Kingsoft Office• Kingsoft Office Corporation• Beijing Kingsoft Office• Zhuhai Qiwen• Zhuhai Kingsoft Office• The Company• WPS Holdings• Founding Employees
Subject matter	:	WPS Holdings agrees to purchase and Kingsoft Office agrees to issue and sell 200,000,000 Kingsoft Office Shares at a price of US\$0.03 per share
Consideration	:	The total consideration of the 200,000,000 Kingsoft Office Shares is US\$6 million
Payment terms	:	The consideration shall be fully paid at the date of Closing by wire transfer of immediately available funds to an account designated by Kingsoft Office
Closing	:	The closing of the Ordinary Share Purchase Agreement shall take place as soon as practical after fulfilment or waiver of the closing conditions or on a date that Kingsoft Office and WPS Holdings shall mutually agree
Deliverables	:	Kingsoft Office shall deliver to WPS Holdings, aside from items listed under conditions precedent, a certificate representing the purchased Kingsoft Office Shares against payment of the consideration; and WPS Holdings shall deliver to Kingsoft Office, aside from items listed under conditions precedent, the cash consideration in US\$ or other currency acceptable to Kingsoft Office to an account designated by Kingsoft Office

Proceeds from the issuance and sale of Kingsoft Office Shares will be utilized by Kingsoft Office to fund further research and development into the WPS Office software and other application software that Kingsoft Office Group currently owns and also as working capital for the operations of Kingsoft Office Group. Kingsoft Office may also use the proceeds to pay a special dividend to the Company in the manner otherwise determined by Kingsoft Office in accordance with applicable laws. According to the International Accounting Standard 27 (Revised), a change in the ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. Thus, the Company will not record a gain or loss due to the deemed disposal of Kingsoft Office Shares.

Conditions Precedent to the Ordinary Share Purchase Agreement

Conditions precedent to WPS Holdings' obligations at the Closing

The obligation of WPS Holdings to purchase 200,000,000 Kingsoft Office Shares at the Closing is subject to the fulfilment or waiver, on or prior to the Closing, of the following conditions:

- (i) all representations and warranties remain true and correct;
- (ii) all agreements have been performed and complied with;
- (iii) all proceedings and documents in connection with the transaction are completed;
- (iv) all authorizations, approvals, consents, waivers or permits, if any, of any governmental authority or regulatory body of each applicable jurisdiction have been obtained;
- (v) the Amended and Restated Articles of Association of Kingsoft Office (the "Restated Articles") being adopted by Kingsoft Office by all necessary corporate action of its board and shareholders;
- (vi) a shareholders agreement shall have been duly executed and delivered by Kingsoft Office and all other parties thereto (except for WPS Holdings);
- (vii) the execution of the Loan Agreement;
- (viii) the board of Kingsoft Office shall consist of persons elected or appointed in accordance with the Restated Articles; and
- (ix) WPS Holdings shall have received a copy of Kingsoft Office's register of members, certified by the registered agent of Kingsoft Office as true and complete as of the date of the Closing, updated to show WPS Holdings as the holder of the purchased Kingsoft Office Shares.

Conditions precedent to Kingsoft Office's obligations at the Closing

The obligation of Kingsoft Office to issue Kingsoft Office Shares at the Closing is subject to the fulfilment or waiver, on or prior to the Closing, of the following conditions:

- (i) all representations and warranties remain true and correct;
- (ii) all agreements have been performed and complied with;
- (iii) all proceedings and documents in connection with the transaction are completed;
- (iv) all authorizations, approvals, consents, waivers or permits, if any, of any governmental authority or regulatory body of each applicable jurisdiction have been obtained;
- (v) WPS Holdings shall have fully paid to Kingsoft Office the full consideration;
- (vi) the Deed of Charge shall have been duly executed and delivered by WPS Holdings;
- (vii) each of the Founding Employees shall have entered into a letter of commitment and non-compete;
- (viii) the Founding Employees and WPS Holdings shall have entered into a restricted share agreement to ensure that they do not breach their respective duties to the Company;
- (ix) a shareholders agreement shall have been duly executed and delivered by WPS Holdings and the Founding Employees;
- (x) a license agreement shall have been duly executed, a copy of which shall have been delivered to Kingsoft Office; and
- (xi) a letter of undertaking in connection with the payment of expenses by the Kingsoft Office Group shall have been duly executed.

3. Details of the Loan Agreement

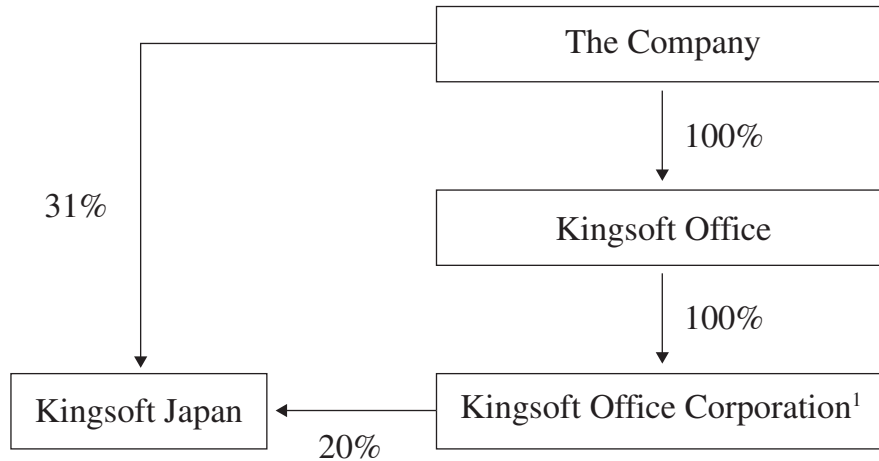
Date	:	21 May 2012
Parties	:	<ul style="list-style-type: none">• The Company as the lender• WPS Holdings as the borrower
Subject matter	:	WPS Holdings intends to borrow from the Company a loan for the purpose of acquiring Kingsoft Office Shares
Amount of loan	:	US\$4.5 million

Interest rate	:	One-year HIBOR rate plus 1.3% and in the event of default, one-year HIBOR rate plus 10% for the period from the occurrence of defaulting event until all amounts due by WPS Holdings have been fully paid off
Loan tenure	:	One year commencing from date on which the principal amount is disbursed by the Company and shall be automatically extended for another one year upon expiration unless a written notice to the contrary is given by the Company to WPS Holdings at least 30 days prior to the expiration
Loan repayment	:	If the one year term of the loan has failed to be extended, within one working day after expiration, the entire outstanding principal amount and all unpaid accrued interests have to be repaid to the Company
Security	:	The 200,000,000 Kingsoft Office Shares of par value US\$0.0026 each issued as fully paid up and registered in the name of WPS Holdings are charged in favour of the Company pursuant to the Deed of Charge, as amended from time to time between WPS Holdings and the Company
Conditions precedent	:	<p>(i) WPS Holdings shall have executed and delivered the Deed of Charge to the Company, and have taken any and all steps or actions required to be taken by WPS Holdings under the Deed of Charge; and</p> <p>(ii) The Ordinary Share Purchase Agreement shall have been executed and delivered by WPS Holdings</p>

4. Organisation structure

The following diagram outlines the Company and its interests in its relevant subsidiaries before and after the completion of the deemed disposal of Kingsoft Office Shares under the Ordinary Share Purchase Agreement:

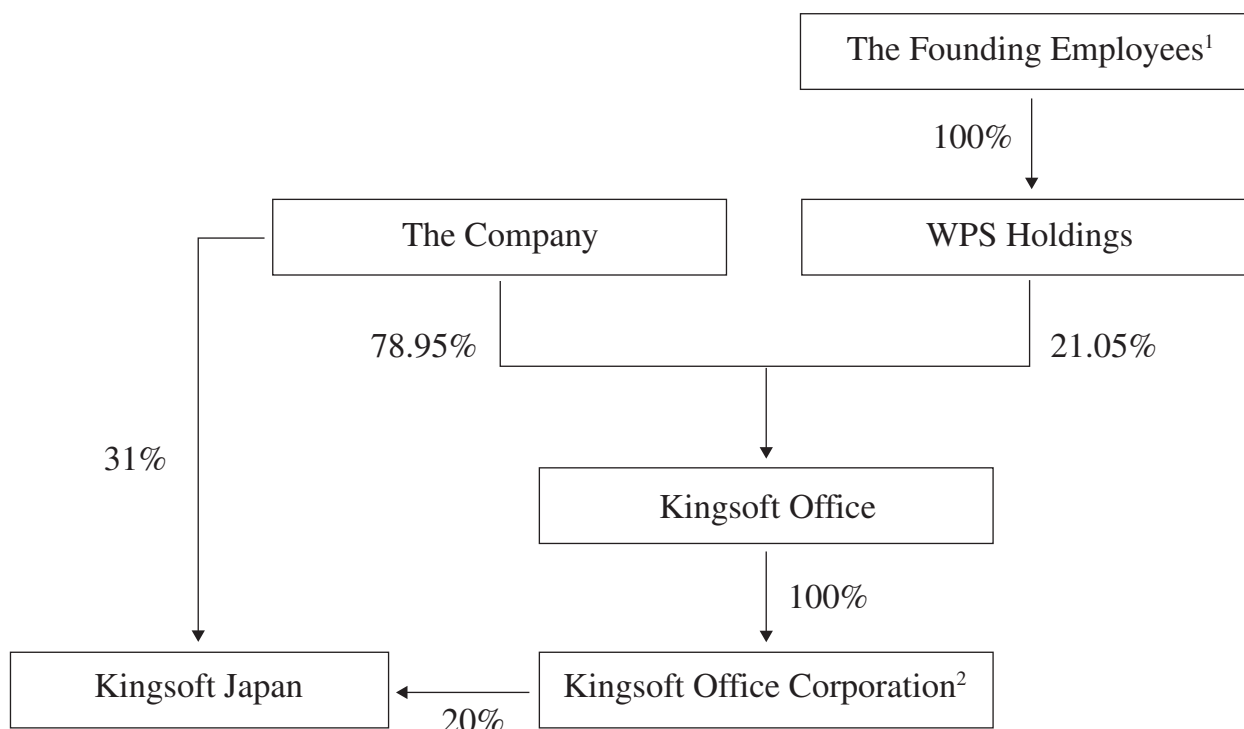
Organisation structure immediately before the completion of the deemed disposal of Kingsoft Office Shares to WPS Holdings



Note:

1. Subsidiaries of Kingsoft Office Corporation consist of Beijing Kingsoft Office, Zhuhai Qiwen and Zhuhai Kingsoft Office, among which Zhuhai Qiwen is controlled by way of structured contracts.

Organisation structure immediately after the completion of the deemed disposal of Kingsoft Office Shares to WPS Holdings



Notes:

1. *WPS Holdings is 100% owned by the Founding Employees. The Founding Employees is formed by 27 employees of the Company.*
2. *Subsidiaries of Kingsoft Office Corporation consist of Beijing Kingsoft Office, Zhuhai Qiwen and Zhuhai Kingsoft Office, among which Zhuhai Qiwen is controlled by way of structured contracts.*

Kingsoft Office, a wholly-owned subsidiary of the Company, aside from being the investment holding company holding 100% interest of Kingsoft Office Corporation, does not have any other business activities. Upon completion of the deemed disposal of Kingsoft Office Shares, Kingsoft Office will become a non-wholly owned subsidiary of the Company and the financial information of Kingsoft Office Group will still be consolidated into the Group's accounts.

Kingsoft Office Corporation, a wholly-owned subsidiary of Kingsoft Office, holds 100% interest of Beijing Kingsoft Office. Kingsoft Office Corporation provides software licencing services to users.

Beijing Kingsoft Office, a wholly-owned subsidiary of Kingsoft Office Corporation, controls and receives benefits of 100% interest in Zhuhai Qiwen by way of structured contracts entered into amongst Beijing Kingsoft Office, Zhuhai Qiwen, 26 members of the Founding Employees, Qiu Weiqin and Wang Jin. Beijing Kingsoft Office does not have any other business activities currently and will conduct development, operating and distribution of application software in the future.

Zhuhai Qiwen, a subsidiary whose 100% interest is controlled and owned by Beijing Kingsoft Office by way of structured contracts entered into amongst Beijing Kingsoft Office, Zhuhai Qiwen, 26 members of the Founding Employees, Qiu Weiqin and Wang Jin, aside from being the investment holding company holding 100% interest of Zhuhai Kingsoft Office, does not have any other business activities.

Zhuhai Kingsoft Office is a wholly-owned subsidiary of Zhuhai Qiwen. It is principally engaged in the development, sale and operation of WPS Office application software. WPS Office is a proprietary commercial office suite of interrelated desktop applications introduced by the Group in 1989. WPS Office includes mainly WPS Writer, WPS Presentation and WPS Spreadsheet. WPS Office has been successfully developed and being a well-recognised product.

Kingsoft Japan is a subsidiary of the Company and its financial information is consolidated into the Group's account. Upon completion of the deemed disposal of Kingsoft Office Shares, the Company still has the majority control over Kingsoft Japan and the financial information of Kingsoft Japan will still be consolidated into the Group's accounts. Kingsoft Japan is principally engaged in the distribution and operation of office application software, security software and Android pad in the Japanese market.

WPS Holdings, a limited liability company incorporated under the laws of the British Virgin Islands, is owned as to 100% by the Founding Employees.

5. Basis for Determining the Ordinary Share Purchase Agreement and Loan Agreement

The net assets of Kingsoft Office Group as at 31 December 2011 is RMB52.7 million, based on its unaudited management accounts under the International Financial Reporting Standards. As 20% equity of Kingsoft Japan was transferred to Kingsoft Office Corporation in early 2012, Kingsoft Office Group's unaudited management accounts for the year ended 31 December 2011 did not consider this intragroup transfer. The net assets of Kingsoft Japan as at 31 December 2011 is RMB43.5 million, based on Kingsoft Japan's unaudited financial statements.

Based on the unaudited management accounts of Kingsoft Office Group for the year ended 31 December 2011, the net profit before tax and the net profit after tax are RMB43.8 million and RMB42.5 million respectively. As there is no readily available consolidated accounts for Kingsoft Office Group for the financial year ended 31 December 2010, the net profits of Zhuhai Qiwen, is presented below based on its audited consolidated financial statements under the PRC accounting standards:

	Financial year ended 31 December	
	2010	2011
	<i>(in RMB million)</i>	<i>(in RMB million)</i>
Net profit/(loss) before tax	(2.4)	44.0
Net profit/(loss) after tax	(2.4)	42.6

The Board (including the independent non-executive Directors), having considered (i) the book value of Kingsoft Office Group, and (ii) the potential of the business of Kingsoft Office Group, is of the opinion that the purchase price offered to WPS Holdings to acquire Kingsoft Office Shares is fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

The Board (including the independent non-executive Directors), having considered (i) the interest of the loan under the Loan Agreement, which is based on a market rate; and (ii) the purpose and amount of the loan, which is below the valuation of Kingsoft Office Shares to be owned by WPS Holdings, is of the opinion that the loan offered to WPS Holdings is fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

6. Reasons for Entering into the Ordinary Share Purchase Agreement and Loan Agreement

The Board is of the view that providing an opportunity for the Founding Employees to participate directly in the operating and running of Kingsoft Office Group business would motivate them to contribute further into the Company and thereby enhancing the value of the Company and the benefit to its Shareholders.

Furthermore, under the Loan Agreement, the Founding Employees' interest in Kingsoft Office is tied to the performance of Kingsoft Office Group. As such, the Founding Employees will be motivated to ensure that Kingsoft Office Group will perform well over the coming years.

7. Implications under the Listing Rules

WPS Holdings is a company owned as to 100% by the Founding Employees. As WPS Holdings is an associate of Ke GE, a director of certain subsidiaries of the Group, WPS Holdings is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. As a result, transactions contemplated under the Ordinary Share Purchase Agreement and Loan Agreement between WPS Holdings and the Company constitute connected transactions.

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the Ordinary Share Purchase Agreement and Loan Agreement are less than 5%, the transactions contemplated under the Ordinary Share Purchase Agreement and Loan Agreement constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules and are subject to reporting and announcement requirements and exempted from independent shareholders' approval requirement.

As none of the Directors have any material interest in the Ordinary Share Purchase Agreement and Loan Agreement, no Director is required to abstain from voting on the board resolutions approving the Ordinary Share Purchase Agreement and Loan Agreement.

8. General Information

The Group is a leading internet based software developer, distributor and service provider and principally engaged in research, development and distribution of a wide range of innovative entertainment, internet security and application software in the PRC and the Asia region.

9. Definitions

“associate(s)”	has the meaning ascribed hereto under the Listing Rules
“Beijing Kingsoft Office”	北京金山辦公軟件有限公司 (Beijing Jinshan Office Software Co., Ltd.), a subsidiary of the Company that is incorporated under the laws of the PRC
“Board”	the board of directors of the Company
“Closing”	the deemed disposal of Kingsoft Office Shares shall take place as soon as practical after fulfillment or waiver of the closing conditions or on a date as Kingsoft Office and WPS Holdings shall mutually agree
“Company”	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its Shares listed on the Stock Exchange (stock code: 03888)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Deed of Charge”	the deed of share charge to be entered into between the Company and WPS Holdings as one of the closing conditions to charge all 200,000,000 Kingsoft Office Shares owned by WPS Holdings as security under the Loan Agreement
“Director(s)”	the director(s) of the Company
“Founding Employees”	the 27 employees of the Company, including Ke GE, a director of certain subsidiaries of the Group
“Group”	the Company, its subsidiaries and companies which are indirectly controlled by the Company
“HIBOR”	Hong Kong Interbank Offered Rate
“Hong Kong”	the Hong Kong Special Administrative Region of China

“Kingsoft Japan”	Kingsoft Japan Inc. (キングソフト株式会社), a subsidiary of the Company that is incorporated under the laws of Japan and its financial information is consolidated into the Group’s account
“Kingsoft Office”	Kingsoft Office Software Holdings Limited, a subsidiary of the Company that is incorporated under the laws of the Cayman Islands
“Kingsoft Office Corporation”	Kingsoft Office Software Corporation Limited, a subsidiary of the Company that is incorporated under the laws of the Hong Kong
“Kingsoft Office Group”	Kingsoft Office, its subsidiaries and companies that are indirectly controlled by Kingsoft Office
“Kingsoft Office Share(s)”	share(s) in the capital of Kingsoft Office
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Loan Agreement”	the loan agreement dated 21 May 2012 entered into between the Company and WPS Holdings, which is in relation to WPS Holdings’ payment obligation under the Ordinary Share Purchase Agreement
“Ordinary Share Purchase Agreement”	the ordinary share purchase agreement dated 21 May 2012 entered into between WPS Holdings, the Company, Kingsoft Office, Kingsoft Office Corporation, Beijing Kingsoft Office, Zhuhai Qiwen, Zhuhai Kingsoft Office and the Founding Employees for the acquisition of 21.05% equity interest in the capital of Kingsoft Office by WPS Holdings
“PRC” or “China”	the People’s Republic of China which, for the purpose of this Announcement only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Share(s)”	share(s) in the capital of the Company
“Shareholder(s)”	registered holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“WPS Holdings”	WPS Holdings Limited, a limited liability company incorporated under the laws of the British Virgin Islands and owned by the Founding Employees

“Zhuhai Kingsoft Office”	珠海金山辦公軟件有限公司 (Zhuhai Jinshan Office Software Co., Ltd.), a subsidiary of the Company that is incorporated under the laws of the PRC.
“Zhuhai Qiwen”	珠海奇文辦公軟件有限公司 (Zhuhai Qiwen Office Software Co., Ltd.), a subsidiary of the Company that is incorporated under the laws of the PRC
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	percent

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

The PRC, 21 May 2012

As at the date of this announcement, the executive Directors are Messrs. HongJiang ZHANG, Shun Tak WONG and Tao ZOU; the non-executive Directors are Messrs. Jun LEI, Pak Kwan KAU and Chi Ping LAU; and the independent non-executive Directors are Messrs. Tat Joel, CHANG, Guangming George LU and Chuan WANG.

If there is any inconsistency between the Chinese names of the PRC entities mentioned in this announcement and their English translations, the Chinese names shall prevail.