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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 TRANSACTION
RELATING TO THE GRANT OF WARRANTS BY
KINGSOFT CLOUD**

On 21 August 2014, the Company, Xiaomi, Kingsoft Cloud Group and other shareholders of Kingsoft Cloud entered into the Shareholders' Agreement. Pursuant to the Shareholders' Agreement, Kingsoft Cloud agreed to grant warrants to the Company and Xiaomi, respectively, to subscribe for not more than 26,948,000 Kingsoft Cloud Preferred Shares and not more than 161,688,000 Kingsoft Cloud Preferred Shares at the exercise price of US\$0.0742 per Kingsoft Cloud Preferred Share.

Xiaomi is a connected person of the Company. As such, the grant of the Xiaomi Warrant under the Shareholders' Agreement constitutes a connected transaction of the Company. If Xiaomi exercises the Xiaomi Warrant in full and the Company does not exercise any of the Kingsoft Warrant, the equity interest held by the Company in Kingsoft Cloud will be diluted from approximately 63.83% to approximately 56.34% on the assumption that all Kingsoft Cloud Preferred Shares are fully converted into Kingsoft Cloud Ordinary Shares based on the conversion ratio of 1:1 and no shares under the employee stock incentive plans of Kingsoft Cloud are issued. Therefore, the exercise of the Xiaomi Warrant may constitute a deemed disposal of up to 7.49% equity interest held by the Company in Kingsoft Cloud under the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the grant of the Xiaomi Warrant is higher than 0.1% but less than 5%, the grant of the Xiaomi Warrant is only subject to the reporting and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the aforementioned deemed disposal is higher than 0.1% but less than 5%, such deemed disposal is only subject to the reporting and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules.

1. BACKGROUND

On 21 August 2014, the Company, Xiaomi, Kingsoft Cloud Group and other shareholders of Kingsoft Cloud entered into the Shareholders' Agreement. Pursuant to the Shareholders' Agreement, Kingsoft Cloud agreed to grant warrants to the Company and Xiaomi, respectively, to subscribe for not more than 26,948,000 Kingsoft Cloud Preferred Shares and not more than 161,688,000 Kingsoft Cloud Preferred Shares at the exercise price of US\$0.0742 per Kingsoft Cloud Preferred Share.

As of the date of this announcement, the Company and Xiaomi held approximately 63.83% and 20.76% equity interest in Kingsoft Cloud, respectively, on the assumption that all Kingsoft Cloud Preferred Shares are fully converted into Kingsoft Cloud Ordinary Shares based on the conversion ratio of 1:1 and no shares under the employee stock incentive plans of Kingsoft Cloud are issued.

2. PRINCIPAL TERMS OF WARRANTS GRANTED TO THE COMPANY AND XIAOMI

Issuer:	Kingsoft Cloud
Subscribers:	the Company; and Xiaomi
Maximum number of shares that can be subscribed for upon exercise of the warrants in full:	not more than 26,948,000 Kingsoft Cloud Preferred Shares by the Company; and not more than 161,688,000 Kingsoft Cloud Preferred Shares by Xiaomi
Exercise period:	18 months commencing from 21 August 2014
Exercise price:	The exercise price of the Kingsoft Warrant and the Xiaomi Warrant is US\$0.0742 per Kingsoft Cloud Preferred Shares, which is determined among arm's length negotiation with reference to the Kingsoft Cloud Group's established status in the cloud technology and services area, business prospectus of the Kingsoft Cloud Group, the prevailing market price and the historical purchase price of Kingsoft Cloud Preferred Shares. The aggregate exercise price of the Kingsoft Warrant granted to the Company amounts to US\$2 million and the aggregate exercise price of the Xiaomi Warrant granted to Xiaomi amounts to US\$12 million.
Ranking of the shares issued under the warrants:	The Kingsoft Cloud Preferred Shares issued by Kingsoft Cloud under the warrants shall rank <i>pari passu</i> with the existing Kingsoft Cloud Preferred Shares.

On the assumption that all Kingsoft Cloud Preferred Shares are fully converted into Kingsoft Cloud Ordinary Shares based on the conversion ratio of 1:1 and no shares under the employee stock incentive plans of Kingsoft Cloud are issued, the shareholding held by the Company and Xiaomi in Kingsoft Cloud will be as follows:

- (i) if both the Kingsoft Warrant and the Xiaomi Warrant are fully exercised, the Company and Xiaomi will hold approximately 57.18% and 29.48% equity interest in Kingsoft Cloud, respectively;
- (ii) if Xiaomi exercises the Xiaomi Warrant in full and the Company does not exercise any of the Kingsoft Warrant, the Company and Xiaomi will hold approximately 56.34% and 30.06% equity interest in Kingsoft Cloud, respectively;
- (iii) if the Company exercises the Kingsoft Warrant in full and Xiaomi does not exercise any of the Xiaomi Warrant, the Company and Xiaomi will hold approximately 64.61% and 20.31% equity interest in Kingsoft Cloud, respectively.

Under the Shareholders' Agreement, Kingsoft Cloud Group and Xiaomi Group agreed to strengthen their business cooperation. Kingsoft Cloud Group shall provide the cloud storage and cloud computing services to Xiaomi Group and Xiaomi Group shall ensure 70% of the cloud storage and cloud computing services used by Xiaomi Group in their MIUI image storage business will be purchased from Kingsoft Cloud Group, provided that the quality of such services is ensured and the price of such services is reasonably determined (i) based on the fair market price determination methods in the cloud storage and cloud computing industry (ii) the total cost of Kingsoft Cloud Group incurred in provision of such services plus reasonable profits, and/or (iii) with reference to the prices and/or reasonable profits of independent third parties. The provision of such cloud storage and cloud computing services will be governed by the cooperation framework agreement entered into between the Company and Xiaomi on 24 April 2013 (as amended by supplemental agreements from time to time).

3. FINANCIAL INFORMATION OF KINGSOFT CLOUD GROUP

The unaudited combined management accounts of Kingsoft Cloud Group were prepared under the international financial reporting standards.

The net loss before and after taxation of Kingsoft Cloud Group based on the unaudited combined management accounts are as follows:

	For the year ended 31 December 2012	For the year ended 31 December 2013
Net loss before taxation	approximately RMB26.38 million	approximately RMB61.00 million
Net loss after taxation	approximately RMB26.38 million	approximately RMB61.00 million

The net assets value of Kingsoft Cloud Group based on the unaudited combined management accounts for the year 31 December 2013 is approximately RMB-40.53 million.

There is no original acquisition cost of the warrants to be granted under the Shareholders' Agreement and the Kingsoft Cloud Preferred Shares that may be issued upon exercise of such warrants as such securities are to be newly issued pursuant to the Shareholders' Agreement.

4. REASONS AND BENEFITS OF THE GRANT OF WARRANTS

Xiaomi and its subsidiaries mainly focus on developing smartphones, which are highly in demand and constantly sold out in the PRC, whereas Kingsoft Cloud Group provides cloud technology services which can be used on smartphone platform. Hence, the Board is of the view that through granting the Xiaomi Warrant, the strategic cooperation between Xiaomi and Kingsoft Cloud Group may be further strengthened, which will in return promote Kingsoft Cloud Group's position in becoming one of the leading cloud storage provider in the PRC. As popularity of Xiaomi smartphones has risen significantly over the years and the high visibility of the Xiaomi brand among smartphone users in the PRC, the Board is of the view that partnering with Xiaomi, both as a business partner and strategic investor, would greatly benefit the Company and help promote the Company's cloud storage services.

The proceeds from the issue of the Kingsoft Cloud Preferred Shares under the Kingsoft Warrant and the Xiaomi Warrant, being up to US\$14 million in aggregate, shall be used for the general working capital and other general corporate purposes for Kingsoft Cloud Group.

The Directors (including the independent non-executive Directors) believe that the terms of the Kingsoft Warrant and the Xiaomi Warrant are on normal commercial terms, fair and reasonable and in the interests of the shareholders of the Company 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 pursuant to Chapter 14A of the Listing Rules. The grant of the Xiaomi Warrant under the Shareholders' Agreement constitutes a connected transaction of the Company. If Xiaomi exercises the Xiaomi Warrant in full and the Company does not exercise any of the Kingsoft Warrant, the equity interest held by the Company in Kingsoft Cloud will be diluted from approximately 63.83% to approximately 56.34% on the assumption that all Kingsoft Cloud Preferred Shares are fully converted into Kingsoft Cloud Ordinary Shares based on the conversion ratio of 1:1 and no shares under the employee stock incentive plans of Kingsoft Cloud are issued. Therefore, the exercise of the Xiaomi Warrant may constitute a deemed disposal of up to 7.49% equity interest held by the Company in Kingsoft Cloud under the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the grant of the Xiaomi Warrant is higher than 0.1% but less than 5%, the grant of the Xiaomi Warrant is only subject to the reporting and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the aforementioned deemed disposal is higher than 0.1% but less than 5%, such deemed disposal is only subject to the reporting and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules.

If the Company exercises the Kingsoft Warrant in full and Xiaomi does not exercise any of the Xiaomi Warrant, the equity interest of the Company in Kingsoft Cloud will be increased from approximately 63.83% to 64.61% on the assumption that all Kingsoft Cloud Preferred Shares are fully converted into Kingsoft Cloud Ordinary Shares based on the conversion ratio of 1:1 and no shares under the employee stock incentive plans are not issued. The exercise of the Kingsoft Warrant constitutes an acquisition under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the exercise of the Kingsoft Warrant by the Company is less than 5%, such acquisition is exempted from the reporting, announcement and shareholders' approval under Chapter 14 of the Listing Rules.

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

6. INFORMATION ABOUT THE PARTIES

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

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

Xiaomi is one of the leading providers of smart phones 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

“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
“Kingsoft Cloud Group”	Kingsoft Cloud and its subsidiaries
“Kingsoft Cloud Preferred Shares”	the Series A preferred shares of Kingsoft Cloud with par value of US\$0.001 per share, in the authorized share capital of Kingsoft Cloud, each having the rights, preferences, privileges and restrictions as set forth in the articles of association of Kingsoft Cloud
“Kingsoft Cloud Ordinary Shares”	the ordinary shares of Kingsoft Cloud with par value of US\$0.001 per share, in the authorized share capital of Kingsoft Cloud, each having the rights, preferences, privileges and restrictions as set forth in the articles of association of Kingsoft Cloud
“Kingsoft Warrant”	a warrant granted by Kingsoft Cloud to the Company under the Shareholders’ Agreement, pursuant to which Xiaomi has the right to subscribe for up to 26,948,000 Kingsoft Cloud Preferred Shares
“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
“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
“Shareholders’ Agreement”	the shareholders’ agreement dated 21 August 2014 and entered into among the Company, Xiaomi, Kingsoft Cloud Group and other shareholders of Kingsoft Cloud, pursuant to which Kingsoft Cloud agreed to grant warrants to the Company and Xiaomi, respectively, to subscribe for not more than 26,948,000 Kingsoft Cloud Preferred Shares and not more than 161,688,000 Kingsoft Cloud Preferred Shares at the exercise price of US\$0.0742 per Kingsoft Cloud Preferred Share

“US\$”	US dollars, the lawful currency of the United States
“Xiaomi”	Xiaomi Corporation, a limited liability company organized under the laws of the Cayman
“Xiaomi Group”	Xiaomi and its subsidiaries
“Xiaomi Warrant”	a warrant granted by Kingsoft Cloud to Xiaomi under the Shareholders’ Agreement, pursuant to which Xiaomi has the right to subscribe for up to 161,688,000 Kingsoft Cloud Preferred Shares
%	percent

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 21 August 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.