CONTINUING CONNECTED TRANSACTIONS
REVISION OF ANNUAL CAPS UNDER
THE FRAMEWORK AGREEMENT
BETWEEN THE COMPANY AND XIAOMI

Reference is made to the Announcement and the circular of the Company dated 5 December 2019 in relation to the Framework Agreement entered into between the Company and Xiaomi dated 2 December 2019 to regulate the various ongoing transactions between the two parties for the three years ending 31 December 2022, pursuant to which, (i) the Group will provide various comprehensive services to Xiaomi Group, mainly including the cloud services, the promotion services, the mailbox customized development services and advertising agency services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) the Group will provide hardware products (mainly including server, storage devices, load balancer and other hardware products manufactured by independent third parties) to Xiaomi Group; (iv) Xiaomi Group will provide various comprehensive services to the Group, mainly including the promotion services, the software development services, the canteen services and other ancillary services; and (v) Xiaomi Group will provide products to the Group, for a term of three years ending 31 December 2022. Unless otherwise defined, terms used in this announcement shall have the same meaning in the Announcement.

Due to the reasons set out in the section “REASONS FOR AND BENEFITS OF THE REVISION OF ANNUAL CAPS” as below, the Board estimates that the Existing Annual Caps will not be sufficient to meet the Group’s requirements for the three years ending 31 December 2022. Therefore, the Board hereby announces that on 26 May 2020, the Board has proposed to revise the Existing Annual Caps.

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. Mr. Jun LEI holds a majority of voting power in Xiaomi, save for resolutions with respect to a limited number of reserved matters. As such, Xiaomi is a connected person of the Company. Therefore, the transactions contemplated under the Framework Agreement between the Company and Xiaomi constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and the Company has complied with the relevant requirements of Chapter 14A of the Listing Rules.
Pursuant to Rule 14A.54 of the Listing Rules, since the Company proposes to revise the Existing Annual Caps under the Framework Agreement, the Company is required to re-comply with the relevant requirements of Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Revised Annual Caps exceeds 0.1% but is less than 5%, the Revision of Annual Caps is subject to the reporting, announcement and annual review requirements, but exempted from the independent shareholders’ approval 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 Revision of Annual Caps. 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.

1 BACKGROUND

Reference is made to the announcement of the Company dated 2 December 2019 (the “Announcement”) and the circular of the Company dated 5 December 2019 in relation to the Framework Agreement entered into between the Company and Xiaomi dated 2 December 2019 to regulate the various ongoing transactions between the two parties for the three years ending 31 December 2022, pursuant to which, (i) the Group will provide various comprehensive services to Xiaomi Group, mainly including the cloud services, the promotion services, the mailbox customized development services and advertising agency services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) the Group will provide hardware products (mainly including server, storage devices, load balancer and other hardware products manufactured by independent third parties) to Xiaomi Group; (iv) Xiaomi Group will provide various comprehensive services to the Group, mainly including the promotion services, the software development services, the canteen services and other ancillary services; and (v) Xiaomi Group will provide products to the Group, for a term of three years ending 31 December 2022. Unless otherwise defined, terms used in this announcement shall have the same meaning in the Announcement.

2 THE REVISION OF ANNUAL CAPS

Due to the reasons set out in the section “REASONS FOR AND BENEFITS OF THE REVISION OF ANNUAL CAPS” as below, the Board estimates that the existing annual caps for the fees payable by Xiaomi Group in respect of the provision of advertising agency services by the Group under the Framework Agreement for the three years ending 31 December 2022 (the “Existing Annual Caps”) will not be sufficient to meet the Group’s requirements for the three years ending 31 December 2022. Therefore, the Board hereby announces that on 26 May 2020, the Board has proposed to revise the Existing Annual Caps (the “Revision of Annual Caps”).
The Existing Annual Caps are RMB22.64 million, RMB24.91 million and RMB28.30 million, respectively. After the Revision of Annual Caps, the annual caps for the fees payable by Xiaomi Group in respect of the provision of advertising agency services by the Group under the Framework Agreement for the three years ending 31 December 2022 will be increased to RMB150.00 million, RMB165.00 million and RMB195.00 million, respectively (the “Revised Annual Caps”). Save for the above revision, all other terms of the Framework Agreement remain unchanged.

The Revised Annual Caps are determined with reference to the following factors: (i) the historical unaudited transaction amount for the fees payable by Xiaomi Group in respect of the provision of advertising agency services by the Group under the Framework Agreement for the three months ended 31 March 2020; (ii) the estimated transaction amount for the remaining period of the financial year ending 31 December 2020; (iii) the expected increase in demand of advertising agency services; and (iv) the estimated revenue generated from advertising agency services.

The Board further confirms that, as at the date of this announcement, the Existing Annual Caps have not yet been exceeded. Based on the Group’s management accounts, the unaudited transaction amount for the fees payable by Xiaomi Group in respect of the provision of advertising agency services by the Group under the Framework Agreement for the three months ended 31 March 2020 was approximately RMB20.60 million. The Company will continue to closely monitor the implementation of the Framework Agreement and take prompt actions to make necessary disclosure and, if necessary, obtain independent shareholders’ approval in the event that any further adjustment to the annual caps under the Framework Agreement becomes foreseeable.

3  REASONS FOR AND BENEFITS OF THE REVISION OF ANNUAL CAPS

The Group started to provide advertising agency services to Xiaomi Group since 2018 and the ways of cooperation and terms of specific agreements are subject to adjustment in the practice. With the development of the market and the improvement of the Group’s market development ability, the market demand for the advertising services provided by Xiaomi Group is increasing, and thus the Group’s completion rate of advertising agency tasks allocated by Xiaomi Group will increase accordingly. Based on the Group’s performance in the first quarter of 2020, it is expected that the completion rate of annual advertising agency tasks will be significantly improved. Therefore, the revenue generated from advertising agency services will also be significantly increased. The Company has been closely monitoring the actual transaction amount. Taking into account above reasons and the actual transaction amount for the first quarter of 2020, the Board estimates that the Existing Annual Caps will not be sufficient to meet the Group’s requirements for the three years ending 31 December 2022, and therefore the Board has determined to increase the Existing Annual Caps.

The Revision of Annual Caps is line with the Group’s operational and business needs without any disruptions to the operations of the Group.
The Board (including the independent non-executive Directors), is of the view that the transactions contemplated 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 Revised Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4 IMPLICATIONS UNDER THE LISTING RULES

Xiaomi is an associate of Mr. Jun LEI, a Director and substantial shareholder of the Company. Mr. Jun LEI holds a majority of voting power in Xiaomi, save for resolutions with respect to a limited number of reserved matters. As such, Xiaomi is a connected person of the Company. Therefore, the transactions contemplated under the Framework Agreement between the Company and Xiaomi constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules and the Company has complied with the relevant requirements of Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, since the Company proposes to revise the Existing Annual Caps under the Framework Agreement, the Company is required to re-comply with the relevant requirements of Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Revised Annual Caps exceeds 0.1% but is less than 5%, the Revision of Annual Caps is subject to the reporting, announcement and annual review requirements, but exempted from the independent shareholders’ approval 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 Revision of Annual Caps. 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.

5 INFORMATION ABOUT THE PARTIES

The Group is principally engaged in the research and development of games, and the provision of online games, mobile games and casual game services; and design, research and development, and sales and marketing of the office software products and services of WPS Office.

Xiaomi is an internet company with smartphones and smart hardware connected by an IoT platform at its core. Xiaomi is a limited liability company listed on the Stock Exchange and Mr. Jun LEI holds a majority of voting power in Xiaomi, save for resolutions with respect to a limited number of reserved matters.

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 26 May 2020

As at the date of this announcement, 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.