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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)

**DISCLOSEABLE TRANSACTION IN
RELATION TO THE PROPOSED SPIN-OFF AND
SEPARATE LISTING OF CHEETAH MOBILE INC.
ON THE NEW YORK STOCK EXCHANGE**

THE PROPOSED SPIN-OFF

Reference is made to the Company's announcement dated 28 January 2014 and 3 April 2014 in respect of the Proposed Spin-off.

The Board is pleased to announce that CMI submitted a Registration Statement that includes a prospectus with a price range to the SEC on 25 April 2014 (New York time). Subject to the final terms of an underwriting agreement to be agreed upon by CMI, the Underwriters and other relevant parties, if any, and to market conditions, the Offering is expected to consist of an initial offering of 12,000,000 new ADSs to be sold by CMI. The Underwriters will also have the option to purchase up to an additional 1,800,000 ADSs to cover over-allotments. Each ADS will represent 10 Class A Shares.

Concurrently with, and subject to, the completion of the Offering, CMI will issue and sell to the Company, Xiaomi Ventures Limited and Baidu Holdings Limited US\$10 million, US\$20 million and US\$20 million of Class A Shares, respectively, at a price per share equal to the initial public offering price adjusted to reflect the ADS-to-Class A Share ratio (the "**Concurrent Private Placement**"). See the Company's announcement titled "Connected Transactions — Subscription of Shares of Cheetah Mobile Inc." dated 28 April 2014 for more details.

DISTRIBUTION IN SPECIE

In accordance with the requirements of PN15, the Board proposes to give due regard to the interests of the Shareholders by providing qualifying Shareholders with an assured entitlement of a certain number of Distribution ADSs, each comprising a certain number of shares in CMI, by way of the Distribution in specie (subject to the consummation of the Proposed Spin-off and the satisfaction of applicable closing conditions). A non-qualifying Shareholder will not receive the Distribution ADSs, and subject to such non-qualifying Shareholder holding a minimum number of Shares (such number to be determined in due course by the Company) on the relevant record date, will instead receive cash in lieu of the relevant number of Distribution ADSs to which he would otherwise have been entitled. Details of the terms of the Distribution in specie have not yet been finalised as at the date of this announcement. It is currently expected that a further announcement on the Distribution in specie will be made by the Company on or about 28 April 2014.

LISTING RULES IMPLICATION

The Proposed Spin-off will result in a reduction of the percentage shareholding of the Company in CMI and constitute a deemed disposal on the part of the Company under Rule 14.29 of the Listing Rules. Since one of the relevant percentage ratios of the Proposed Spin-off exceeds 5% but is less than 25%, the Proposed Spin-off constitutes a discloseable transaction of the Company subject only to reporting and announcement requirements but exempt from shareholders' approval requirement.

As the listing of the ADSs pursuant to the Proposed Spin-off is conditional upon the satisfaction of certain conditions, including, without limitation, market conditions, NYSE granting approval for the listing of the ADSs and the conditions set forth in the section "The Proposed Spin-off — Conditions to the Offering" below, the Proposed Spin-off may not proceed. Shareholders and potential investors in the Company should therefore exercise caution when dealing in or investing in the securities of the Company.

Reference is made to the Company's announcement dated 28 January 2014 and 3 April 2014 in respect of the Proposed Spin-off.

THE PROPOSED SPIN-OFF

On 2 April 2014 (New York time), CMI made a public filing of the Registration Statement under the United States Securities Act of 1933, as amended, with the SEC in connection with the Offering of the ADSs. CMI has also applied for the listing of its ADSs on NYSE.

The Board is pleased to announce that CMI submitted a Registration Statement that includes a prospectus with a price range to the SEC on 25 April 2014 (New York time). Subject to the final terms of an underwriting agreement to be agreed upon by CMI, the Underwriters and other relevant parties, if any, and to market conditions, the Offering is expected to consist of a total offering of up to 13,800,000 ADSs, representing 138,000,000 Class A Shares, which in turn represents approximately 12% of the issued share capital of CMI (as enlarged by the issue of new Class A Shares under the Offering), comprising:

- an initial offering of 12,000,000 ADSs to be sold by CMI (representing approximately 11% of the issued share capital of CMI, as enlarged by the issue of new Class A Shares under the Offering); and

- an over-allotment option, which may be exercised by the Underwriters, of up to 1,800,000 additional ADSs, such option to be granted by CMI to the Underwriters (“**Over-allotment Option**”).

Concurrently with, and subject to, the completion of the Offering, CMI will issue and sell to the Company, Xiaomi Ventures Limited and Baidu Holdings Limited US\$10 million, US\$20 million and US\$20 million of Class A Shares, respectively, at a price per share equal to the initial public offering price adjusted to reflect the ADS-to-Class A Share ratio (the “**Concurrent Private Placement**”). See the Company’s announcement titled “Connected Transactions — Subscription of Shares of Cheetah Mobile Inc.” dated 28 April 2014 for more details.

Assuming full exercise of the Over-allotment Option by the Underwriters and full subscription by the Company, Xiaomi Ventures Limited and Baidu Holdings Limited pursuant to the Concurrent Private Placement, the number of new Class A Shares described above being allotted and issued, the shareholding of the Company in CMI will be diluted and reduced from the current 54.09% to 47.86% (if the employee share option schemes are not taken into account and the effect of the Distribution in specie is disregarded) on a fully diluted basis upon completion of the Offering. However, the Company will continue to treat CMI as its subsidiary following the Offering through the dual-class share capital structure and the financial results of CMI will continue to be consolidated into the financial statements of the Company upon completion of the Offering and the Distribution in specie.

Offer Price

The initial offer price of each ADS is expected to be between US\$12.5 (equivalent to approximately HK\$96.9) and US\$14.5 (equivalent to approximately HK\$112.4). Based on the current price range, the market capitalisation of CMI will, immediately upon completion of the Offering, be between approximately US\$1.8 billion (equivalent to approximately HK\$14.0 billion) and US\$2.1 billion (equivalent to approximately HK\$16.3 billion) (assuming the Over-allotment Option is not exercised and full subscription by the Company, Xiaomi Ventures Limited and Baidu Holdings Limited pursuant to the Concurrent Private Placement).

It is expected that CMI and the Underwriters will determine the final offer price and enter into an underwriting agreement in respect of the Offering on or about 7 May 2014 (New York time).

Intended Use of Proceeds

The net proceeds to be received by CMI from the Offering are currently expected to be used as to approximately US\$50 million (equivalent to approximately HK\$387.5 million) for penetrating into selected international markets; as to approximately US\$35 million (equivalent to approximately HK\$271.3 million) for expanding and strengthening its sales and marketing efforts; as to approximately US\$35 million (equivalent to approximately HK\$271.3 million) for investing in technology, infrastructure and research and development capabilities; and as to the balance for other general corporate purposes, including working capital needs and potential acquisitions.

Conditions to the Offering

The Offering is conditional on, among other things, the following:

- the Registration Statement being declared effective by the SEC and NYSE granting approval for the listing of the ADSs; and
- the entering into by CMI, the Underwriters and other relevant parties, if any, of an underwriting agreement for the initial purchase by the Underwriter of the number of ADSs to be specified therein, the satisfaction of certain conditions to closing set forth in the underwriting agreement and the underwriting agreement not being terminated in accordance with its terms or otherwise, on or before the date and time to be specified therein.

If these or any other applicable conditions are not fulfilled or waived (if applicable) prior to the dates and times to be specified, the Offering and thus the Proposed Spin-off will lapse and a notice will be published by the Company as soon as practicable after such lapse.

As the separate listing of CMI pursuant to the Proposed Spin-off is subject to, among other things, the above conditions being satisfied or waived (if applicable), NYSE granting approval for the listing of the ADSs and market conditions, the Proposed Spin-off may not proceed. If the Proposed Spin-off does not proceed for any reason, the Distribution in specie will not be made.

INFORMATION ON THE GROUP AND THE SPIN-OFF GROUP

The Group is a leading internet-based software developer, distributor and service provider in China, based on market share. It leverages its comprehensive software development platform to offer a wide range of innovative entertainment, internet security and application software. The Company currently reports its revenue under three operating segments, namely, entertainment software segment, information security software segment and other application software segment. The Spin-off Group currently accounts for all the revenue under the information security software segment of the Company, except that the revenue from such segment also includes revenue of Kingsoft Japan Inc., a subsidiary of the Company.

CMI is principally engaged in the research, development and operation of information security software, internet browser, mission critical mobile applications, and the provision of online advertising services and internet value-added services across devices, in each case in any country other than Japan. It offers mission critical applications which optimize internet and mobile system performance and provide real time protection against known and unknown security threats, and provides its business partners with multiple user traffic entry points and global content distribution channels.

Set out below is certain financial information in relation to the Spin-off Group for the two years ended 31 December 2013 as disclosed in the Registration Statement:

	For the year ended	
	31 December 2012	31 December 2013
	<i>Audited</i>	<i>Audited</i>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Profit before tax	14,759	110,688
Net income attributable to ordinary shareholders	9,844	62,018

The audited consolidated net asset value of the Spin-off Group as at 31 December 2013 was RMB594,068,000.

Shareholders should note that the figures above are extracted from the public filing of the Registration Statement of CMI and the audited consolidated financial statements therein contained have been prepared in accordance with United States generally accepted accounting principles.

CMI included in its Registration Statement an estimate of its selected unaudited financial and operating data for the three months ended 31 March 2014. Set forth below is an extract of the disclosure relating to such data. The selected preliminary financial and operating data presented below are subject to the completion of CMI's financial closing procedures. Accordingly, these data may change and the changes may be material.

Revenues CMI's total revenues for the three months ended 31 March 2014 were RMB315.7 million (equivalent to approximately HK\$391.5 million). Its total revenues for the three months ended 31 March 2014 comprised revenues from online marketing services of RMB232.2 million (equivalent to approximately HK\$287.9 million), revenues from internet value-added services of RMB71.8 million (equivalent to approximately HK\$89.0 million) and revenues from internet security services and others of RMB11.7 million (equivalent to approximately HK\$14.5 million). CMI's mobile revenues as a percentage of its total revenues for the three months ended 31 March 2014 were 17%.

Gross profit CMI's gross profit for the three months ended 31 March 2014 was RMB245.3 million (equivalent to approximately HK\$304.2 million).

Operating profit CMI's estimated operating profit for the three months ended 31 March 2014 was RMB22.4 million (equivalent to approximately HK\$27.8 million). Its operating profit for the three months ended 31 March 2014 reflects estimated share-based compensation expenses of RMB10.9 million (equivalent to approximately HK\$13.5 million).

Net loss CMI's estimated net loss for the three months ended 31 March 2014 was RMB21.9 million (equivalent to approximately HK\$27.2 million). Its net loss for the three months ended 31 March 2014 reflects estimated share-based compensation expenses of RMB10.9 million (equivalent to approximately HK\$13.5 million).

NOTIONAL GAIN RESULTING FROM THE PROPOSED SPIN-OFF

Assuming full exercise of the Over-allotment Option by the Underwriters, the number of new Class A Shares described above being allotted and issued and the Distribution in specie is made entirely in the form of ADSs, the Offering and the separate listing of CMI on NYSE will constitute a deemed disposal by the Company of an approximately 6.2% interest in CMI. Based on the offer price of US\$13.50 per ADS, being the midpoint of the initial offer price range and the net asset value of CMI as at 31 March 2014 of approximately HK\$833.8 million, a notional gain of approximately HK\$594.2 million (assuming the Over-allotment Option is not exercised) or HK\$662.3 million (assuming the Over-allotment Option is exercised) would accrue to the Company as a result of the Offering and separate listing of CMI. However, in accordance with International Financial Reporting Standards 10 “Consolidated Financial Statements” issued by the International Accounting Standards Board in May 2011, with effect from 1 January 2013, such notional gain will not be recognized in the consolidated income statement of the Company but will be recognized directly in equity given that the change in the Company’s effective interest in CMI has not resulted in a loss of control of CMI by the Company and that CMI remains a subsidiary of the Company after completion of the Offering and separate listing of CMI on NYSE.

REASONS FOR, AND BENEFITS OF, THE PROPOSED SPIN-OFF

The Board believes that the separate listing of the Spin-off Group will be beneficial to both the Company and the Spin-off Group, for the following reasons:

- Enhance corporate structure. A separate listing of CMI will enhance the corporate structure of both the Spin-off Group and the Remaining Group. The Spin-off Group will focus on the Information Security Business, whereas the Remaining Group will focus on games and other application software business. It will allow the management teams of the Spin-off Group and the Remaining Group to specialize in the respective core businesses of the two groups of companies, thereby enhancing operational efficiency.
- Provide new sources of capital. A separate listing of CMI will enable it to establish its own shareholder base and independently access both equity and debt capital markets, as well as the bank credit market, on potentially more advantageous terms than are presently available to it. The separating listing will likely provide new and more diversified funding sources to finance the existing operations and future expansion of the Spin-off Group.
- Enhance corporate and brand awareness. As a separating listed entity, the Proposed Spin-off would help enhance the profile of CMI and grow its investor base. The U.S. listing status of a subsidiary of the Group may also raise the customer confidence level towards the Group and enhance the Group’s corporate and brand awareness.
- Increase transparency on business operations. A separate listing of CMI would provide investors and rating agencies with greater clarity on the business operations and financial status of the Spin-off Group, thereby allowing the research community and rating agencies to provide coverage on CMI and making it more comparable to industry peers, which in turn would further enhance the corporate profile of the Spin-off Group and the Remaining Group.

- Provide suitable financial incentives to key employees. A separate listing of CMI will enable it to offer listed securities to its key employees as part of their remuneration package. Competition for senior managers in the technology sector is intense. The ability by CMI to offer an attractive remuneration package to its key employees is important to its continued success.

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

ASSURED ENTITLEMENT

In accordance with the requirements of PN15, the Board proposes to give due regard to the interests of the Shareholders by providing qualifying Shareholders with an assured entitlement of a certain number of Distribution ADSs, each comprising a certain number of shares in CMI, by way of the Distribution in specie (subject to the consummation of the Proposed Spin-off and the satisfaction of applicable closing conditions). A non-qualifying Shareholder will not receive the Distribution ADSs, and subject to such non-qualifying Shareholder holding a minimum number of Shares (such number to be determined in due course by the Company) on the relevant record date, will instead receive cash in lieu of the relevant number of Distribution ADSs to which he would otherwise have been entitled.

Details of the terms of the Distribution in specie have not yet been finalised as at the date of this announcement. It is currently expected that a further announcement on the terms of the Offering and the Distribution in specie will be made by the Company on or about 28 April 2014.

Shareholders should note that the Distribution in specie is conditional upon completion of the Proposed Spin-off, which is itself conditional upon the satisfaction of certain conditions including, without limitation, market conditions, the NYSE granting approval for the listing of the ADSs and the conditions set forth in the section “The Proposed Spin-off — Conditions to the Offering” above. The Proposed Spin-off may or may not proceed. If the Proposed Spin-off does not proceed for any reason, the Distribution in specie will not be made.

LISTING RULES IMPLICATIONS

The Proposed Spin-off will result in a reduction of the percentage shareholding of the Company in CMI and constitute a deemed disposal on the part of the Company under Rule 14.29 of the Listing Rules. Since one of the relevant percentage ratios of the Proposed Spin-off exceeds 5% but is less than 25%, the Proposed Spin-off constitutes a discloseable transaction of the Company subject only to reporting and announcement requirements but exempt from shareholders’ approval requirement.

GENERAL

Shareholders should note that the Company may or may not proceed with the Proposed Spin-off. The Board wishes to emphasise that the Proposed Spin-off is conditional upon the satisfaction of certain conditions including, without limitation, market conditions and the NYSE granting approval for the listing of the ADSs. The Proposed Spin-off may or may not proceed. If the Proposed Spin-off does not proceed for any reason, the Distribution in specie will not be made. Shareholders and potential investors in the Company should

therefore exercise caution when dealing in or investing in the securities of the Company. Further announcement(s) will be made as and when appropriate in respect of any material developments relating to the Proposed Spin-off.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“ADS(s)”	American depositary shares to be issued pursuant to a deposit agreement between CMI and a depository, each representing 10 shares in CMI, which are expected to be listed on NYSE
“Board”	the board of Directors of the Company
“Class A Shares”	Class A ordinary shares of par value US\$0.000025 each in the capital of CMI (each Class A Share carries one vote)
“Class B Shares”	Class B ordinary shares of par value US\$0.000025 each in the capital of CMI (each Class B Share carries 10 votes)
“Company”	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands and registered in the Cayman Islands as an exempted limited liability company, the securities of which are listed on the Stock Exchange
“CMI”	Cheetah Mobile Inc., formerly known as Kingsoft Internet Software Holdings Limited, an exempted limited liability company incorporated in the Cayman Islands
“CMI Affiliates”	directors, officers, direct shareholders or holders of share-based awards of CMI
“Director(s)”	director(s) of the Company
“Distribution ADS(s)”	the ADSs to be distributed to qualifying Shareholders pursuant to the Distribution in specie
“Distribution in specie”	the proposed special dividend of the Company, to be satisfied by the distribution in specie of ADSs to qualifying Shareholders of the Company
“DTC”	The Depository Trust Company
“Form of Election”	the form of election to be completed by qualifying Shareholders pursuant to which each qualifying Shareholder may elect to receive Distribution ADSs or cash in lieu of all the Distribution ADSs to which they are entitled

“Group”	the Company and the subsidiaries of the Company from time to time that do not form part of the Spin-off Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Non-Qualifying Shareholders”	(a) Shareholder(s) whose name(s) appear(s) on the register of members of the Company as at the close of business on the Record Date but whose addresses as shown on the register of members are in places outside Hong Kong in respect of whom the Directors consider the exclusion from the Distribution in specie to be necessary or expedient on account of either the legal restrictions under the laws of the relevant place or the requirements of a relevant regulatory body or stock exchange in such place; or (b) without limitation to the generality of the foregoing, Shareholder(s) (including beneficial owners) who are located in the United States of America
“NYSE”	The New York Stock Exchange
“Offering”	the proposed initial public offering of ADSs in connection with the Proposed Spin-Off
“PN15”	Practice Note 15 of the Listing Rules
“PRC”	the People’s Republic of China
“Proposed Spin-off”	the proposed spin-off listing of the Group’s information security software business on NYSE involving the Offering and the proposed separate listing of the ADSs on NYSE
“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date other than (1) Shareholders who are, or who are acting for the account or benefit of, Non-Qualifying Shareholders and (2) CMI Affiliates
“Record Date”	16 May 2014
“Registration Statement”	the Registration Statement on Form F-1 filed by CMI with the SEC in connection with the Offering
“Remaining Group”	the Company and the subsidiaries of the Company from time to time that do not form part of the Spin-off Group

“RMB”	Renminbi, the lawful currency of the PRC
“SEC”	The Securities and Exchange Commission of the United States of America
“Share(s)”	ordinary share(s) of US\$0.0005 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Spin-off Group”	CMI and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

For illustrative purpose of this announcement, US\$1 = HK\$7.75, US\$1 = RMB6.15 and RMB1 = HK\$1.24.

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 28 April 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. Guangming George LU, David Yuen Kwan TANG, and Ms. Wenjie WU.