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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 ISSUE OF SERIES B PREFERRED SHARES BY KIS TO THE COMPANY AND TCH

On 23 June 2013, the Company, TCH, KIS Group and the Key Holders entered into the Share Purchase Agreement, pursuant to which KIS agreed to issue and the Company and TCH agreed to subscribe for Tranche A Series B Preferred Shares and Tranche B Series B Preferred Shares, respectively, for a consideration of US\$5,222,374 and US\$46,980,000, respectively. In addition, KIS granted to FaX (as one of the Key Holders) the Redeem Option to sell certain number of KIS Ordinary Shares held by it to KIS for an aggregate price of US\$9,306,270.46 within 24 months after Completion.

TCH is a subsidiary of Tencent Holdings Limited, the substantial shareholder of the Company, and a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The issue of Tranche B Series B Preferred Shares to TCH by KIS, an indirect subsidiary of the Company, constitutes a connected transaction of the Company. Further, as the shareholding held by the Company in KIS will be diluted upon Completion, such issue of Series B Preferred Shares will constitute a deemed disposal by the Company under the Listing Rules. As the highest applicable percentage ratio in respect of the issue of Tranche B Series B Preferred Shares is higher than 0.1% but less than 5%, such transaction is subject to the reporting and announcement requirements, but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As FaX is interested in more than 10% of KIS, FaX is also a connected person of the Company at the subsidiary level. Therefore, the Redeem Option granted to FaX by KIS also constitutes a connected transaction of the Company. As the highest applicable percentage ratio is less than 1%, the grant of the Redeem Option is exempt from all reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. BACKGROUND

On 23 June 2013, the Company, TCH, KIS Group and the Key Holders entered into the Share Purchase Agreement, pursuant to which KIS agreed to issue and the Company and TCH agreed to subscribe for Tranche A Series B Preferred Shares and Tranche B Series B Preferred Shares, respectively, for a consideration of US\$5,222,374 and US\$46,980,000, respectively. In addition, KIS granted to FaX (as one of the Key Holders) the Redeem Option to sell certain number of KIS Ordinary Shares held by it to KIS for an aggregate price of US\$9,306,270.46 within 24 months after Completion.

2. THE SHARE PURCHASE AGREEMENT

2.1 Date

23 June 2013

2.2 Parties

- KIS (as the issuer of Series B Preferred Shares) and other members of KIS Group
- the Company (as the subscriber of Tranche A Series B Preferred Shares)
- TCH (as the subscriber of Tranche B Series B Preferred Shares)
- Key Holders (as the grantee of the Redeem Option)

2.3 Subject Matter

KIS agreed to issue and TCH and the Company agreed to subscribe for Tranche A Series B Preferred Shares and Tranche B Series B Preferred Shares, respectively, at the same unit price per share.

As at the date of this announcement, KIS has no outstanding Series B Preferred Shares in issue. Tranche A Series B Preferred Shares and Tranche B Series B Preferred Shares will represent:

- 1) approximately 10% and 90% of the total Series B Preferred Shares of KIS in issue upon Completion, respectively; and
- 2) approximately 1% and 9% of the enlarged total issued shares of KIS upon Completion, respectively, on the assumption that all Preferred Shares are fully converted into KIS Ordinary Shares based on the initial conversion ratio of 1:1.

2.4 Consideration

The aggregate consideration is US\$52,202,374, including US\$5,222,374 (representing approximately 10% of the aggregate consideration) payable by the Company for Tranche A Series B Preferred Shares and US\$46,980,000 (representing approximately 90% of the aggregate consideration) payable by TCH for Tranche B Series B Preferred Shares.

2.5 Payment terms

The above consideration shall be settled in full at the date of Completion by wire transfer of immediately available funds to a bank account of KIS.

2.6 Conditions precedent

Conditions to the obligations of the Company and TCH

The obligations of the Company and TCH to subscribe, severally but not jointly, the Series B Preferred Shares at the Completion are subject to the fulfillment or waiver, on or prior to the Completion, among others, of the following conditions:

- (a) since the date of the Share Purchase Agreement, no material adverse change has occurred on KIS Group;
- (b) all authorizations, approvals, waivers or permits, if any, of any governmental authority or regulatory body of each applicable jurisdiction have been obtained by KIS Group;
- (c) the Restated M&A of KIS has been adopted by all necessary corporate action of the board and shareholders of KIS;
- (d) the Shareholders' Agreement shall have been duly executed and delivered by all parties other than the Company and TCH;
- (e) the approval in respect of the Share Purchase Agreement from each of the investment committee of the Company and TCH has been obtained;
- (f) the board of KIS shall be comprised of eight directors being appointed in accordance with the Restated M&A; and
- (g) other reasonable and customary conditions.

Conditions to the obligations of KIS

The obligations of KIS to issue the Series B Preferred Shares at the Completion are subject to the fulfillment or waiver, on or prior to the Completion, among others, of the following conditions:

- (a) all authorizations, approvals, or permits, if any, of any governmental authority or regulatory body of each applicable jurisdiction in connection with the lawful issuance of the Series B Preferred Shares have been obtained and effective as of the Completion; and
- (b) the Shareholders' Agreement shall have been duly executed and delivered by the Company and TCH.

2.7 Redeem Option

FaX was granted with the Redeem Option pursuant to which it has the right to sell certain number of KIS Ordinary Shares to KIS for an aggregate price of US\$9,306,270.46 within 24 months after Completion. All KIS Ordinary Shares to be redeemed by KIS in the aforementioned manner shall be de-registered and cancelled by KIS.

Such number of KIS Ordinary Shares that may be sold by FaX under the Redeem Option represents:

- 1) approximately 2.43% of the outstanding KIS Ordinary Shares in issue as at the date of this announcement; and
- 2) approximately 1.98% of the enlarged total issued shares of KIS upon Completion on the assumption that all Preferred Shares are fully converted into KIS Ordinary Shares based on the initial conversion ratio of 1:1.

3. Principal terms of the Series B Preferred Shares

According to the Restated M&A to be adopted by KIS before Completion, the principal terms of the Series B Preferred Shares are set out below:

Issue date: at the date of Completion

Liquidation Preference: In the event of a liquidation, dissolution or winding up of KIS, holders of the Series B Preferred Shares shall, on a *pari passu* basis in priority to holders of the KIS Ordinary Shares, the Series A Preferred Shares and any other class of shares, if any, be entitled to receive for each Series B Preferred Share, a preference amount equal to 100% of the issue price, plus any dividends declared and unpaid with respect thereto. If after paying such preference amount and any applicable preference amount on the Series A Preferred Shares, there remain funds and/or assets of KIS legally available for distribution to shareholders of KIS, such funds and/or assets shall be distributed among holders of the KIS Ordinary Shares on a pro rata basis and on the basis as if all the Preferred Shares were converted into KIS Ordinary Shares immediately before such distribution.

Conversion rights: Each Series B Preferred Share may be converted at any time at the option of the holder thereof into such number of KIS Ordinary Share(s) as may be obtained by dividing the issue price by the then applicable conversion price. The new KIS Ordinary Shares issued upon conversion of the Series B Preferred Shares shall rank *pari passu* in all respects with the existing KIS Ordinary Shares.

Conversion Price: The initial conversion price shall be equal to the issue price, resulting in an initial conversion ratio of 1:1 (i.e. one Series B Preferred Share convertible into one KIS Ordinary Share).

Anti-dilution adjustments: The Series B Preferred Shares shall have customary anti-dilution protection for events such as share splits, share dividends, combinations, re-capitalizations and distributions. The conversion price shall be adjusted proportionately in such events to prevent dilution.

In the event that KIS issues additional KIS Ordinary Shares or their equivalents (other than issuances of equity under the employee share award scheme, issuance of KIS Ordinary Shares upon conversion of existing Preferred Shares and other customary exceptions) at a purchase price less than the then applicable conversion price, the conversion price shall be adjusted on a weighted average basis.

Voting: Each holder of the Series B Preferred Shares shall be entitled to vote on all matters submitted to a vote of the shareholders and will be entitled to one vote for each KIS Ordinary Share such holder would obtain if the Series B Preferred Shares held thereby were converted into KIS Ordinary Shares.

4. Shareholding Structure of KIS

Assuming that there will be no further change in the shareholding structure of KIS, the shareholding structure of KIS (i) as at the date of this announcement, (ii) immediately after the Completion, and (iii) immediately after the full exercise of the Redeem Option by FaX:

Name of Shareholders	As at the date of this announcement <i>% of total issued shares*</i>	Immediately after the Completion <i>% of total issued shares*</i>	Immediately after the full exercise of the Redeem Option <i>% of total issued shares*</i>
KIS Ordinary Shares			
The Company	58.98%	53.09%	54.16%
FaX	14.96%	13.46%	11.72%
Reserved restricted shares under employee share award scheme	9.07%	8.16%	8.33%
Matrix Partners	6.35%	5.71%	5.83%
TCH	1.36%	1.22%	1.25%
Sub-total	90.72%	81.65%	81.28%
Series A Preferred Shares			
TCH	8.64%	7.77%	7.93%
Matrix Partners	0.65%	0.58%	0.60%
Sub-total	9.28%	8.36%	8.53%
Series B Preferred Shares			
The Company	0.00%	1.00%	1.02%
TCH	0.00%	9.00%	9.18%
Sub-total	0.00%	10.00%	10.20%
Total	100.00%	100.00%	100.00%

* Note: % of total issued shares is calculated on the assumption that all Series A Preferred Shares and Series B Preferred Shares are fully converted into KIS Ordinary Shares based on the initial conversion ratio of 1:1.

Pursuant to the Shareholders' Agreement, in case of an equality of votes at the board meeting of KIS, one of the directors appointed by the Company shall have a second or casting vote.

The transfer of Series B Preferred Shares by any of the Company or TCH will be subject to right of first refusal entitled to be exercised by eligible shareholders of KIS.

5. Financial Information on KIS Group

The book value of the net assets of KIS Group as at 31 December 2012 as shown in the unaudited accounts of KIS Group prepared under the International Financial Reporting Standards was approximately RMB191.88 million. The approximate net profits of KIS Group for each of the financial years ended 31 December 2011 and 2012 are set out as follows:

	Financial year	
	ended 31 December	
	2011	2012
	<i>(in RMB million)</i>	<i>(in RMB million)</i>
Net Profit (before tax and extraordinary items)	-21.97	36.73
Net Profit (after tax and extraordinary items)	-21.62	35.52

There is no original acquisition cost of Series B Preferred Shares as such shares are to be newly issued for the purpose of the Share Purchase Agreement.

According to the International Financial Reporting Standards 27 (Revised), a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such issue of Series B Preferred Shares will have no impact on goodwill, nor will it give rise to a gain or loss, and the Company will not record a gain or loss due to the Share Purchase Agreement. Upon Completion, KIS will continue to be a subsidiary of the Company.

6. Basis for Determining the Consideration

The aggregate consideration of US\$52,202,374 was determined after arm's length negotiations between the parties with reference to i) the business potentials of KIS Group; ii) other peer companies' fair value and iii) the book value of KIS Group. The Board (including the independent non-executive Directors) is of the opinion that the price offered is fair and reasonable, on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

7. Reasons for Entering into the Share Purchase Agreement

KIS Group is primarily engaged in the development and sale of Internet security software and antivirus software and is one of the leading developers and providers of Internet security and other value-added services in China. Tencent Holdings Limited, together with its subsidiaries, is one of the leading providers of comprehensive Internet services. It is principally engaged in the businesses of provision of value-added services, online advertising services and e-Commerce transactions services to its users. The Board is of the view that the investment in KIS Group by Tencent Holdings Limited represents an affirmative attitude of Tencent Holdings Limited in KIS Group's business, and in particular, the Internet security business. Having Tencent Holdings Limited as a substantial shareholder and an important business partner of KIS will expect to achieve mutual benefits through deepened and broadened cooperation in the provision of more convenient and reliable Internet security solutions to the users.

The proceeds from the issue of the Series B Preferred Shares, being an aggregate of US\$52,202,374, shall be used for the general working capital and other general corporate purposes for KIS Group.

The Directors (including the independent non-executive Directors) believe that the terms of the Share Purchase Agreement are fair and reasonable and in the interests of the shareholders of the Company as a whole.

8. Implications under the Listing Rules

TCH is a subsidiary of Tencent Holdings Limited, the substantial shareholder of the Company, and therefore a connected person of the Company pursuant to Chapter 14A of the Listing Rules. The issue of Tranche B Series B Preferred Shares to TCH by KIS, an indirect subsidiary of the Company, constitutes a connected transaction of the Company. Further, as the shareholding held by the Company in KIS will be diluted, on the enlarged and as-converted basis, by approximately 4.89% from approximately 58.98% to 54.09% upon Completion, such issue of Series B Preferred Shares will constitute a deemed disposal by the Company under the Listing Rules. As the highest applicable percentage ratio in respect of the issue of Tranche B Series B Preferred Shares is higher than 0.1% but less than 5%, such transaction is subject to the reporting and announcement requirements, but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As FaX is interested in more than 10% of issued shares of KIS, FaX is also a connected person of the Company at the subsidiary level. Therefore, the Redeem Option granted to FaX by KIS also constitutes a connected transaction of the Company. As the highest applicable percentage ratio is less than 1%, the grant of the Redeem Option is exempt from all reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Lau Chi Ping is the director of both the Company and Tencent Holdings Limited. Therefore, Mr. Lau Chi Ping has abstained from voting on the board resolution approving the Share Purchase Agreement. Save as disclosed above, none of our Directors has a material interest in the transaction, nor shall any of them abstains from voting on the board resolution.

9. 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.

TCH is a subsidiary of Tencent Holdings Limited. Tencent Holdings Limited, together with its subsidiaries, is one of the leading providers of comprehensive Internet services. It is principally engaged in the businesses of provision of value-added services, online advertising services and e-Commerce transactions services to its users.

KIS, a non wholly-owned subsidiary of the Company, together with other members of KIS Group, is mainly engaged in the development and sale of Internet security software and antivirus software.

FaX, is a holding company owned by Mr. FU Sheng and Mr. XU Ming. Aside from being an investment holding company holding 14.96% shareholding interest in KIS as at the date of this announcement, FaX does not have any other business activities.

10. Definitions

“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)
“Completion”	the closing of the issue and subscription of the Series B Preferred Shares in accordance to the terms of Share Purchase Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company, its subsidiaries and companies which are indirectly controlled by the Company
“FaX”	FaX Vision Corporation, a company incorporated under the laws of BVI, and controlled by Mr. FU Sheng and Mr. XU Ming
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Key Holders”	FaX, Mr. FU Sheng and Mr. XU Ming
“KIS”	Kingsoft Internet Security Software Holdings Limited, a company incorporated under the laws of the Cayman and a non-wholly owned subsidiary of the Company
“KIS Group”	KIS and its nine subsidiaries, namely Cheetah Technology Corporation Limited (previously known as Kingsoft Internet Security Software Corporation Limited), Conew.com Corporation, KS Mobile Inc., Zhuhai Juntian Electronic Technology Co., Ltd. (珠海君天電子科技有限公司), Conew Network Technology (Beijing) Co., Ltd. (可牛網絡技術(北京)有限公司), Beijing Kingsoft Internet Security Software Co., Ltd. (北京金山安全軟件有限公司), Shell Internet (Beijing) Security Technology Co., Ltd. (貝殼網際(北京)安全技術有限公司), Beijing Kingsoft Network Technology Co., Ltd. (北京金山網絡科技有限公司) and Beijing Conew Technology Development Co., Ltd. (北京可牛科技發展有限公司)
“KIS Ordinary Shares”	the ordinary shares of KIS with par value of US\$0.000025

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Matrix Partners”	the two exempted limited partnerships registered under the laws of Cayman, namely Matrix Partners China I, L.P. and Matrix Partners China I-A, L.P., being the existing holders of part of KIS Ordinary Shares and Series A Preferred Shares
“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
“Restated M&A”	the third amended and restated articles of association of KIS to be adopted by all necessary corporate action of the board and shareholders of KIS before Completion
“Preferred Shares”	Series A Preferred Shares and Series B Preferred Shares
“Redeem Option”	the redeem option granted under the Share Purchase Agreement to FaX to sell certain amount of KIS Ordinary Shares to KIS for an aggregate price of US\$9,306,270.46 within 24 months after the Completion
“Series A Preferred Shares”	series A preferred shares of KIS with par value of US\$0.000025 which are convertible into KIS Ordinary Shares at the initial and current conversion ratio of 1:1 as at the date of this announcement
“Series B Preferred Shares”	series B preferred shares of KIS with par value of US\$0.000025 to be issued pursuant to the Share Purchase Agreement which are convertible into KIS Ordinary Shares at the initial conversion ratio of 1:1
“Share Purchase Agreement”	the share purchase agreement dated 23 June 2013 entered into between KIS Group, the Company, TCH and Key Holders in connection with the issue by KIS and the subscription by the Company and TCH of Series B Preferred Shares
“Shareholders’ Agreement”	the second amended and restated shareholders’ agreement to be entered into among KIS Group, Key Holders, the Company, TCH and Matrix Partners on or before the date of Completion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TCH”	TCH Copper Limited, and a subsidiary of Tencent Holdings Limited, the substantial shareholder of the Company

“Tranche A Series B Preferred Shares”	such number of Series B Preferred Shares to be subscribed for by the Company, representing: (1) 10% of the total Series B Preferred Shares of KIS in issue upon Completion; and (2) approximately 1% of the enlarged total issued shares of KIS upon Completion on the assumption that all Preferred Shares are fully converted into KIS Ordinary Shares based on the initial conversion ratio of 1:1
“Tranche B Series B Preferred Shares”	such number of Series B Preferred Shares to be subscribed for by TCH, representing: (1) 90% of the total Series B Preferred Shares of KIS in issue upon Completion; and (2) approximately 9% of the enlarged total issued shares of KIS upon Completion on the assumption that all Preferred Shares are fully converted into KIS Ordinary Shares based on the initial conversion ratio of 1:1
“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

Hong Kong, 23 June 2013

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.

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.