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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

Deemed Disposal of Kingsoft Cloud Shares to Xiaomi

Background

On 30 November 2012, the Company, Kingsoft Cloud Group, KSC and KSC Shareholders entered into the Share Purchase Agreement with Xiaomi, whereby Kingsoft Cloud will issue and sell to Xiaomi an aggregate of 91,000,000 Kingsoft Cloud Shares at a price of US\$0.02 per share for an aggregate consideration of US\$1.82 million.

Implications under the Listing Rules

Mr. Jun LEI is a Director and a substantial shareholder of the Company. Mr Jun LEI and his associates are therefore connected persons of the Company pursuant to Chapter 14A of the Listing Rules. As Xiaomi is an associate of Mr. Jun LEI, Xiaomi is a connected person of the Company. As a result, transaction contemplated under the Share Purchase Agreement between the Company and Xiaomi constitutes connected transaction of the Company.

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the Share Purchase Agreement exceed 0.1% but is less than 5%, the transaction contemplated under the Share Purchase Agreement constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules, and is subject to reporting and announcement requirements, but exempted from the independent shareholders' approval requirement.

1. Background

On 30 November 2012, the Company, Kingsoft Cloud Group, KSC and KSC Shareholders entered into the Share Purchase Agreement with Xiaomi, whereby Kingsoft Cloud will issue and sell to Xiaomi an aggregate of 91,000,000 Kingsoft Cloud Shares at a price of US\$0.02 per share for an aggregate consideration of US\$1.82 million.

2. Details of the Share Purchase Agreement

Date : 30 November 2012

Parties :

- Kingsoft Cloud
- Kingsoft Cloud Corporation
- Cloud Technology
- Zhuhai Cloud Technology
- Cloud Internet
- The Company
- Xiaomi
- KSC
- KSC Shareholders

Subject matter : Xiaomi agrees to purchase and Kingsoft Cloud agrees to issue and sell 91,000,000 Kingsoft Cloud Shares at a price of US\$0.02 per share

Consideration : The total consideration of the 91,000,000 Kingsoft Cloud Shares is US\$1.82 million

Payment terms : The Consideration shall be fully paid at the date of Completion by wire transfer of immediately available funds to an account designated by Kingsoft Cloud

Completion : The completion of the Share Purchase Agreement shall take place as soon as practical after fulfilment or waiver of the conditions precedent or on a date that Kingsoft Cloud, KSC, the Company and Xiaomi shall mutually agree

Deliverables : Kingsoft Cloud shall deliver to Xiaomi, aside from items listed under conditions precedent, a certificate representing the purchased Kingsoft Cloud Shares against payment of the consideration; and

Xiaomi shall deliver to Kingsoft Cloud, aside from items listed under conditions precedent, the consideration funds in US\$ or other currency acceptable to Kingsoft Cloud to an account designated by Kingsoft Cloud

Proceeds from the sale of Kingsoft Cloud Shares will be utilized by Kingsoft Cloud Group for the development of the principal business or for the capital expenditures and general working capital of Kingsoft Cloud Group or the other purposes as approved by the board of Kingsoft Cloud.

Conditions Precedent to the Share Purchase Agreement

Conditions precedent to Xiaomi's obligations at Completion

The obligation of Xiaomi to purchase the Kingsoft Cloud Shares at the Completion is subject to the fulfilment or waiver, on or prior to the Completion, of the following conditions:

- (i) all representations and warranties remain true and correct;
- (ii) all agreements and obligations have been performed and complied;
- (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 Cloud (the "Restated Articles") being adopted by Kingsoft Cloud by all necessary corporate action of its board and shareholders;
- (vi) a shareholders agreement shall have been duly executed and delivered by the Kingsoft Cloud and all other parties of the Share Purchase Agreement; and
- (vii) no material adverse change since the date of the Share Purchase Agreement.

Conditions precedent to Kingsoft Cloud's obligations at the Completion

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

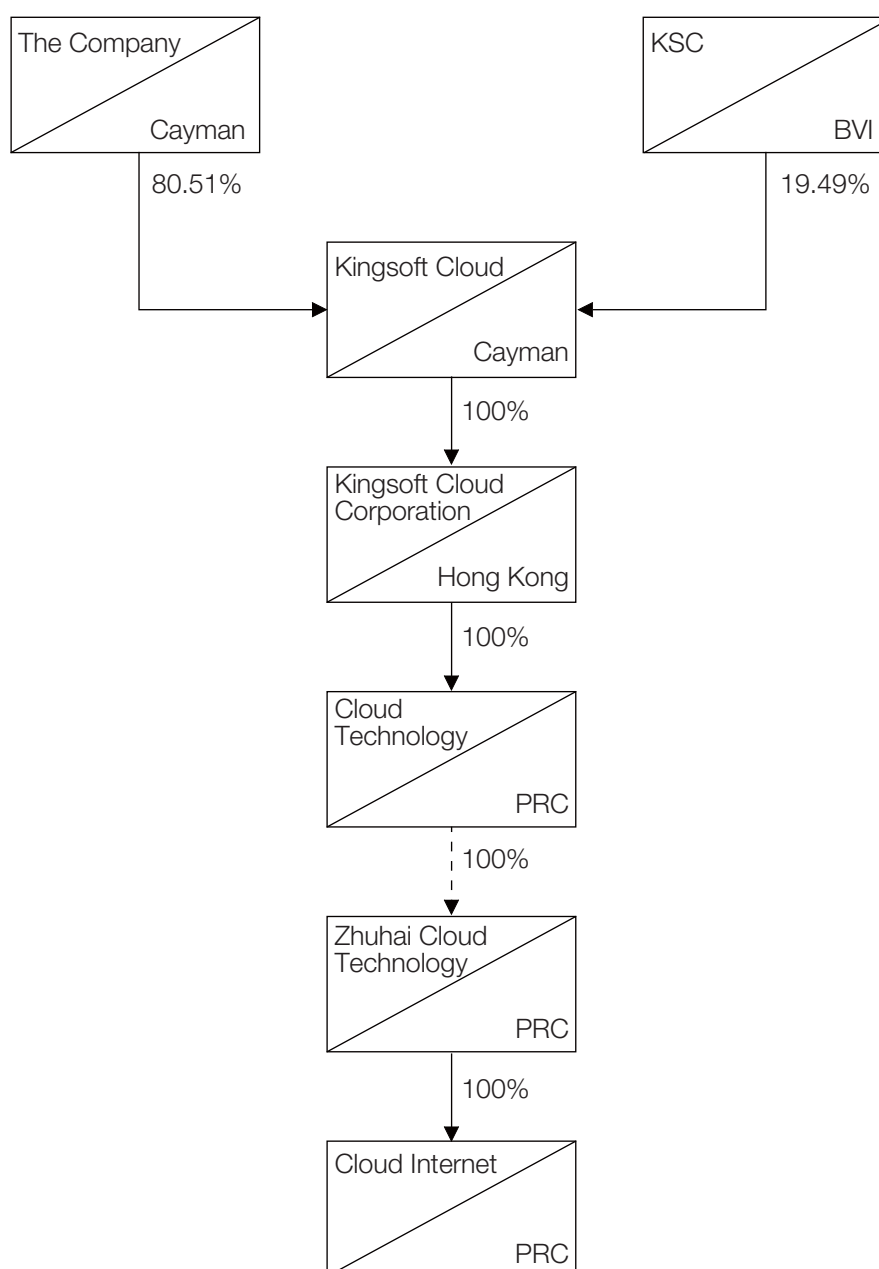
- (i) all representations and warranties remain true and correct;
- (ii) all agreements and obligations have been performed and complied;
- (iii) all proceedings and documents in connection with the transaction are completed;
- (iv) all authorizations, approvals, consents, waivers or permits, if any, of any governmental authority or regulatory body of each applicable jurisdiction have been obtained; and
- (v) a shareholders agreement shall have been duly executed and delivered by Xiaomi.

3. Organisation structure

Upon completion of the deemed disposal of the Kingsoft Cloud Shares, Kingsoft Cloud will still remain as a non-wholly owned subsidiary of the Company and the financial information of Kingsoft Cloud Group will still be consolidated into the Group's accounts.

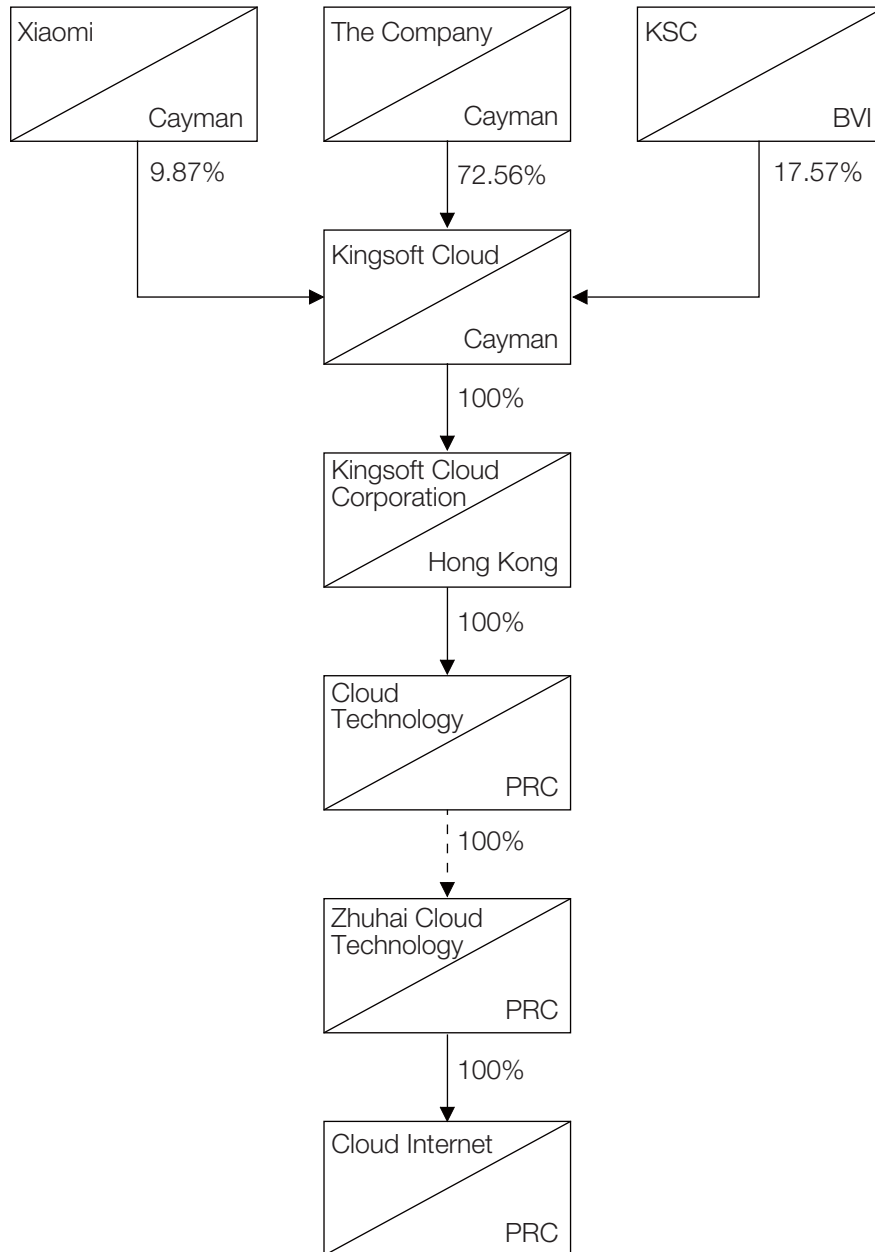
The following diagrams outline the Company and its interest in its relevant subsidiaries before and after the completion of the deemed disposal of Kingsoft Cloud Shares under the Share Purchase Agreement:

Organisation structure immediately before the completion of the deemed disposal of Kingsoft Cloud Shares to Xiaomi



Legend: - - - -> Controlled by the Company by way of structured contracts

Organisation structure immediately after the completion of the deemed disposal of Kingsoft Cloud Shares to Xiaomi



Legend: - - - -> Controlled by the Company by way of structured contracts

Kingsoft Cloud holds 100% shareholding interest in Kingsoft Cloud Corporation. Aside from holding the shareholding interest in Kingsoft Cloud Corporation, Kingsoft Cloud does not have any other business activities.

Kingsoft Cloud Corporation holds 100% shareholding interest in Cloud Technology. Aside from holding the shareholding interest in Cloud Technology, Kingsoft Cloud Corporation does not have any other business activities.

Cloud Technology controls Zhuhai Cloud Technology by way of structured contracts. Aside from controlling the shareholding interest in Zhuhai Cloud Technology, Cloud Technology is also engaged in the development of software relating to cloud computing and storage.

Zhuhai Cloud Technology holds 100% shareholding interest in Cloud Internet. Aside from holding the shareholding interest in Cloud Internet, Zhuhai Cloud Technology is also engaged in the development and operation of software relating to cloud computing and storage.

Cloud Internet, a wholly-owned subsidiary of Zhuhai Cloud Technology, is engaged in the development of technologies, software and services relating to cloud computing, the development of technologies, software and services relating to cloud storage and the development of value-added services and software based on cloud computing.

KSC is a company wholly-owned by KSC Shareholders. Aside from holding the 19.49% shareholding interest in Kingsoft Cloud, KSC does not have any other business activities.

Xiaomi, an associate of Mr. Jun LEI and together with its subsidiaries, is mainly engaged in the provision of manufacturing and supplying smartphones to users in PRC.

4. Financial information of Kingsoft Cloud Group

The unaudited combined management accounts of Kingsoft Cloud Group were prepared under the PRC generally accepted accounting principle.

The net assets value of Kingsoft Cloud Group based on the unaudited combined management accounts are as follows:

	As at 31 December 2010 (RMB'000)	As at 31 December 2011 (RMB'000)	As at 30 September 2012 (RMB'000)
Net assets/(liabilities)	95.3	(456.6)	14,433.9

The net losses of Kingsoft Cloud Group based on the unaudited consolidated management accounts are as follows:

	For the year ended 31 December 2010 (RMB'000)	For the year ended 31 December 2011 (RMB'000)	For the nine months ended 30 September 2012 (RMB'000)
Net losses before tax	(1.8)	(1,552.5)	(18,882.4)
Net losses after tax	(1.8)	(1,552.5)	(18,882.4)

There is no original acquisition cost of Kingsoft Cloud Shares as such shares were newly issued for the purpose of the Share Purchase Agreement.

According to the International Accounting 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 deemed disposal 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.

5. Basis for Determining the Share Purchase Agreement

The Board (including the independent non-executive Directors), having considered (i) the book value of Kingsoft Cloud Group, and (ii) the potential of the business of Kingsoft Cloud Group, is of the opinion that the price offered to Xiaomi to acquire Kingsoft Cloud Shares 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 Share Purchase Agreement

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 the having Xiaomi as an investor and business partner of Kingsoft Cloud Group will strengthen 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 opinion 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.

7. Implications under the Listing Rules

Mr. Jun LEI is a Director and a substantial shareholder of the Company. Mr Jun LEI and his associates are therefore connected persons of the Company pursuant to Chapter 14A of the Listing Rules. As Xiaomi is an associate of Mr. Jun LEI, Xiaomi is a connected person of the Company. As a result, transaction contemplated under the Share Purchase Agreement between the Company and Xiaomi constitutes connected transaction of the Company.

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Mr. Jun LEI, who has an interest in Xiaomi, has abstained from voting on the Board resolution approving the Share Purchase 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
“Cloud Internet”	北京金山雲網絡技術有限公司 (Beijing Jinshanyun Internet Technology Co., Ltd.), a subsidiary of Zhuhai Cloud Technology that is incorporated under the laws of the PRC
“Cloud Technology”	北京金山雲科技有限公司 (Beijing Jinshanyun Technology Co., Ltd.), a wholly foreign owned enterprise and a subsidiary of Kingsoft Cloud Corporation that is incorporated under the laws of the PRC
“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 completion of the sale of the Kingsoft Cloud Shares to Xiaomi 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
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Kingsoft Cloud Corporation”	Kingsoft Cloud Corporation Limited, a subsidiary of Kingsoft Cloud that is incorporated under the laws of the Hong Kong
“Kingsoft Cloud Group”	Kingsoft Cloud, and its subsidiaries and companies that are indirectly controlled by Kingsoft Cloud
“Kingsoft Cloud”	Kingsoft Cloud Holdings Limited, a non-wholly owned subsidiary of the Company that is incorporated under the laws of Cayman
“Kingsoft Cloud Share(s)”	share(s) in the capital of Kingsoft Cloud
“KSC”	KSC Partner Holdings Limited, a limited liability company that is incorporated under the laws of BVI
“KSC Shareholders”	the 19 employees of the Group, who are equity holders of KSC
“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
“Share(s)”	share(s) of US\$0.0005 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of the Shares
“Share Purchase Agreement”	the share purchase agreement dated 30 November 2012 entered into between Xiaomi, the Company, Kingsoft Cloud Group, KSC and KSC Shareholders for the subscription of 91,000,000 Kingsoft Cloud Shares by Xiaomi

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhuhai Cloud Technology”	珠海金山雲科技有限公司 (Zhuhai Jinshanyun Technology Co., Ltd.), a company that is incorporated under the laws of the PRC and controlled by the Company by way of structured contracts
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Xiaomi”	Xiaomi Corporation, a limited liability company that is incorporated under the laws of Cayman
“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

Hong Kong, 30 November 2012

As at the date of this announcement, the executive Directors are Messrs. HongJiang ZHANG 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. To Thomas HUI, 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.