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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)

**MAJOR AND CONNECTED TRANSACTION:
PROPOSED DELEGATION OF
VOTING RIGHTS IN CHEETAH; AND
POSSIBLE INVESTMENT OF ROBOTICS BUSINESS**

THE PROPOSED DELEGATION

The Board hereby announces that on 12 February 2017, the Company entered into the Voting Proxy Agreement with Mr. FU, the chief executive officer and director of Cheetah, to delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah to Mr. FU (as the representative of the management of Cheetah), subject to certain conditions.

As at the date of this announcement, the Company holds approximately 62.84% voting power and 47.15% equity interest in Cheetah, and Cheetah is a subsidiary of the Company. Upon Completion, assuming that there is no other change in the shareholding structure of Cheetah from the date of this announcement to the Completion, the Company will be deemed to hold 25.03% voting power and 47.15% equity interest in Cheetah. As such, Cheetah will cease to be accounted for as a subsidiary of the Company and its operating results will no longer be consolidated in the financial statements of the Company. The Company will account for its interest in Cheetah as an interest in an associate.

LISTING RULES IMPLICATIONS

The Proposed Delegation constitutes a deemed disposal of the Company. As one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Proposed Delegation exceeds 25% and is less than 75%, the Proposed Delegation constitutes a major transaction of the Company and is subject to notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As Mr. FU is a connected person of the Company by virtue of being the director and chief executive officer of Cheetah. The Proposed Delegation also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As at the date of this announcement, Mr. FU can exercise the voting right in respect of 141,000 Shares at the Company's general meeting, representing 0.01% equity interest in the Company. In view of his interest in the Proposed Delegation, Mr. FU will abstain from voting in favour of the resolution approving the Proposed Delegation.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no other Shareholder or any of their respective associates have material interest in the Proposed Delegation, thus no other Shareholder is required to abstain from voting in favour of the resolution approving the Proposed Delegation.

A circular containing, among other matters, (i) details of the Proposed Delegation; (ii) the recommendation from the Independent Board Committee; (iii) the advise of the Independent Financial Adviser to the Independent Board Committee and the Shareholders; and (iv) a notice of an extraordinary general meeting to approve the Proposed Delegation, is expected to be despatched to the Shareholders by the end of March 2017 in order to allow sufficient time for the Company to prepare the necessary information to be included in the circular.

THE POSSIBLE INVESTMENT

Currently, Mr. FU has certain interests in a robotics business. Cheetah and Mr. FU are in the course of commercial negotiation for Cheetah to make investment in such robotics business. As at the date of this announcement, the terms of the Possible Investment have not been finalized. The Company will comply with the applicable requirements of the Listing Rules when Cheetah and Mr. FU enter into the definitive agreement in relation to the Possible Investment. The Voting Proxy Agreement will become effective subject to the signing of the definitive agreement in relation to the Possible Investment. Further details of the Possible Investment will be provided in the circular to be despatched in connection with the Proposed Delegation.

A. THE VOTING PROXY AGREEMENT

The Board hereby announces that on 12 February 2017, the Company entered into the Voting Proxy Agreement with Mr. FU, the chief executive officer and director of Cheetah, to delegate the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah to Mr. FU (as the representative of the management of Cheetah), subject to certain conditions. The principle terms of the Voting Proxy Agreement are summarized as follows:

Date: 12 February 2017

Parties: (i) the Company; and

(ii) Mr. FU

Delegated Voting Rights: the voting rights attached to not more than 399,445,025 class B ordinary shares of Cheetah

Consideration and conditions: (i) Mr. FU will not participate or have any direct investment in any business which may compete with the principal businesses of Cheetah Group and the Group; and

- (ii) Mr. FU will use his best endeavour to procure that the core management team of Cheetah Group will remain stable. ((i) and (ii), collectively “**Undertakings**”)

The consideration and conditions for the Proposed Delegation were determined after arm’s length negotiations between the Company and Mr. FU, taking into account the factors set out in the section “Reasons for and benefits of the Proposed Delegation” in this announcement.

Revocation: In the event that Mr. FU becomes in breach of the Undertakings, the Company has the right to revoke the Proposed Delegation by way of prior written notice, and the Voting Proxy Agreement will be terminated as such.

The Company will comply with the applicable requirements of the Listing Rules if the Board decides to or not to revoke the Proposed Delegation pursuant to the Voting Proxy Agreement.

Disposal Restriction: In the event that the Company proposes to dispose of its shares in Cheetah, the Company agrees that it will dispose of its other shares in Cheetah (excluding the Delegated Shares) first. For the avoidance of doubt, the Voting Proxy Agreement does not restrict the Company from further disposing of the Delegated Shares after it has disposed of all its remaining shares in Cheetah. If a part of the Delegated Shares are disposed by the Company, the actual voting power delegated to Mr. FU under the Voting Proxy Agreement will decrease accordingly. If all Delegated Shares are disposed by the Company, the voting power delegated to Mr. Fu under the Voting Proxy Agreement will decrease to naught.

Board Composition: To improve Cheetah’s management efficiency, the parties agree to change the composition of the board of Cheetah following completion of the Proposed Delegation and the Tencent Delegation as follows: three directors from Cheetah’s management, one director designated by the Company, one director designated by Tencent and six independent directors.

Conditions precedent The Voting Proxy Agreement will become effective subject to the fulfilment of the following conditions precedent:

- (i) the Shareholders’ approval in relation to the Proposed Delegation; and
- (ii) the signing of the definitive agreement in relation to the Possible Investment between Cheetah and Mr. FU.

Save for the voting power attached to the Delegated Shares subject to the Voting Proxy Agreement, no other rights (including the rights to dividends and other economic benefits attached to the Delegated Shares) attached to the equity interest currently held by the Company in Cheetah will be disposed of pursuant to the Voting Proxy Agreement.

Save as disclosed above, the Company has no present intention to further dispose of or delegate the voting rights attached to the shares in Cheetah.

B. INFORMATION OF CHEETAH GROUP

Cheetah is a non-wholly-owned subsidiary of the Company, whose American depositary shares, each representing 10 class A ordinary shares in Cheetah, have been listed on the New York Stock Exchange in the United States of America since May 2014.

Cheetah Group primarily engages in research, development and operation of information security software, internet browser, mission critical mobile applications, and provision of online marketing services and internet value-added services across devices.

A summary of the audited consolidated financial results of Cheetah Group for the two years ended 31 December 2015 is as follows:

	Year ended 31 December	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	231,375	90,904
Profit after tax	171,278	66,911

The audited consolidated total assets and net assets of Cheetah as at 31 December 2015 amounted to approximately RMB4,942.649 million and RMB3,048.13 million, respectively.

The above financial information is extracted from the annual reports of Cheetah, which was prepared under US Generally Accepted Accounting Principles.

C. FINANCIAL EFFECTS OF THE PROPOSED DELEGATION

As at the date of this announcement, the Company holds approximately 62.84% voting power and 47.15% equity interest in Cheetah, and Cheetah is a subsidiary of the Company. Upon Completion, assuming that there is no other change in the shareholding structure of Cheetah from the date of this announcement to the Completion, the Company will be deemed to hold 25.03% voting power and 47.15% equity interest in Cheetah. As such, Cheetah will cease to be accounted for as a subsidiary of the Company and its operating results will no longer be consolidated in the financial statements of the Company.

The Company will account for its interest in Cheetah Group as an interest in an associate under the equity-method, i.e. the Company will record 47.15% share of profit and loss of Cheetah Group in its consolidated income statement, and will accordingly increase or decrease its investment in Cheetah Group on its consolidated balance sheet. On the aforesaid basis, the equity attributable to owners under such equity-method will be consistent with what the Company would account for should Cheetah Group continue to be consolidated in the financial statements of the Company as subsidiaries of the Company.

The Company will not receive any cash inflow as a result of the Proposed Delegation. However, a gain or loss may be recognized in connection of the deemed disposal of a subsidiary in the consolidated income statement of the Company. Further information concerning the effect of the Proposed Delegation on the earnings, assets and liabilities of the Company will be disclosed in the circular to be despatched to the Shareholders in compliance with the requirements of the Listing Rules.

D. REASONS FOR AND BENEFITS OF THE PROPOSED DELEGATION

Mr. FU joined the Group as the CEO and director of Cheetah Group in November 2010. Since then, Mr. FU has been responsible for the daily operation and overall management of Cheetah Group. Under the six-year leadership of Mr. FU, Cheetah Group has been operating successfully and developing fast. The Company believes that the future success of Cheetah Group depends substantially on the continued efforts of its management team and key employees, in particular, Mr. FU. Cheetah Group will maintain strong growth momentum to achieve new highs in the future under the management of Mr. FU and the management team of Cheetah.

The Group (excluding Cheetah Group) and Cheetah Group are leading PRC internet companies, whose businesses all require the management and operation led by the management team with professional knowledge and rich experiences. After years of business development, the Group (excluding Cheetah Group) and Cheetah Group have been exploring their respective future business development strategies. It is desirable for Cheetah Group, being a fast growing and expanding business, to develop its business and to formulate its business strategies more freely. After due deliberation, the Directors decided to delegate part of the voting power in Cheetah to Mr. FU (as the representative of the management of Cheetah) through the Voting Proxy Agreement to allow Cheetah's core management team represented by Mr. FU to have more independency and flexibilities in the business development of Cheetah Group through holding over 45% voting power in the general meeting of Cheetah upon Completion. Mr. FU will exercise such voting power in accordance with the applicable laws and regulations. Meanwhile, Mr. FU has provided the Undertakings in favour of the Group. Mr. FU, being the leader of the core management of Cheetah, will continue to remain in Cheetah Group. Further, Mr. FU will not participate or have any direct investment in any business which may compete with the principal business of the Company. As such, the Undertakings will ensure the stability of Cheetah's core management team and the contribution of Mr. FU to Cheetah Group.

Following Completion, Mr. FU and the management team of Cheetah will control the exercise of over 45% voting power in Cheetah and will be able to exercise positive and effective control over the general meeting in Cheetah, thus allowing him and the management team of Cheetah to assert greater influence over the operation and management of Cheetah Group.

With confidence in Mr. FU's leadership, the Company believes that the Proposed Delegation will facilitate the operation and management of Cheetah Group, which in turn will, through the Company's shareholding in Cheetah, bring long-term shareholder value to the Company and the Shareholders.

On the other hand, the Group (excluding Cheetah Group) will continue to concentrate on its remaining business, primarily including (i) research and development of games, and provision of online games, mobile games and casual game services; and (ii) research, development and distribution of office application software, provision of cloud storage, cloud computation and dictionary services across devices, and provision of online marketing services. In particular, the Group (excluding Cheetah Group) has been implementing the "All-in Cloud" strategies and making heavy investments in cloud storage and computing services during the past few years. Upon Completion, under the leadership of the management team of the Company led by Mr. Tao ZOU (the CEO appointed in December 2016), the Company will be able to allocate more resources and focus on the cloud business.

Furthermore, the Proposed Delegation will not give rise to any decrease in the Company's equity interest in Cheetah Group, and accordingly the Company will continue to enjoy 47.15% of the economic benefit (such as dividend income and capital gains in the future) derived from Cheetah Group.

The Directors consider that the terms of the Voting Proxy Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

E. LISTING RULES IMPLICATIONS

The Proposed Delegation constitutes a deemed disposal of the Company. As one or more of the applicable percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) in relation to the Proposed Delegation exceeds 25% and is less than 75%, the Proposed Delegation constitutes a major transaction of the Company and is subject to notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As Mr. FU is a connected person of the Company by virtue of holding more than 10% voting power in Cheetah and being the director and chief executive officer of Cheetah. The Proposed Delegation also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As at the date of this announcement, Mr. FU can exercise the voting right in respect of 141,000 Shares at the Company's general meeting, representing 0.01% equity interest in the Company. In view of his interest in the Proposed Delegation, Mr. FU will abstain from voting in favour of the resolution approving the Proposed Delegation.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no other Shareholder or any of their respective associates have material interest in the Proposed Delegation, thus no other Shareholder is required to abstain from voting in favour of the resolution approving the Proposed Delegation.

A circular containing, among other matters, (i) details of the Proposed Delegation; (ii) the recommendation from the Independent Board Committee; (iii) the advise of the Independent Financial Adviser to the Independent Board Committee and the Shareholders; and (iv) a notice of an extraordinary general meeting to approve the Proposed Delegation, is expected to be despatched to the Shareholders by the end of March 2017 in order to allow sufficient time for the Company to prepare the necessary information to be included in the circular.

F. THE TENCENT DELEGATION

So far as the Company is aware, Tencent, the other substantial shareholder of Cheetah, also supports Mr. FU's management in Cheetah. As informed by Tencent, Tencent will separately enter into a voting proxy agreement with Mr. FU, pursuant to which Tencent agreed to delegate its voting right of not more than 47,952,102 class B ordinary shares of Cheetah to Mr. FU in consideration that (i) Mr. FU will not participate or have any direct investment in any business which may compete with the principal businesses of Cheetah Group; and (ii) Mr. FU will use his best endeavour to procure that the core management team of Cheetah Group will remain stable. The Tencent Delegation and the Proposed Delegation are independent of each other and are not inter-conditional.

G. THE POSSIBLE INVESTMENT

Currently, Mr. FU has certain interests in a robotics business. To focus more on the management and operation of Cheetah Group, Mr. FU has agreed to transfer his interests in the robotics business to Cheetah. Cheetah and Mr. FU are in the course of commercial negotiation for Cheetah to make investment in such robotics business. As at the date of this announcement, the terms of the Possible Investment have not been finalized. The Company will comply with the applicable requirements of the Listing Rules when Cheetah and Mr. FU enter into the definitive agreement in relation to the Possible Investment. Further details of the Possible Investment will be provided in the circular to be despatched in connection with the Proposed Delegation.

H. GENERAL INFORMATION

The Group

The Group is a leading internet based software developer, distributor and service provider and principally engaged in research, development and operation of on-line games and office application software, information security software, internet browser, mission critical mobile applications, and provision of cloud storage, cloud computation, on-line marketing services and internet value-added services across device.

Mr. FU

Mr. FU is the chief executive officer and director of Cheetah Group. He has been responsible for the daily operation and overall management of Cheetah Group since he joined the Group in November 2010.

I. DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the meanings as set out below:

“Board”	the board of Directors
“Cheetah”	Cheetah Mobile Inc., a non-wholly-owned subsidiary of the Company whose shares are listed on the New York Stock Exchange
“Cheetah Group”	Cheetah and its subsidiaries
“Company”	Kingsoft Corporation Limited, an exempted limited liability company incorporated in the British Virgin Islands on 20 March 1998 and discontinued in the British Virgin Islands and continued into the Cayman Islands on 15 November 2005, with its shares listed on the Hong Kong Stock Exchange
“Completion”	completion of the Proposed Delegation pursuant to the Voting Proxy Agreement
“connected person”	has the meaning as ascribed thereto in the Listing Rules
“Delegated Shares”	not more than 399,445,025 class B ordinary shares of Cheetah (subject to adjustment under the Voting Proxy Agreement), the voting power of which is proposed to be delegated to Mr. FU by the Company
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors formed by the Company to advise the Shareholders in respect of the Proposed Delegation
“Independent Financial Adviser”	an independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Shareholders in respect of the Proposed Delegation
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange

“Mr. FU”	Mr. FU Sheng, the chief executive officer and director of Cheetah
“Possible Investment”	the possible investment by Cheetah Group in the robotics business that Mr. FU has interest in
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Delegation”	the conditional delegation by the Company of part of its voting rights in Cheetah to Mr. FU pursuant to the Voting Proxy Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the issued ordinary share(s) of the Company
“subsidiary”	has the meaning as ascribed thereto in the Listing Rules
“Tencent”	Tencent Holdings Limited, a limited liability company organized and existing under the laws of the Cayman Islands and the shares of which are listed on the Hong Kong Stock Exchange and a substantial shareholder of Cheetah
“Tencent Delegation”	the delegation of the voting power of not more than 47,952,102 class B ordinary shares in Cheetah by Tencent to Mr. FU
“Voting Proxy Agreement”	the voting proxy agreement entered into between the Company and Mr. FU on 12 February 2017, pursuant to which the Company agreed to delegate part of its voting rights in Cheetah to Mr. FU subject to certain conditions
“%”	percent

By Order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 12 February 2017

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.