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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Kingsoft Corporation Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**(1) CONTINUING CONNECTED TRANSACTIONS
BETWEEN THE GROUP AND XIAOMI GROUP:
PROVISION OF CLOUD SERVICES, PROMOTION SERVICES,
MAILBOX CUSTOMIZED DEVELOPMENT SERVICES,
AND ADVERTISING AGENCY SERVICES BY THE GROUP;
PROVISION OF PRODUCTS BY XIAOMI GROUP; AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders
with respect to the Non-exempt Transactions**



A letter from the Board is set out on pages 3 to 14 of this circular and a letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on page 15 of this circular. A letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 27 of this circular.

A notice convening the EGM of the Company to be held at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC on Friday, 20 December 2019 at 11:30 a.m. is set out on pages 34 to 35 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting (as the case may be) should you so wish.

Hong Kong, 5 December 2019

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“associate”	has the meaning as ascribed thereto in the Listing Rules
“Board”	the board of the Directors
“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 Stock Exchange
“connected person”	has the meaning as ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC on Friday, 20 December 2019 at 11:30 a.m.
“Framework Agreement”	the agreement entered into between the Company and Xiaomi on 2 December 2019, 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 the advertising agency services; (ii) the Group will jointly operate games provided by the Group with Xiaomi Group; (iii) the Group will provide hardware products 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 (please refer to the announcement of the Company dated 2 December 2019 for details)
“Group”	the Company and its subsidiaries, together with their associates
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors formed by the Company to advise the Independent Shareholders in respect of the Non-exempt Transactions and the Proposed Annual Caps
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, acting as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions and their respective Proposed Annual Caps
“Independent Shareholders”	the shareholders of the Company who are not required to abstain from voting in respect of the Non-exempt Transactions and their respective Proposed Annual Caps

DEFINITIONS

“Latest Practicable Date”	3 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Non-exempt Transactions”	the non-exempt transactions between the Group and Xiaomi Group under the Framework Agreement which are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to the Listing Rules, namely the provision of cloud services, promotion services, mailbox customized development services and advertising agency services by the Group to Xiaomi Group and the provision of products by Xiaomi Group to the Group
“PRC” or “China”	the People’s Republic of China which, for the purpose of this circular only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Proposed Annual Caps”	the respective proposed annual caps for the three years ending 31 December 2022 in respect of the fees payable by Xiaomi Group or the Group for the Non-exempt Transactions
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning as ascribed thereto in the Listing Rules
“substantial shareholder(s)”	has the meaning as ascribed thereto in the Listing Rules
“Xiaomi”	Xiaomi Corporation, a limited liability company registered in the Cayman Islands and listed on the Stock Exchange (stock code: 1810)
“Xiaomi Group”	Xiaomi Corporation (stock code: 1810) and its subsidiaries, together with their associates
“%”	percent



Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

Directors:

Executive Directors

Mr. Tao ZOU
Mr. Yuk Keung NG

Non-executive Directors

Mr. Jun LEI (*Chairman*)
Mr. Pak Kwan KAU
Mr. Chi Ping LAU

Independent Non-executive Directors

Mr. Shun Tak WONG
Mr. David Yuen Kwan TANG
Ms. Wenjie WU

Registered Office

PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Principal Place of Business

in Hong Kong
Unit 1309A, 13/F
Cable TV Tower
No. 9 Hoi Shing Road
Tsuen Wan, N.T.
Hong Kong

Hong Kong, 5 December 2019

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
BETWEEN THE GROUP AND XIAOMI GROUP:
PROVISION OF CLOUD SERVICES, PROMOTION SERVICES,
MAILBOX CUSTOMIZED DEVELOPMENT SERVICES,
AND ADVERTISING AGENCY SERVICES BY THE GROUP;
PROVISION OF PRODUCTS BY XIAOMI GROUP**

1. INTRODUCTION

References are made to (i) the announcement of the Company dated 6 December 2016 in relation to the framework agreement entered into between the Company and Xiaomi to regulate the various ongoing transactions between the two parties for the three years ending 31 December 2019; and (ii) the announcement of the Company dated 2 December 2019 in relation to the Framework Agreement entered into between the Company and Xiaomi to regulate the ongoing transactions between the two parties for the three years ending 31 December 2022, among which the Non-exempt Transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to the Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information, among others, (i) further details of the Non-exempt Transactions; (ii) the letter of recommendation from Independent Board Committee to the Independent Shareholders in respect of the Non-exempt Transactions and the Proposed Annual Caps; (iii) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions and the Proposed Annual Caps; and (iv) a notice of the EGM, to enable you to make an informed decision on whether to vote for or against the proposed resolution at the EGM.

2. THE NON-EXEMPT TRANSACTIONS

2.1 Background

The Group has set up a stable long-term business relationship with Xiaomi Group. On 6 December 2016, the Company and Xiaomi entered into a framework agreement to regulate the various ongoing transactions between the two parties for the three years ending 31 December 2019.

In order to renew the transactions under the previous framework agreement for the next three years ending 31 December 2022, the Company and Xiaomi entered into the Framework Agreement. Pursuant to the Framework Agreement, (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 the 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. For details, please refer to the announcement of the Company dated 2 December 2019.

Each of the highest percentage ratios (as defined in the Listing Rules) in respect of (1) the proposed annual caps for the fees payable by Xiaomi Group to the Group in connection with the joint operation of games provided by the Group for the three years ending 31 December 2022, (2) the proposed annual caps for the fees payable by Xiaomi Group to the Group in connection with the provision of hardware products by the Group for the three years ending 31 December 2022; and (3) the proposed annual caps for the fees payable by the Group to Xiaomi Group in connection with the provision of the promotion, software development, canteen services and other ancillary services by Xiaomi Group for the three years ending 31 December 2022 exceeds 0.1% but is less than 5%. As such, these transactions are subject to the reporting, announcement and annual review requirements, but exempted from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Each of the highest percentage ratios (as defined in the Listing Rules) in respect of (1) the proposed annual caps for the fees payable by Xiaomi Group to the Group in connection with the provision of cloud services, promotion services, mailbox customized development services and advertising agency services by the Group for the three years ending 31 December 2022 and (2) the proposed annual caps for the fees payable by the Group to Xiaomi Group in connection with the provision of products by Xiaomi Group for the three years ending 31 December 2022 exceeds 5%. As such, the Non-exempt Transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

In order to enable the Independent Shareholders to make an informed decision, the Company sets out further details of the Non-exempt Transactions.

2.2 Principal Terms of the Non-Exempt Transactions

Agreement Date: 2 December 2019

Parties: the Company; and
Xiaomi

Terms: three years from 1 January 2020 to 31 December 2022

Condition precedent: The Non-exempt Transactions under the Framework Agreement are subject to the Independent Shareholders' approval.

**Scope of the
Non-exempt
Transactions:**

I. Comprehensive services provided by the Group

(i) Provision of cloud services

The Group will provide Xiaomi Group the cloud services developed by the Group, including but not limited to the cloud storage and cloud computing services.

(ii) Provision of promotion services

The Group will provide Xiaomi Group the promotion services via the Group's products and websites for the sale of Xiaomi Group's smart devices and related products.

(iii) Provision of mailbox customized development services

The Group will provide Xiaomi Group the mailbox customized development services, including but not limited to adapting the mailbox to new mobile models of Xiaomi Group, making adjustments to the mailbox based on the needs of operators in target regions, developing the mailbox based on new functions expected by Xiaomi Group and localizing the mailbox based on languages in different countries and regions.

(iv) Provision of advertising agency services

The Group will provide Xiaomi Group the advertising agency services, including but not limited to the advertising agency services which facilitate third parties to advertise via Xiaomi Group's products.

LETTER FROM THE BOARD

II. Products provided by Xiaomi Group

The Group will purchase products from Xiaomi Group, including but not limited to Xiaomi cell phones, Xiaomi Boxes, Xiaomi televisions, Xiaomi routers and the relevant accessories.

Pricing principle:

The fees for the Non-exempt Transactions shall be determined based on the following principles:

- (i) *With respect to cloud services provided by the Group:*
 - (a) the fees charged for cloud services are calculated with reference to the cloud storage space provided and the volume of cloud data transferred;
 - (b) the fees shall be determined after arm's length negotiation with Xiaomi Group after taking into account the costs for providing the services, the volume of the services rendered and a reasonable profit of the Group; and
 - (c) the fees shall be no more favorable to Xiaomi Group than those provided to independent third parties for services rendered on similar technical specifications and volume.

The Company does not have a pre-determined formula for the fee proposal. The sales department of the Group is responsible for the initial determination of the pricing of the cloud services. When Xiaomi Group approaches the Group in respect of the potential services, the sales department of the Group will recommend a fee proposal with primary reference to the costs, number of users, purchase volume and prevailing market price. Fees charged for each unit will be relatively lower for a larger purchase volume as the unit user cost will be lower with a larger user base. Other factors, such as resources and technology required will also be considered. The more sophisticated and cutting-edge the resources and technology involved are, the more fees will be charged by the Company for providing such services. In addition to the above factors, there are no specific range of mark-up to be included in the fee. Upon final review by chief executive officer and/or sales director of the relevant subsidiary of the Company who are independent of Xiaomi Group, the fee proposal will be proposed to Xiaomi Group for consideration and negotiation.

LETTER FROM THE BOARD

(ii) *With respect to promotion services provided by the Group:*

- (a) the fees shall be determined with reference to a number of factors including the position of the advertisement, the features selected, the term of the promotion, website traffic and data flow of the Group's products and websites; and
- (b) such fees should also be applicable to all clients for the same kind of services.

As there are many variables in determining the price of promotion services, such as the popularity of the products that carry the advertisement, the position of the advertisement, volume, features selected, term of the promotion and website traffic and data flow, it is difficult to set a benchmark for comparable promotional services offered by different providers, not to mention the determination of a "prevailing market price" in this regard.

The Company does not have a pre-determined formula for the fee proposal. The sales department of the Group is responsible for the initial determination of the pricing of the promotion services. When Xiaomi Group approaches the Group in respect of the potential services, the sales department of the Group will recommend a fee proposal with primary reference to the position of the advertisement and the features selected. Other factors, such as the term of the promotion, website traffic and data flow of the Group's products and websites will also be considered. Generally, the fees charged for the promotion services will be higher when: (i) the website traffic and data flow of the websites where the advertisement is placed are relatively heavier; (ii) the size of the advertisement is larger; (iii) the click rate of the advertisement is higher; and/or (iv) the promotion encounters a peak advertising season or the term of the promotion is longer. In addition to the above factors, there are no specific range of mark-up to be included in the fee. Upon final review by the sales director and chief marketing officer of the relevant subsidiary of the Company who are independent of Xiaomi Group, the fee proposal will be proposed to Xiaomi Group for consideration and negotiation.

(iii) *With respect to mailbox customized development services provided by the Group:*

With reference to market price of comparable services, the price of the mailbox customized development services shall be determined among arm's length negotiation between the two parties considering actual workload, cost and gross profit of relevant services.

LETTER FROM THE BOARD

(iv) *With respect to advertising agency services provided by the Group:*

With respect to the provision of advertising agency services, Xiaomi Group will pay agency fees to the Group in the agreed proportion of the revenue generated from the services as set out in specific agreements.

(v) *With respect to products provided by Xiaomi Group:*

The purchase price shall be based on the market price of the products of Xiaomi Group as set out on Xiaomi's official website <http://www.mi.com> from time to time. The administrative department of the Company is responsible for collecting the price of Xiaomi's products and such price is subject to the final review of the manager of administrative department and the vice president in charge.

In addition to the respective pricing basis of each transaction as set out above, the Company will also compare the price with those offered under at least two transactions of comparable nature (if any) with independent third party clients/suppliers to ensure (i) the fees charged by the Group are fair and reasonable and no more favorable to Xiaomi Group than those offered to independent third parties; and (ii) the fees charged by Xiaomi Group are fair and reasonable and no less favorable to the Group than those charged by independent third parties.

The Directors are of the view that the aforementioned pricing terms are on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Payment terms:

For the cloud services provided by the Group, the fees shall be payable by Xiaomi Group within 30 days upon receipt of relevant invoice.

For the promotion services provided by the Group, the fees shall be payable by Xiaomi Group within one month upon receipt of relevant invoice in accordance with the market practice.

For the mailbox customized development services provided by the Group, the fees shall be payable by Xiaomi Group after acceptance of the monthly statements submitted by the Group. The payment of each month shall be made within the last business day of next month.

For the advertising agency services provided by the Group, the fees shall be payable by Xiaomi Group within approximately 90 days upon the receipt of relevant invoice.

For the products provided by Xiaomi Group, the fees shall be payable by the Group before delivery of products.

LETTER FROM THE BOARD

The general payment terms above were determined with reference to similar transactions in the market and such payment terms may be revised by individual agreements.

2.3 Proposed Annual Caps

The table below sets out the historical amounts for the two years ended 31 December 2018 and the eight months ended 31 August 2019:

	For the year ended 31 December 2017	For the year ended 31 December 2018	For the eight months ended 31 August 2019	the annual cap for the year ending 31 December 2019 <i>RMB million</i>
<i>Fees payable by Xiaomi Group</i>				
Provision of cloud services by the Group	335.91	559.19	405.99	1,025.60 <i>(Note 1)</i>
Provision of promotion services by the Group	5.22	7.18	1.63	— <i>(Note 1)</i>
Provision of mailbox customized development services by the Group	—	—	1.99	—
Provision of advertising agency services by the Group	—	1.83	26.41	— <i>(Note 1)</i>

Note 1: The annual cap for provision of cloud services, promotion services and advertising agency services for the year ending 31 December 2019 was calculated together under the annual cap for "provision of cloud and promotion services by the Group for the year ending 31 December 2019" as set out in the announcement of the Company dated 6 December 2016 in relation to the framework agreement, being RMB1,025.60 million in total.

Fees payable by the Group

Provision of products by Xiaomi Group	9.12	6.73	4.16	20.00
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The Company confirms that the total actual transaction amount for each of the Non-exempt Transactions for the eight months ended 31 August 2019 has not exceeded the annual cap for the year ending 31 December 2019, and will continue to monitor to ensure that the total transaction amount for each of the Non-exempt Transactions for the year ending 31 December 2019 will not exceed the annual cap for the year ending 31 December 2019. For more details, please see the section headed "Internal control procedures on continuing connected transactions" below.

LETTER FROM THE BOARD

The Company proposes to set up the Proposed Annual Caps for the three years ending 31 December 2022 as follows:

	For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
			<i>RMB million</i>
<i>Fees payable by Xiaomi Group</i>			
Provision of cloud services by the Group	816.97	963.20	1,249.50
Provision of promotion services by the Group	15.00	15.00	15.00
Provision of mailbox customized development services by the Group	10.00	0	0
Provision of advertising agency services by the Group	22.64	24.91	28.30
<i>Fees payable by the Group</i>			
Provision of products by Xiaomi Group	58.00	180.40	392.50

(i) With respect to the provision of cloud services by the Group

The proposed annual caps for the fees payable by Xiaomi Group to the Group in respect of the provision of cloud services by the Group for the three years ending 31 December 2022 are determined with reference to (i) the expected needs of Xiaomi Group in relation to cloud services, taking into account the expansion of business of Xiaomi Group; and (ii) the estimated selling price of the cloud services to be provided by the Group.

(ii) With respect to the provision of promotion services by the Group

The proposed annual caps for the fees payable by Xiaomi Group to the Group in respect of the provision of promotion services by the Group for the three years ending 31 December 2022 are determined with reference to (i) the historical transaction amount; (ii) the fair market rates for provision of similar services; (iii) the expected increase in demand of promotion services; and (iv) the estimated revenue increase generated from the promotion services.

(iii) With respect to the provision of mailbox customized development services by the Group

The proposed annual caps for the fees payable by Xiaomi Group to the Group in respect of the provision of mailbox customized development services by the Group for the three years ending 31 December 2022 are determined with reference to (i) the historical transaction amount; (ii) the fair market rates for provision of similar services; (iii) the expected increase in demand of mailbox customized development services; and (iv) the estimated revenue increase generated from the mailbox customized development services.

LETTER FROM THE BOARD

(iv) With respect to the provision of advertising agency services by the Group

The proposed annual caps for the fees payable by Xiaomi Group to the Group in respect of the provision of advertising agency services by the Group for the three years ending 31 December 2022 are determined with reference to (i) the historical transaction amount; (ii) the estimated transaction amount in the second half of 2019; (iii) the expected increase in demand of advertising agency services; and (iv) the estimated revenue generated from advertising agency services.

(v) With respect to the provision of products by Xiaomi Group

The proposed annual caps for the fees payable by the Group to Xiaomi Group in respect of the provision of products by Xiaomi Group for the three years ending 31 December 2022 are determined with reference to (i) the historical transaction amount; and (ii) the expected increase of the marketing and promotion activities of the Group which results in the increase in the variety of types of products to be purchased from Xiaomi Group.

2.4 Reasons for and benefits of the Non-exempt Transactions

The Group has been proactively looking for new opportunities in the areas of Internet based software development, provision of services, and distribution of games in an effort to broaden its income sources and obtain greater market share. Xiaomi Group has long been a cooperation partner of the Group in business operation and development, especially in the realm of mobile applications. Riding on the reputation and widening acceptance of Xiaomi's series of smart phones in China, which are renowned for their advanced specifications and competitive pricing, the Directors believe that through the Non-exempt Transactions, the Group will not only benefit from increased revenue arising from the services rendered to Xiaomi Group, but will also be able to utilize Xiaomi's smart phone platform as an additional channel to promote the Group's online services and products to the ultimate mobile phone users.

The Board (including the independent non-executive Directors), having taken into account the advice of Gram Capital, is of the view that the Non-exempt Transactions are in ordinary and usual course of business of the Group, the terms of the Framework Agreement in relation to the Non-exempt Transactions (including the Proposed Annual Caps) are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2.5 Internal control procedures on continuing connected transactions

To safeguard the rights and interests of the Shareholders, the Group adopts the following internal control procedures and corporate governance measures in relation to the continuing connected transactions under the Framework Agreement and the proposed annual caps thereunder:

- (i) The supply chain department of the Company will compare the price with those offered under at least two transactions of comparable nature (if any) with independent third party clients/suppliers to ensure (a) the fees charged by the Group are fair and reasonable and no more favorable to Xiaomi Group than those offered to independent third parties; and (b) the fees charged by Xiaomi Group are fair and reasonable and no less favorable to the Group than those charged by independent third parties.

LETTER FROM THE BOARD

- (ii) The finance department of the Company will trace, monitor and check the actual transaction amount and estimate the transactions that may possibly be incurred on a monthly basis;
- (iii) The audit committee of the Company will conduct internal assessments on the internal control measures of the Company on an annual basis to ensure that the internal control measures in respect of continuing connected transactions remain complete and effective, and review the annual report and financial report which consist of the implementation of and opinions on the continuing connected transactions during the relevant period in respect of the fairness of the continuing connected transactions and whether the actual transaction amount incurred are within the annual caps; and
- (iv) The independent non-executive Directors and auditors of the Company will also conduct annual review of the continuing connected transactions.

The Board believes that the internal control procedures and corporate governance measures above are appropriate and can ensure the pricing terms are carried out in accordance with the Framework Agreement and the fees received or paid by the Company will not be less favorable than transactions with independent third parties.

2.6 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. As such, Xiaomi is a connected person of the Company. Therefore, the Non-exempt Transactions under the Framework Agreement will become continuing connected transactions of the Company under the Listing Rules.

Each of the highest percentage ratios (as defined in the Listing Rules) in respect of (1) the proposed annual caps for the fees payable by Xiaomi Group to the Group in connection with the joint operation of games provided by the Group for the three years ending 31 December 2022, (2) the proposed annual caps for the fees payable by Xiaomi Group to the Group in connection with the provision of hardware products by the Group for the three years ending 31 December 2022; and (3) the proposed annual caps for the fees payable by the Group to Xiaomi Group in connection with the provision of the promotion, software development, canteen services and other ancillary services by Xiaomi Group for the three years ending 31 December 2022 exceeds 0.1% but is less than 5%. As such, these transactions are subject to the reporting, announcement and annual review requirements, but exempted from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Each of the highest percentage ratios (as defined in the Listing Rules) in respect of (1) the proposed annual caps for the fees payable by Xiaomi Group to the Group in connection with the provision of cloud services, promotion services, mailbox customized development services and advertising agency services by the Group for the three years ending 31 December 2022 and (2) the proposed annual caps for the fees payable by the Group to Xiaomi Group in connection with the provision of products by Xiaomi Group for the three years ending 31 December 2022 exceeds 5%. As such, the Non-exempt Transactions are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Pursuant to the Listing Rules, the Shareholders with a material interest in the Non-exempt Transactions and their respective associates shall abstain from voting on the relevant respective resolution(s). Xiaomi is an associate of Mr. Jun LEI. As at the Latest Practicable Date, Mr. Jun LEI and his associates can exercise control over the voting right in respect of 352,826,251 Shares at the Company's general meeting, representing 25.70% equity interest in the Company. Among these 352,826,251 Shares, the 142,710,003 Shares are exercised by Mr. Jun LEI under a voting trust arrangement. Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, together holding 142,710,003 Shares, entered into a voting consent agreement with Mr. Jun LEI to vest their entire voting power in respect of the 142,710,003 Shares. In view of his interest in Xiaomi, Mr. Jun LEI has abstained from voting on the Board resolution approving the Framework Agreement.

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.

2.7 Information on 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 provision of cloud storage, cloud computation, design, research and development, and sales and marketing of the office software products and services of WPS Office.

Xiaomi is an internet company with smart phones and smart hardware connected by an IoT platform at its core.

3. EGM

The EGM will be held at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC on Friday, 20 December 2019 at 11:30 a.m. to consider and, if thought fit, approve, among other matters, the Framework Agreement, the Non-exempt Transactions and the Proposed Annual Caps.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting (as the case may be) should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the EGM must be taken by poll. The Chairman of the EGM will demand a poll for the resolution to be proposed at the EGM in accordance with the memorandum and articles of association of the Company. The results of the voting will be announced in accordance with Rule 2.07C of the Listing Rules after conclusion of the EGM.

LETTER FROM THE BOARD

4. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 15 of this circular. Your attention is also drawn to the letter of advice from Gram Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders set out on pages 16 to 27 of this circular.

The Board (including the independent non-executive Directors) recommends that the Shareholders should vote in favour of the ordinary resolution as set out in the notice of the EGM.

5. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
By Order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman



Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

Hong Kong, 5 December 2019

To the Independent Shareholders

Dear Sir or Madam,

**PROVISION OF CLOUD SERVICES, PROMOTION SERVICES,
MAILBOX CUSTOMIZED DEVELOPMENT SERVICES,
AND ADVERTISING AGENCY SERVICES BY THE GROUP;
PROVISION OF PRODUCTS BY XIAOMI GROUP**

We refer to the circular dated 5 December 2019 issued by the Company to the Shareholders (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Framework Agreement in relation to the Non-exempt Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Gram Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. We wish to draw your attention to the letter of advice issued by Gram Capital which is set out on pages 16 to 27 of the Circular.

Having considered the advice of Gram Capital, we are of the view that the Non-exempt Transactions are in ordinary and usual course of business of the Group, and the terms of the Framework Agreement in relation to the Non-exempt Transactions (including the Proposed Annual Caps) are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution regarding the Framework Agreement (including the Proposed Annual Caps) as set out in the notice of the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Shun Tak WONG

Mr. David Yuen Kwan TANG

Ms. Wenjie WU

Independent non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

5 December 2019

*To: The independent board committee and the independent shareholders
of Kingsoft Corporation Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 5 December 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Group has set up a stable long-term business relationship with Xiaomi Group. On 6 December 2016, the Company and Xiaomi entered into a framework agreement to regulate the various ongoing transactions between the two parties for the three years ending 31 December 2019. In order to renew the transactions under the previous framework agreement for the next three years ending 31 December 2022, the Company and Xiaomi entered into the Framework Agreement on 2 December 2019. The Non-exempt Transactions under the Framework Agreement are subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Shun Tak Wong, Mr. David Yuen Kwan Tang and Ms. Wenjie Wu (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Framework Agreement in relation to the Non-exempt Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the resolutions to approve the Framework Agreement (including the Proposed Annual Caps) at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to (i) the duration of continuing connected transactions set out under the Company’s announcement dated 27 November 2018; and (ii) the discloseable

LETTER FROM GRAM CAPITAL

and connected transaction set out under the Company's circular dated 6 February 2018. Notwithstanding the aforesaid engagement, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Non-exempt Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors, collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Xiaomi or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. If there are any material changes before EGM, Shareholders will be notified as soon as possible. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

LETTER FROM GRAM CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempt Transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Non-exempt Transactions

Information on the Group

With reference to the Board Letter, 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 provision of cloud storage, cloud computation, design, research and development, and sales and marketing of the office software products and services of WPS Office..

Set out below are the financial information of the Group for the six months ended 30 June 2019 and the two years ended 31 December 2018 as extracted from the Company's interim report for the six months ended 30 June 2019 (the "**2019 Interim Report**") and the Company's annual report for the two year ended 31 December 2018 (the "**2018 Annual Report**"), respectively:

	For the year ended 31 December 2018	For the year ended 31 December 2017	Change from 2017 to 2018
	<i>(audited)</i>	<i>(audited)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	5,906,187	5,181,290	13.99
<i>Entertainment software</i>	2,551,715	3,120,186	(18.22)
<i>Cloud services</i>			
<i>("Cloud Services")</i>	2,217,507	1,332,522	66.41
<i>Office software and services</i>			
<i>and others</i>	1,136,965	728,582	56.05
Gross profit	2,736,758	3,012,383	(9.15)
Profit/(Loss) for the year from continuing operations	(165,242)	778,280	N/A
	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Change from 2018 to 2019
	<i>(unaudited)</i>	<i>(unaudited)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	3,600,581	2,609,516	37.98
<i>Entertainment software</i>	1,169,491	1,214,260	(3.69)
<i>Cloud services</i>	1,757,509	887,651	98.00
<i>Office software and services</i>			
<i>and others</i>	673,581	507,605	32.70
Gross profit	1,372,017	1,286,894	6.61
Profit/(Loss) for the period	(1,748,900)	12,794	N/A

LETTER FROM GRAM CAPITAL

As depicted from the above table, the Group's revenue for the year ended 31 December 2018 (“FY2018”) increased by approximately 13.99% as compared to that for the year ended 31 December 2017 (“FY2017”). For FY2018, the Group's revenue generated from entertainment software decreased substantially and the Group's revenue generated from Cloud Services; and office software and services and others increased significantly.

With reference to the 2018 Annual Report, (i) the aforesaid decrease in the Group's revenue generated from entertainment software was mainly due to decreased revenue from existing games, which was partially offset by contributions from new mobile games; (ii) the aforesaid increase in the Group's revenue generated from Cloud Services was mainly driven by robust customer usage from mobile video and internet sectors, reflecting the continuous efforts of the Group in expanding the markets in specific industries and rapidly rising demand from customers; and (iii) the aforesaid increase in the Group's revenue generated from office software and services and others was primarily attributable to: (a) the strong and sustainable revenue growth of value-added services of WPS Office (Writer, Presentation and Spreadsheets Office software, which is also known as Kingsoft Office) personal edition and sales of enterprises edition, as the Group continued to improve the user benefits powered by advanced technology; and (b) increased revenue from WPS online marketing services driven by improved monetization capabilities of WPS free user traffic.

Despite the increase in the Group's revenue in FY2018, the Group's gross profit decreased. With reference to the 2018 Annual Report, the increase in the Group's cost of revenue in FY2018 (i) was primarily due to increased internet data center cost associated with increased customer usage of Cloud Services, as well as continuous investments in technology infrastructure; and (ii) caused the decrease in the Group's gross profit.

Given the decrease in gross profit and increase in cost and expenses such as net research and development cost, selling and distribution expenses, administrative expenses and finance costs, the Group made loss from continuing operations for FY2018 (as compared to profit from continuing operations for FY2017).

As depicted from the above table, the Group's revenue continued to increase during the six months ended 30 June 2019 and the Group's gross profit also increased during the six months ended 30 June 2019, as compared to those for the same period in 2018. Despite the aforesaid improvements in the Group's revenue and gross profit, the Group recorded significant loss for the six months ended 30 June 2019. As advised by the Directors, the Group's significant loss for the six months ended 30 June 2019 was mainly attributable to impairment of an investment in an associate (i.e. As at 30 June 2019, the Group held certain ordinary shares in Cheetah Mobile Inc. (“Cheetah”) which are listed on the New York Stock Exchange in the form of American depositary shares. As Cheetah's share price has been struggled with sluggish performance, the Group performed an impairment assessment and made an impairment loss of approximately RMB1,300 million, being the difference of carrying amount in excess of the fair value of the investment in Cheetah.).

With reference to the 2019 Interim Report, the Company will continue to identify global customer needs and transform technological capabilities into products and services, to capture more opportunities. The Company expects a solid organic revenue growth on account of steady growth and development of Cloud Services business and office software and services and others business, as well as the launch of its new mobile games. The Company is confident in its strategy, the strength of its business model and its development going forward. The Company remains committed to creating long-term value for its shareholders through steady growth and sustainable development.

LETTER FROM GRAM CAPITAL

Information on Xiaomi Group

With reference to the Board Letter, Xiaomi is an internet company with smart phones and smart hardware connected by an IoT platform at its core. Xiaomi Group is connected person of the Company.

Reasons for and benefits for the Non-exempt Transactions

With reference to the Board Letter, the Group has been proactively looking for new opportunities in the areas of internet based software development, provision of services, and distribution of games in an effort to broaden its income sources and obtain greater market share. Xiaomi Group has long been a cooperation partner of the Group in business operation and development, especially in the realm of mobile applications. Riding on the reputation and widening acceptance of Xiaomi's series of smart phones in the PRC, which are renowned for their advanced specifications and competitive pricing, the Directors believe that through the Non-exempt Transactions, the Group will not only benefit from increased revenue arising from the services rendered to Xiaomi Group, but will also be able to utilize Xiaomi's smart phone platform as an additional channel to promote the Group's online services and products to the ultimate mobile phone users.

Having considered that (i) the provision of Cloud Services, promotion services, mailbox customized development services and advertising agency services is the Group's principal business; (ii) as advised by the Directors, Xiaomi's products are currently applied for the Group's office use and the Group is also planning to conduct research and development of artificial internet of things (AIoT) with Xiaomi's products which aim at providing home automation to the Group's customers; and (ii) the Group's business grew during FY2018 (as compared to FY2017) and the six months ended 30 June 2019 (as compared to the corresponding period in 2018) in terms of revenue, we concur with the Directors that the Non-exempt Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

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2. Principal terms of the Non-exempt Transactions

The tables below summarise the major terms in respect of the Non-exempt Transactions under the Framework Agreement:

Date:	2 December 2019
Parties:	(i) the Company (ii) Xiaomi
Scope of the Non-exempt Transactions:	<p>I. <i>Comprehensive services provided by the Group (the “Services Provision”)</i></p> <p>(i) <i>Provision of Cloud Services</i></p> <p>The Group will provide Xiaomi Group the Cloud Services developed by the Group, including but not limited to the cloud storage and cloud computing services.</p> <p>(ii) <i>Provision of promotion services</i></p> <p>The Group will provide Xiaomi Group the promotion services via the Group’s products and websites for the sale of Xiaomi Group’s smart devices and related products.</p> <p>(iii) <i>Provision of mailbox customized development services</i></p> <p>The Group will provide Xiaomi Group the mailbox customized development services, including but not limited to adapting the mailbox to new mobile models of Xiaomi Group, making adjustments to the mailbox based on the needs of operators in target regions, developing the mailbox based on new functions expected by Xiaomi Group and localizing the mailbox based on languages in different countries and regions.</p> <p>(iv) <i>Provision of advertising agency services</i></p> <p>The Group will provide Xiaomi Group the advertising agency services, including but not limited to the advertising agency services which facilitate third parties to advertise via Xiaomi Group’s products.</p> <p>II. <i>Products provided by Xiaomi Group (“Products Purchase”)</i></p> <p>The Group will purchase products from Xiaomi Group, including but not limited to Xiaomi cell phones, Xiaomi Boxes, Xiaomi televisions, Xiaomi routers and the relevant accessories.</p>

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Term:	Three years from 1 January 2020 to 31 December 2022
Pricing principle:	The fees/prices for the Non-exempt Transactions shall be determined based on the principles as set out under the section headed “Pricing principle” of the Board Letter.

As (i) the Cloud Services amount provided to Xiaomi Group represented approximately 98%, 98% and 93% of the total Services Provision amount provided to Xiaomi Group for FY2017, FY2018 and the eight months ended 31 August 2019 respectively; and (ii) the amount of other Services Provision (excluding the Cloud Services) to Xiaomi Group was relatively small for FY2017, FY2018 and the eight months ended 31 August 2019, we, for due diligence purpose, obtained from the Company a list of contracts regarding the Cloud Services provided to Xiaomi Group (the “**Connected Cloud Services Contract(s)**”) for FY2017, FY2018 and the eight months ended 31 August 2019 (the “**Contracts List**”). We randomly selected a Connected Cloud Services Contract from the Contracts List in each of FY2017, FY2018 and the eight months ended 31 August 2019 and the Company provided us the selected Connected Cloud Services Contracts, together with a comparable contract relating to the provision of similar Cloud Services by the Group to independent third party, for each of the selected Connected Cloud Services Contracts. Based on the aforesaid documents, we noted that the pricing offered by the Group to Xiaomi Group were no more favourable than the pricing offered to independent third parties for the same service.

We consider the random selection basis and the reviewed Connected Cloud Services Contracts (together with comparable independent third party contracts) covering FY2017, FY2018 and the eight months ended 31 August 2019 to be sufficient for our assessment.

In respect of the Products Purchase, we noted from the Board Letter that the purchase price shall be based on the market price of the products of Xiaomi Group as set out on Xiaomi’s official website <http://www.mi.com> from time to time. The administrative department of the Company is responsible for collecting the price of Xiaomi’s products and such price is subject to the final review of the manager of administrative department and the vice president in charge. As the prices set out on Xiaomi’s official website are applicable for all customers of Xiaomi Group, we consider the Products Purchase pricing to be fair.

With reference to the 2018 Annual Report and as confirmed by the Directors, the independent non-executive Directors reviewed the Group’s continuing connected transactions (including the Non-exempt Transactions) conducted during FY2018 (the “**INED Review**”) and confirmed that the Group’s continuing connected transactions (including the Non-exempt Transactions) were (i) entered into in the ordinary and usual course of business of the Group; (ii) conducted on normal commercial terms or terms no less favourable to the Group than terms available to or from independent third parties; and (iii) entered into in accordance with the terms of the respective agreements and were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company’s auditors were also engaged to report on the Group’s continuing connected transactions (including the Non-exempt Transactions) conducted during FY2018 in accordance Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The Company’s auditors issued their unqualified letter containing their findings and conclusions in respect of the Group’s continuing connected transactions (including the Non-exempt Transactions) in accordance with Rule 14A.56 of the Listing Rules.

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To safeguard the rights and interests of the Shareholders, the Group adopts the internal control procedures and corporate governance measures (the “**IC Measures**”) in relation to the continuing connected transactions under the Framework Agreement as set out under the section headed “2.5 Internal control procedures on continuing connected transactions” of the Board Letter. We consider that the effective implementation of the IC Measures can help to ensure fair pricing of the Non-exempt Transactions.

Having considered the above, we are of the view that the terms of the Non-exempt Transactions under the Framework Agreement are on normal commercial terms and are fair and reasonable.

The Proposed Annual Caps

Set out below are (i) the historical transaction amounts of the Non-exempt Transactions for the two years ended 31 December 2018 and the eight months ended 31 August 2019; and (ii) the Proposed Annual Caps for the three years ending 31 December 2022:

	Transaction amount for the year ended 31 December 2017 <i>RMB million</i>	Transaction amount for the year ended 31 December 2018 <i>RMB million</i>	Transaction amount for the eight months ended 31 August 2019 <i>RMB million</i>	Annual cap for the year ending 31 December 2019 <i>RMB million</i>
For Services Provision				
Provision of Cloud Services by the Group	335.91	559.19	405.99	1,025.60 <i>(Note 1)</i>
Provision of promotion services by the Group	5.22	7.18	1.63	— <i>(Note 1)</i>
Provision of mailbox customized development services by the Group	—		1.99	—
Provision of advertising agency services by the Group	—	1.83	26.41	— <i>(Note 1)</i>
For Products Purchase	9.12	6.73	4.16	20.00

Note 1: The annual cap for provision of Cloud Services, promotion services and advertising agency services for the year ending 31 December 2019 was calculated together under the annual cap for “provision of cloud and promotion services by the Group for the year ending 31 December 2019” as set out in the announcement of the Company dated 6 December 2016 in relation to the framework agreement, being RMB1,025.60 million in total.

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	For the year ending 31 December 2020 <i>RMB million</i>	For the year ending 31 December 2021 <i>RMB million</i>	For the year ending 31 December 2022 <i>RMB million</i>
Proposed Annual Caps			
For Services Provision			
Provision of Cloud Services by the Group	816.97	963.20	1,249.50
Provision of promotion services by the Group	15.00	15.00	15.00
Provision of mailbox customized development services by the Group	10.00	—	—
Provision of advertising agency services by the Group	22.64	24.91	28.30
For Products Purchase	58.00	180.40	392.50

The Proposed Annual Caps were determined with reference to the factors set out under the section headed “2.3 Proposed Annual Caps” of the Board Letter.

Services Provision Annual Caps

Having considered the Services Provision amount for FY2017, FY2018 and the eight months ended 31 August 2019, it is reasonable for the Company to set the annual cap of Services Provision (the “**Services Provision Annual Cap(s)**”) for the year ending 31 December 2020 lower than that for the year ending 31 December 2019.

To assess the fairness and reasonableness of the Services Provision Annual Caps for the three years ending 31 December 2022, we obtained the calculation for the Services Provision Annual Caps (the “**Services Provision Annual Caps Calculation**”). We noted that the Services Provision Annual Caps Calculation covers the following elements:

- (i) Conservative estimation of the Cloud Services demand from Xiaomi Group for the year ending 31 December 2019 to be approximately RMB573 million at a level close to the Cloud Services amount of RMB559.19 million provided to Xiaomi Group in FY2018.
- (ii) A growth rate of approximately 30% per annum for the three years ending 31 December 2022 (the “**Xiaomi Cloud Services Growth**”). Accordingly, the estimated Cloud Services demand by Xiaomi Group for the years ending 31 December 2020, 2021 and 2022 will be approximately RMB743 million, RMB963 million and RMB1,249 million respectively.
- (iii) Having considered (a) that the Cloud Services demand from Xiaomi Group for the year ending 31 December 2019 was conservatively estimated at a level close to the Cloud Services amount of RMB559.19 million provided to Xiaomi Group in FY2018; and (b) the Cloud Services amount provided to Xiaomi Group for FY2018 increased by approximately 66% as compared to that for FY2017, the Company added a 10% buffer in the Services Provision Annual Cap in respect of Cloud Services for the year ending 31 December 2020. Accordingly, the Services Provision Annual Cap in respect of Cloud Services for the year ending 31 December 2020 was set at RMB816.97 million.

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- (iv) The Services Provision Annual Caps in respect of Cloud Services for the years ending 31 December 2021 and 2022 were set at RMB963.20 million and RMB1,249.50 million respectively based on paragraph (ii) above.
- (v) The Company estimated the other services demand from Xiaomi's Group for the three years ending 31 December 2022 and set a relatively small amount of Services Provision Annual Caps in respect of other services for the three years ending 31 December 2022.

The Cloud Services amount provided to Xiaomi Group for FY2018 increased by approximately 66% as compared to that for FY2017. The Cloud Services amount provided to Xiaomi Group for the eight months ended 31 August 2019 also represents approximately 73% of the Cloud Services amount provided to Xiaomi Group for FY2018. Having considered the aforesaid growth in the Cloud Services amount provided to Xiaomi Group, we are of the view that it is reasonable to apply the Xiaomi Cloud Services Growth when determining the Services Provision Annual Caps in respect of Cloud Services for the three years ending 31 December 2022.

Upon our enquiry, the Directors advised us that they also took into account continuous business development of Xiaomi Group when applying the Xiaomi Cloud Services Growth in determining the Services Provision Annual Caps in respect of Cloud Services for the three years ending 31 December 2022.

According to Xiaomi's annual report for FY2018, Xiaomi Group's revenue amounted to approximately RMB68 billion, RMB115 billion and RMB175 billion for the years ended 31 December 2016, 2017 and 2018 respectively. Such continuous growth in Xiaomi Group's revenue demonstrated the continuous business development of Xiaomi Group.

According to an article released by IDC China in August 2019 (IDC China is the PRC division of IDC. IDC was founded in 1964 and is a wholly-owned subsidiary of International Data Group (IDG), a world's leading tech media, data and marketing services company according to IDC website.), the PRC public cloud service market size reached US\$2.46 billion in the first quarter of 2019, representing a year-on-year increase of 67.9%.

We also noted from a research report published by IDC China in July 2019 that the forecasted growth rates of the PRC public cloud service market size are 65.8%, 56.3%, 44.5% and 33.0% for 2019, 2020, 2021 and 2022.

Under this favourable industry environment, the Group's Cloud Services business grew substantially. The Group's revenue generated from Cloud Services increased by approximately 56.05% from FY2017 to FY2018 and increased by approximately 98.00% from the six months ended 30 June 2018 to the six months ended 30 June 2019.

Having considered (a) the growth in the Cloud Services amount provided to Xiaomi Group from FY2017 to FY2018; (b) the business development of Xiaomi Group; (c) the forecasted growth in the cloud service market; and (d) the growth of the Group's Cloud Services business, we consider the Xiaomi Cloud Services Growth to be reasonable.

In addition, we consider that it is reasonable for the Company estimated the other services demand from Xiaomi's Group for the three years ending 31 December 2022 and set a relatively small amount of Services Provision Annual Caps in respect of other services for the three years ending 31 December 2022 as the historical transaction amounts of the other services provided to Xiaomi's Group were relatively small during FY2017, FY2018 and the eight months ended 31 August 2019.

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Products Purchase Annual Caps

As depicted from the above tables, the Products Purchase amount for FY2017, FY2018 and the eight months ended 31 August 2019 were not substantial. Nevertheless, the annual cap of Products Purchase (the “**Product Purchase Annual Cap(s)**”) for the year ending 31 December 2020 was set at a level significantly higher than that for the year ending 31 December 2019.

As aforementioned, Xiaomi’s products are currently applied for the Group’s office use. Accordingly, the Directors advised us the scale of Products Purchase for FY2017 and FY2018 was relatively small. As the Group is planning to conduct research and development of AIoT with Xiaomi’s products which aim at providing home automation to the Group’s customers, the Directors expect the Group to purchase more Xiaomi’s products for the year ending 31 December 2020. When the AIoT with Xiaomi’s products providing home automation to the Group’s customers commercialize, the Group will install home automation system (which comprises of Xiaomi’s products and the Group’s software) for its customers. Accordingly, the Group will purchase much more Xiaomi’s products thereafter and the Company applied significant growth rates in the Products Purchase Annual Caps for the two years ending 31 December 2022.

We noted from an announcement made by Kingsoft Cloud Holdings Limited (“**Kingsoft Cloud**”) (a subsidiary of the Company and the Cloud Services are carried by Kingsoft Cloud Holdings Limited and its subsidiaries) in October 2019 on its website that Kingsoft Cloud is co-operating with a subsidiary of Yida China Holdings Limited (Stock code: 3639) to develop an intelligent residential community project in Dalian, Liaoning Province, the PRC which has over 2,000 property units and requires AIoT for home automation system. In future, Kingsoft Cloud and Yida China Holdings Limited will also extend their projects to other locations such as Beijing, Chongqing, Hunan Province, Liaoning Province and Sichuan Province in the PRC.

In light of the business development of Kingsoft Cloud as stated above and its potential, we consider that it is reasonable for the Company to set the Product Purchase Annual Cap for the year ending 31 December 2020 at a level significantly higher than that for the year ending 31 December 2019 and apply significant growth rates in the Products Purchase Annual Caps for the two years ending 31 December 2022.

Having considered the above, we consider that the Proposed Annual Caps for the three years ending 31 December 2022 are fair and reasonable.

Shareholders should note that as the Proposed Caps for the three years ending 31 December 2022 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent forecasts of revenue to be generated from the Services Provision or purchase costs to be incurred from the Products Purchase. Consequently, we express no opinion as to how closely the actual revenue to be generated/purchase costs to be incurred from the Services Provision/Products Purchase will correspond with the Proposed Annual Caps.

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3. Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Non-exempt Transactions must be restricted by the Proposed Annual Caps for the period concerned under the Framework Agreement; (ii) the terms of the Framework Agreement must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Framework Agreement must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Non-exempt Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group (only applicable to the Services Provision); (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the Proposed Annual Caps. In the event that the total amounts of the Non-exempt Transactions exceed the Proposed Annual Caps, or that there is any material amendment to the terms of the Framework Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Non-exempt Transactions and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Non-exempt Transactions under the Framework Agreement are on normal commercial terms and are fair and reasonable; and (ii) the Non-exempt Transactions are conducted in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Framework Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors, collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange were as follows:

Interest in the shares and underlying shares of the Company:

Name of director	Capacity	Number of shares interested	% of issued share capital (Note 1)	Nature of Shares interested
Jun LEI	Interest of controlled corporation	210,116,248	15.31	Long position
	Other	142,710,003	10.40	Long position
	Total	352,826,251 (Note 2)	25.70 (Note 4)	Long position
Pak Kwan KAU	Interest of controlled corporation	108,028,566 (Note 3)	7.87	Long position
Tao ZOU	Beneficial owner	7,409,307	0.54	Long position
Yuk Keung NG	Beneficial owner	3,646,000	0.27	Long position

Notes:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at the Latest Practicable Date, which was 1,372,728,717.

2. Among these 352,826,251 shares, (i) 174,818,191 shares are held by Color Link Management Limited, a British Virgin Islands company owned as to 100% by Mr. Jun LEI; (ii) 35,298,057 shares are held by a wholly-owned subsidiary of Xiaomi Corporation, a company controlled by Mr. Jun LEI under the SFO; and (iii) 142,710,003 shares are deemed to be interested by Mr. Jun LEI under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG would vote in the same way as Mr. Jun LEI with these shares.
3. These shares are held by Topclick Holdings Limited, a British Virgin Island company wholly-owned by Mr. Pak Kwan KAU. In addition, Mr. Jun LEI is also deemed to be interested in these shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares.
4. Any discrepancies in the table between total and sum of amounts listed therein are due to rounding.

Interest in the shares and underlying shares of an associated corporation of the Company:

Seasun Holdings Limited (Note 1)

Name of director	Capacity	Number of shares interested	% of issued share capital in class (Note 2)	Nature of Shares interested
Tao ZOU	Beneficial owner	18,123,462	1.97	Long position

Notes:

1. Seasun Holdings Limited is a non-wholly owned subsidiary of the Company.
2. % of issued share capital in class was calculated on basis of the issued ordinary shares of Seasun Holdings Limited as at 30 November 2019, which was 918,149,438.

Cheetah Mobile Inc. (Note 1)

Name of director	Capacity	Number of shares interested	% of issued share capital in class (Note 2)	Nature of Shares interested
Jun LEI (Note 3)	Interest of controlled corporation	17,660,294	4.06	Long Position
David Yuen Kwan TANG	Beneficial owner	140,000	0.03	Long Position
Yuk Keung NG	Beneficial owner	1,200	0.00	Long Position

Notes:

1. The Company held over 20% of the issued shares of Cheetah Mobile Inc. as of the Latest Practicable Date, which is listed on the NYSE.
2. % of the total number of issued shares in class was calculated on basis of the issued Class A Cheetah Shares as at 30 November 2019, which was 435,084,177.
3. Among the 17,660,294 shares, (i) 3,374,580 shares are held by Go Corporate Limited, a British Virgin Islands company owned as to 100% voting power by Mr. Jun LEI; and (ii) 14,285,714 shares are held by Xiaomi, a company owned as to 30% voting power by Mr. Jun LEI under the SFO.

Save as disclosed above, none of the Directors or chief executive and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as at the Latest Practicable Date.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, as far as the Directors are aware of, the following, other than the Directors and chief executive of the Company, had an interest in the shares or underlying shares in the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued capital of the Company:

Interest in the shares and underlying shares of the Company

Name of substantial shareholder	Capacity	Number of shares interested	% of issued share capital <i>(Note 1)</i>	Nature of Shares held
Color Link Management limited <i>(Note 2)</i>	Beneficial owner	174,818,191	12.74	Long position
Topclick Holdings Limited <i>(Note 3)</i>	Beneficial owner	108,028,566	7.87	Long position
Tencent Holdings Limited <i>(Note 4)</i>	Interest of controlled corporation	106,784,515	7.78	Long position
Citigroup Inc.	Interest of controlled corporation	41,370,943	3.01	Long position
	Approved lending agent	47,820,145	3.48	Long position
	Interest of controlled corporation	40,685,525	2.96	Short position
	Approved lending agent	47,820,145	3.48	Lending pool

Name of substantial shareholder	Capacity	Number of shares interested	% of issued share capital (Note 1)	Nature of Shares held
FMR LLC	Interest of controlled corporation	70,066,010	5.10	Long position
Bank of America Corporation	Interest of controlled corporation	66,535,102	4.85	Long position
	Interest of controlled corporation	65,138,357	4.75	Short position
UBS Group AG	Interest of controlled corporation	56,311,683	4.10	Long position
	Person having a security interest in shares	17,351,563	1.26	Long position
	Interest of controlled corporation	19,798,529	1.44	Short position

Notes:

1. % of issued share capital was calculated on basis of the total number of issued shares of the Company as at the Latest Practicable Date, which was 1,372,728,717.
2. Mr. Jun LEI is deemed to be interested in Color Link Management Limited's interest in the Company pursuant to Part XV of the SFO because Color Link Management Limited is wholly owned by Mr. Jun LEI.
3. These shares are held by Topclick Holdings Limited, a British Virgin Islands company wholly owned by Mr. Pak Kwan KAU. In addition, Mr. Jun LEI is also deemed to be interested in these shares under the SFO because under a voting consent agreement entered into by Mr. Jun LEI, Mr. Pak Kwan KAU and Mr. Shuen Lung CHEUNG, Mr. Pak Kwan KAU would vote in the same way as Mr. Jun LEI with these shares.
4. These shares are held by TCH Saffron Limited, a wholly-owned subsidiary of Tencent Holdings Limited. As such, Tencent Holdings Limited, MIH TC Holdings Limited and Naspers Limited, its beneficial owners, are deemed to be interested in TCH Saffron Limited's interests in the Company pursuant to Part XV of the SFO.

Save as disclosed above, the Directors confirm that they are not aware of any other person who has beneficial interests or short positions in any of the shares or underlying shares in the Company which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, directly or indirectly, be interested in 5% or more of the nominal value of the shares carrying the right to vote in all circumstances at general meetings of the Company.

Mr. Chi Ping LAU, the non-executive Director of the Company, is also an executive director and president of Tencent Holdings Limited. Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

5. ARRANGEMENT AFFECTING DIRECTORS

As at the Latest Practicable Date:

- (a) None of the Directors is interested, directly or indirectly, in any assets which have, since 31 December 2018, the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date as entered into by any member of the Group and which is significant in relation to the business of the Group.
- (c) None of the Directors and his/her close associates had any competing interests that would be required to be disclosed under Rule 8.10 of the Listing Rules as if he/she was a controlling shareholder of the Company.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

7. EXPERT AND CONSENTS

The following is the qualification of the expert who has given opinions or advices contained in this circular:

Name	Qualification
Gram Capital	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram Capital was not beneficially interested in the share capital of any shareholding directly or indirectly in any member of the Group, nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Gram Capital had no direct or indirect interest in any assets which had been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for at least 14 days for inspection during normal business hours on any weekday (except public holidays) at 14th Floor, One TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the original framework agreement entered into between the Company and Xiaomi on 6 December 2016;
- (b) the Framework Agreement;
- (c) the letter from the Independent Board Committee to the Independent Shareholders dated 5 December 2019, the text of which is set out on page 15 of this circular;
- (d) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders dated 5 December 2019, the text of which is set out on pages 16 to 27 of this circular; and
- (e) the written consent referred to in the section headed "Expert and Consents" in this appendix.



Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of Kingsoft Corporation Limited (the “Company”) will be held at Kingsoft Tower, No. 33 Xiaoying West Road, Haidian District, Beijing, the PRC on Friday, 20 December 2019 at 11:30 a.m. to consider and, if thought fit, passing the following ordinary resolution of the Company. Unless otherwise indicated, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 5 December 2019 (the “Circular”):

ORDINARY RESOLUTION

1. **THAT** the Framework Agreement dated 2 December 2019 and entered into between the Company and Xiaomi and the Non-exempt Transactions contemplated thereunder (including the Proposed Annual Caps) be and are hereby approved and confirmed, and the directors of the Company be and are hereby authorised, for and on behalf of the Company, to take all steps and do all acts and things as they consider to be necessary, appropriate or expedient in connection with and to implement or give effect to the Framework Agreement and the Non-exempt Transactions (including the Proposed Annual Caps), and to execute all such other documents, instruments and agreements (including the affixation of the Company’s common seal) deemed by them to be incidental to, ancillary to or in connection with the Framework Agreement and the Non-exempt Transactions (including the Proposed Annual Caps).

By Order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 5 December 2019

Principal place of business in Hong Kong:

Unit 1309A
13/F Cable TV Tower
No. 9 Hoi Shing Road
Tsuen Wan, N.T.
Hong Kong

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote instead of him. A proxy needs not be a member of the Company but must attend the meeting in person to represent you. If more than one proxy is so appointed, the appointment shall specify the number of shares of the Company in respect of which each such proxy is so appointed.
2. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or the adjourned meeting (as the case may be).
3. Where there are joint holders of any share of the Company, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the EGM personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
4. Pursuant to Rule 13.39(4) of the Listing Rules, all votes of shareholders at the meeting will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

As at the date of this notice, 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.