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Kingsoft Corporation Limited

金山軟件有限公司

(Continued into the Cayman Islands with limited liability)

(Stock Code: 03888)

**CONNECTED TRANSACTION
THE LEASE AGREEMENT BETWEEN
THE COMPANY AND BEIJING DUOKAN**

The Board hereby announces that on 31 December 2019, the Company (on behalf of the Lessees) entered into the Lease Agreement with Beijing Duokan, a subsidiary of Xiaomi, pursuant to which, Beijing Duokan agreed to lease the Properties to the Lessees, for a term of six years commencing from 1 January 2020 to 31 December 2025.

Beijing Duokan is a subsidiary of Xiaomi. 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, save for resolutions with respect to a limited number of reserved matters. As such, Xiaomi is a connected person of the Company and Beijing Duokan is also a connected person of the Company.

Pursuant to IFRS 16, the Properties leased under the Lease Agreement will be recognised as right-of-use assets with the aggregate consideration of approximately RMB462.15 million (equivalent to approximately HK\$515.90 million), and the transaction contemplated under the Lease Agreement will be recognised as the acquisition of right-of use assets which will constitute a one-off connected transaction of the Company under Chapter 14A of the Listing Rules. Shareholders should note that the above figure is unaudited and may be subject to adjustment in the future. The right-of-use asset represents its right to use the underlying leased asset over the lease term and the lease liability represents its obligation to make lease payments (i.e. the rent). The asset and the liability arising from the lease are initially measured on present value basis and calculated by discounting the non-cancellable lease payments under the Lease Agreement, using the incremental borrowing rate as the discount rate. Under IFRS 16 and in the consolidated statement of comprehensive income of the Group, the Group shall recognise (i) depreciation charge over the life of the right-of-use asset, and (ii) interest expenses amortised from the lease liability over the lease term.

As the highest percentage ratio (as defined in the Listing Rules) in respect of the value of the right-of-use asset to be recognised by the Company in connection with the Lease Agreement exceeds 0.1% but is less than 5%, the transaction contemplated under the Lease Agreement is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In view of his interest in Xiaomi, Mr. Jun LEI has abstained from voting on the Board resolution approving the Lease Agreement. Save as disclosed above, none of the Directors has a material interest in the transaction contemplated under the Lease Agreement and none of them has abstained from voting on the relevant Board resolution.

1 BACKGROUND

The Board hereby announces that on 31 December 2019, the Company (on behalf of the Lessees) entered into the Lease Agreement with Beijing Duokan, a subsidiary of Xiaomi, pursuant to which, Beijing Duokan agreed to lease the Properties to the Lessees, for a term of six years commencing from 1 January 2020 to 31 December 2025. Beijing Duokan will enter into separate lease agreements with each Lessee subject to the terms of the Lease Agreement to satisfy the needs of daily operation and management of each Lessee.

2 THE LEASE AGREEMENT

The principal terms of the Lease Agreement are summarized as follows:

Date: 31 December 2019

Parties: Beijing Duokan, as the lessor; and
the Company, on behalf of the Lessees

Term: The Lease Agreement has a term of six years commencing from 1 January 2020 to 31 December 2025.

The Lessees may renew the term by negotiating with Beijing Duokan six months prior to expiry of the term.

The Properties: The Properties include (i) the Premises situated at Buildings D and E, Xiaomi Science and Technology Park, 33 West Erqi Central Road, Haidian District, Beijing (北京市海澱區西二旗中路 33 號院小米科技園 D 棟及 E 棟), with a total area of approximately 54,625.53 sq.m., including 51,246.02 sq.m. ground floor area and 3,379.51 sq.m. underground floor area; and (ii) 350 parking lots reserved by Beijing Duokan to the Lessees.

Usage: The ground floor area in the Premises shall be used for office and catering while the underground floor area shall be used as staff canteen; and the parking lots shall be used for parking.

Rent: Rent for the Premises: The annual rent (including VAT) for the ground floor area for the three years from 1 January 2020 to 31 December 2022 is RMB88.85 million (equivalent to approximately HK\$99.18 million), while the annual rent (including VAT) for the underground floor area for the three years from 1 January 2020 to 31 December 2022 is RMB2.90 million (equivalent to approximately HK\$3.24 million). For every 3 years since 1 January 2020, the rental rate of these two areas will increase by approximately 5%. Thus, the annual rent (including VAT) for the ground floor area for the three years from 1 January 2023 to 31 December 2025 is RMB93.34 million (equivalent to approximately HK\$104.20 million), while the annual rent (including VAT) for the underground floor area for the three years from 1 January 2023 to 31 December 2025 is RMB3.05 million (equivalent to approximately HK\$3.40 million).

Rent for 350 parking lots: The monthly rent is RMB400 (equivalent to approximately HK\$446.52) per parking lot.

The total rent payable during the term under the Lease Agreement is approximately RMB574.48 million (equivalent to approximately HK\$641.29 million). The above rent includes expenses of land use and related facilities specified in the Lease Agreement, and no extra fee or tax shall be paid by the Lessees to Beijing Duokan. The annual rent is determined after arm's length negotiation with reference to (i) the prevailing market rent of similar properties and business nature in nearby locations; (ii) the location of the Properties; and (iii) the expected inflation rate in the future.

The Lessees will bear the expenses of canteen services and ancillary facilities including but not limited to utility, property services and network incurred during their usage of the Premises pursuant to the framework agreement dated 2 December 2019 entered into between the Company and Xiaomi and relevant separate agreements (if any).

Payment terms: Pursuant to the Lease Agreement, the rent for the Premises shall be payable by the Lessees to Beijing Duokan every six months (“**Payment Period**”) in the proportion based on their actual use area. The Lessees are required to pre-pay the rent for the first Payment Period within 15 business days after entering into separate lease agreements pursuant to the Lease Agreement, and pre-pay the rent for each remaining Payment Period prior to 20 business days before the commencement of that Payment Period.

Beijing Kingsoft Software Co. Ltd.* (北京金山軟件有限公司), one of the Lessees, shall pay the parking lots rent for each Payment Period prior to the fifth business day of the first month of each Payment Period to Beijing Duokan.

Security deposit: Within 15 business days after entering into separate lease agreements pursuant to the Lease Agreement, the Lessees shall pay Beijing Duokan a security deposit equivalent to one month’s rent of the Premises (including VAT).

3 REASONS FOR AND BENEFITS OF THE LEASE AGREEMENT

The Group has delivered a steady growth in its business and number of employees these years. To better satisfy the working requirement of the Group and its employees, the Board decides to lease the Properties from Beijing Duokan. The Board believes that leasing the Properties shall facilitate the operation and growth of the Group’s business as a whole.

The Board (including the independent non-executive Directors), is of the view that the transaction under the Lease Agreement is conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Lease Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4 IMPLICATIONS UNDER THE LISTING RULES

Beijing Duokan is a subsidiary of Xiaomi. 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, save for resolutions with respect to a limited number of reserved matters. As such, Xiaomi is a connected person of the Company and Beijing Duokan is also a connected person of the Company.

Pursuant to IFRS 16, the Properties leased under the Lease Agreement will be recognised as right-of-use assets with the aggregate consideration of approximately RMB462.15 million (equivalent to approximately HK\$515.90 million), and the transaction contemplated under the Lease Agreement will be recognised as the acquisition of right-of use assets which will constitute a one-off connected transaction of the Company under Chapter 14A of the Listing Rules. Shareholders should note that the above figure is unaudited and may be subject to

adjustment in the future. The right-of-use asset represents its right to use the underlying leased asset over the lease term and the lease liability represents its obligation to make lease payments (i.e. the rent). The asset and the liability arising from the lease are initially measured on present value basis and calculated by discounting the non-cancellable lease payments under the Lease Agreement, using the incremental borrowing rate as the discount rate. Under IFRS 16 and in the consolidated statement of comprehensive income of the Group, the Group shall recognise (i) depreciation charge over the life of the right-of-use asset, and (ii) interest expenses amortised from the lease liability over the lease term.

As the highest percentage ratios (as defined in the Listing Rules) in respect of the value of the right-of-use asset to be recognised by the Company in connection with the Lease Agreement exceeds 0.1% but is less than 5%, the transaction contemplated under the Lease Agreement is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

In view of his interest in Xiaomi, Mr. Jun LEI has abstained from voting on the Board resolution approving the Lease Agreement. Save as disclosed above, none of the Directors has a material interest in the transaction contemplated under the Lease Agreement and none of them has abstained from voting on the relevant Board resolution.

5 INFORMATION ABOUT 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.

Beijing Duokan is a company incorporated in the PRC with limited liability and a subsidiary of Xiaomi as at the date of this announcement. It is principally engaged in the sales of e-books. Xiaomi is a limited liability company listed on the Stock Exchange and Mr. Jun LEI holds a majority of voting power in Xiaomi, save for resolutions with respect to a limited number of reserved matters.

6 DEFINITION

In this announcement, the following expressions shall have the meaning set out below unless the context requires otherwise:

“associate”	has the meaning as ascribed thereto in the Listing Rules
“Beijing Duokan”	Beijing Duokan Technology Co., Ltd.* (北京多看科技有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Xiaomi as at the date of this announcement
“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
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“IFRS”	International Financial Reporting Standard(s) issued by the International Accounting Standards Board from time to time
“Lease Agreement”	the lease agreement dated 31 December 2019 entered into between the Company (on behalf of the Lessees) and Beijing Duokan, a subsidiary of Xiaomi, pursuant to which, Beijing Duokan agreed to lease the Properties to the Lessees for a term of six years commencing from 1 January 2020 to 31 December 2025
“Lessees”	the lessees of the Properties, each one as a “Lessee”, being (i) the legal entities from time to time directly or indirectly controlled by the Company or under common control with the Company and other parties or significantly influenced by the Company (“control”, “common control” and “significant influence” have the meaning as ascribed thereto in the IFRS) as listed in the Lease Agreement and subject to any future supplements and (ii) the companies designated by the Company as listed in the Lease Agreement. If any current Lessee ceases to be aforementioned legal entity for any reason within the period of the Lease Agreement, it still remains as the Lessee subject to supplementary confirmation letter signed by the Company and Beijing Duokan.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“PRC” or “China”	the People’s Republic of China which, for the purpose of this announcement only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan

“Premises”	the property situated at Buildings D and E, Xiaomi Science and Technology Park, 33 West Erqi Central Road, Haidian District, Beijing (北京市海澱區西二旗中路 33 號院小米科技園 D 棟及 E 棟), with a total area of approximately 54,625.53 sq.m., including 51,246.02 sq.m. ground floor area and 3,379.51 sq.m. underground floor area
“Properties”	include (i) the Premises and (ii) 350 parking lots reserved by Beijing Duokan to the Lessees
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“sq.m.”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning as ascribed thereto in the Listing Rules
“substantial shareholders”	has the meaning as ascribed thereto in the Listing Rules
“VAT”	value-added tax
“Xiaomi”	Xiaomi Corporation 小米集團, a limited liability company incorporated in the Cayman Islands and listed on the Stock Exchange (stock code: 1810)
“%”	percent

* for identification purposes only

For the purpose of this announcement, unless the context otherwise requires, conversion of RMB into HK\$ is based on the approximate exchange rate of RMB1.00 to HK\$1.1163. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in RMB or HK\$ have been, could have been or may be converted at such or any other rate or at all.

By order of the Board
Kingsoft Corporation Limited
Jun LEI
Chairman

Hong Kong, 31 December 2019

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.